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# The geoeconomics of Central Banks Digital Currencies (CBDCs): the case of the European Central Bank (ECB)

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**ABSTRACT**

Digital transformations and the expansion of digital finance have elicited intense debates on what ought to be the role of central banks as issuers of digital currencies (CBDCs). We ask why the European Central Bank (ECB), the European Union (EU) central bank, has taken a starring role in the introduction of a retail CBDC: the digital euro. We offer an explanation rooted in geoeconomics: the ECB has decided to be a 'paladin' of the digital euro to safeguard the 'monetary sovereignty' of the euro area and protect the 'strategic autonomy' of its retail payment system. As the rivalry of great powers intensifies, the ECB worries about the issuing of private digital currencies by (mostly, non-EU) private actors as well as the dominance of non-EU companies in retail payments. Currencies and payments are important public goods that can be weaponised. This explanation contributes to the emerging literature on central banks as geoeconomic actors and teases out the implications of this development for the 'traditional' mandate of central banks and their core tasks.

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## Introduction

Digital transformations and the expansion of digital finance have raised questions about whether central banks should issue digital currencies (CBDCs). A CBDC is an electronic form of central bank money. A difference is often made between wholesale and retail CBDCs. A wholesale CBDC refers to the digital technology through which wholesale payments are processed. It is available only to financial institutions to settle trades in financial markets (Committee on Payments and Market Infrastructures (CPMI) 2018). A retail CBDC – a general-purpose digital currency – is a digital banknote accessible to citizens and firms; a digital equivalent of cash (Bank for International Settlements (BIS) 2018, Federal Reserve 2021).[1] A key difference between retail CBDCs and other means of electronic payment is the expectation that the former would have legal tender status (Bossu *et al.* 2020). A CBDC would have to be accepted as payment within a given jurisdiction, while market players may decide to create their own and or refuse other electronic means of payment. Finally, CBDCs are different from (private) cryptocurrencies, which rely on cryptography and distributed ledger technology.[2] CBDCs have direct implications for the core tasks of central banks: the issuing of legal tender, the conduct of monetary policy and the functioning of payment systems.

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At the international level, discussions on CBDCs have taken place at the Bank for International Settlements (2020, 2021a), the International Monetary Fund (IMF) (2023a, 2023b), as well as the Group of Seven (G7) Finance Ministers and Central Bank Governors 2021, see also (BIS 2021b). At the domestic level, most central banks have conducted studies and have set up working groups to examine and, eventually, prepare for the introduction of CBDCs (Chia and Helleiner 2024). The Atlantic Council, which has set up a 'CBDC tracker', finds that 130 countries, representing 98 percent of global Gross Domestic Product (GDP), are exploring CBDCs. Of the Group of Twenty (G20), nineteen countries are in advanced stages of CBDCs development.[3] Of those, nine central banks, including the European Central Bank (ECB), the Bank of England, the Bank of Japan and the People's Bank of China,[4] are running pilot projects. In eleven countries of the Global South, central banks have already launched a digital currency.

Central banks in the Global North have been reluctant to move ahead with the concrete adoption of CBDCs and some of them have been quite sceptical. The United States (US) Federal Reserve Bank, the most powerful central bank in the world and the main international counterpart of the ECB, has been lukewarm (Federal Reserve 2021, Flemming and Judson 2024). Christopher Waller (2021), senior official at the Federal Reserve, referred to retail CBDCs as 'a solution in search of a problem'. Likewise, the Chairman of the Swiss Central Bank, Thomas Jordan (2024) noted that retail CBDCs 'could fundamentally alter the current monetary system and the role of central banks and commercial banks, with far-reaching consequences for the financial system', concluding that the risks outweigh potential benefits.

By contrast, the ECB, responsible for the issuing of the euro, conducting monetary policy as well as overseeing payment systems in the European Union (EU), has begun the preparation phase to issue a digital euro – a retail CBDC (ECB 2023a, 2023b). This decision is puzzling because, just as many other central banks, the ECB is traditionally risk-averse (Howarth and Loedel 2005, Brunnermeier *et al*. 2016, Jones and Matthijs 2019), whereas the creation of a CBDC poses some risks. It is an untested business line for central banks and constitutes a significant innovative development in the international and domestic monetary and financial systems. Compared to other central banks in the Global North, the ECB is particularly vulnerable to reputational damage as this supranational institution lacks a unified political counterpart to which it is accountable (Verdun 1998). Although it speaks regularly to the European Parliament (EP) (see, for instance, Akbik and Diessner 2024), it mainly rests on output legitimacy, hence, the results it delivers. Several European observers have advised against the introduction of the digital euro (Bofinger 2022, Angeloni 2023, Arnold and Fleming 2023, Monnet and Niepelt 2023, The Economist 2023).

Why has the ECB decided to champion the introduction of a digital euro? How does its possible introduction affect the mandate, tasks and independence of this central bank? Speaking directly to the core themes of this Special Issue (Quaglia and Verdun, this issue), we also reflect on the changing role of central banks in the digital economy, during a period characterised by the revival of great power rivalry (Kroenig 2020, Rolf and Schindler 2023). Based on interviews with fourteen key informants,[5] public speeches by ECB board members, a survey of press coverage and secondary literature, we offer an explanation rooted in geoeconomics. The digital euro has been heralded as an instrument to safeguard the 'monetary sovereignty' of the euro area in an increasingly digitised economy as well as to protect the 'strategic autonomy' of its retail payment system (ECB 2020a, Cipollone 2024). The ECB worries about the potential widespread uptake of cryptocurrencies issued by private companies, generally based outside the EU as well as the existing dominance of non-EU private actors in retail payments (Panetta 2022a). Currencies and payments are public goods that underpin all other economic and financial activities and that can be weaponised by non-EU players. We argue that, by taking on this new task, the mandate of the ECB is considerably stretched, adding further evidence for considering this central bank as having become a geoeconomic actor in its own right.

The paper is organised as follows. Section 2 concisely reviews the literature on the political economy of CBDCs and puts forward our geoeconomic explanation. Section 3 discusses the ECB's

rationales for launching the digital euro, spelling out the ECB's role in moving the project forward in the EU policy process. The penultimate section reflects on the implications of CBDCs for central banks, especially for the ECB. The final section concludes that with the arrival of the digital age, and thus the development of CBDCs, a new dawn arises for central banks.

## The political economy of CBDCs

The literature on CBDCs to date has focused on the pros and cons of the currencies, the trade-offs associated with their development and key design features of CBDCs (Bank of England 2020, Carapella and Flemming 2020, Carstens 2021, Barrdear and Kumhof 2022). The first potential benefits of CBDCs would be to strengthen the role of central bank money in the digital age, where the use of cash is in decline (CPMI 2018) and where private actors are increasingly issuing their own (crypto)-currencies. The crypto universe provides an unsuitable basis for a monetary system because it lacks a stable nominal anchor. A monetary system grounded in central bank money offers a sounder basis, both domestically and across borders (BIS 2022, p. 75). As the BIS (2022, p. 75) noted, 'the monetary system with the central bank at its centre has served society well', whereas the crypto sector cannot fulfil all the high-level goals of a digital monetary system. Such a system must be safe, stable, efficient, inclusive and open. It should safeguard users' rights to privacy and control over their data. Since central banks are mandated to serve the public interest, they can design public infrastructures to support the monetary system's high-level policy goals (BIS 2022, p. 103). Second, CBDCs could serve as a 'backup' for other digital payment systems that are vulnerable to disruptions from cyberattacks and other malfunctions (Fanti *et al.* 2022). A CBDC could be designed as an alternative payment system that is operationally independent of other payment systems and may be better controlled by individual jurisdictions (IMF 2023b). Third, CBDCs could reduce the costs of domestic payments by promoting competition, especially in countries where payment systems are dominated by a few large (often transnational) firms that charge high fees (IMF 2023b).[6]

Potential risks of CBDCs entail distorting the cooperation between the central bank and banks, possibly leading to bank disintermediation if CBDCs compete with bank deposits (BIS 2020, Mersch 2020, Lloyd 2023, Bindseil *et al.* 2024). CBDCs could affect the conduct of monetary policy through the usual transmission channels – interest rate, bank lending, asset price, and exchange rate (CPMI 2018, IMF 2023b). CBDCs may impinge upon financial stability by inadvertently accelerating bank runs during crises. Normally, the general public does not pay attention to the difference between central bank money and commercial bank money (Kumhof and Noone 2021). Yet, their fundamental difference comes to the fore during financial turmoil. It is true that online banking has accelerated the mobility of deposits, amplifying the risk of bank runs, as happened, for example, when the Silicon Valley Bank collapsed in the US in 2023 (Vandevelde *et al.* 2023). Offering a risk-free online alternative to bank deposits, CBDCs could accentuate this problem. Banks have been rather sceptical about the introduction of CBDCs, demanding that their introduction should really contribute something that is not already there (Thomadakis et al. 2023).

Some of the potential risks of issuing a CBDC could be mitigated by key design features: its availability to companies and individuals, or only to individuals; its availability to non-residents, or only to the domestic public; the maximum amount of CBDC that individuals would be allowed to hold (Bindseil 2019, Lloyd 2023, interview 8). Another important design feature concerns safeguarding data privacy, while protecting financial integrity (interviews 6, 9). One advantage of having a central bank issuing a CBDC is that, unlike private companies providing payment services, a central bank would ordinarily not have a commercial interest in marketising consumer data. Yet, payments in CBDCs will have to comply with the rules against money laundering, the financing of terrorism and tax evasion (IMF 2023b). The data obtained may also be of interest to other state authorities that seek to combat terrorism, crime and tax evasion. For some, the fact that the state would be obtaining (or potentially could obtain) large amounts of sensitive financial transaction details is a privacy concern, as suggested by some interviewees (interviews 1, 6).

CBDCs may also have a direct impact on payment systems. An analogy is often used: CBDCs can be likened to fast trains, which need fast and reliable rail tracks (payment systems) to run on (Demertzis and Lipsky 2023, in interviews 2 and 6 a similar analogy was made to fast cars and high-speed highways). Thus, the introduction of CBDC is expected to act as an incentive for the public and private sectors to improve the existing payment systems. These systems represent critical 'financial infrastructures', i.e. they are networks that allow financial activities to take place and are commonly referred to as the 'plumbing' of the financial system (Campbell-Verduyn 2018, Clarke 2019, Hendrikse *et al.* 2020, interview 10). The malfunctioning of these networks (or critical nodes therein) would result in major disruptions to the financial system and the broader economy. For these reasons, financial infrastructures can be a significant source of economic and financial vulnerability and can be weaponised by foreign players (see Bassens and Hendrikse 2022, Rolf and Schindler 2023, Donnelly *et al.* 2023, Falkner et al. 2024, Heidebrecht 2024).

Across the globe, the infrastructure for retail payments is dominated by private companies headquartered in one jurisdiction, the US, while providing their networked services worldwide (Brandl and Dieterich 2023). Under the jurisdiction of the US authorities, the implication is that political pressure from US authorities, or the adoption of US financial sanctions, could prompt these companies to stop providing their services in or to targeted countries or individuals (De Goede 2020, De Goede and Westermeier 2022). For instance, Visa, Mastercard and American Express – global credit card processing networks headquartered in the US – withdrew their services in Russia and to Russian nationals, following the adoption of financial sanctions against Russia, in response to its fulsome aggression to Ukraine (BBC 2022, Westermeier 2023). Bigtechs – Google, Apple, Meta/Facebook, Amazon and Microsoft – also provide payment services, for example, via stablecoins and digital wallets (Financial Stability Board (FSB) 2019, Petit 2020, Boissay *et al.* 2021, Carstens *et al.* 2021). Predominantly headquartered in the US, they are also subject to the jurisdiction of the US authorities. Indeed, following the adoption of financial sanctions against Russia, these companies stopped providing their services there.

## *Our explanation: the ECB and the geoeconomics of CBDCs*

We set out to explain why the EU, has decided to take several steps towards the introduction of the digital euro. In the context of the EU that task was subsequently taken on by the ECB. In our explanation we focus primarily on the ECB because that institution has been the main sponsor of this project. Other actors, notably elected officials, have entered the picture later. A final decision on the introduction of the digital euro will require legislation (Council of the EU 2023b). EU legislative proposals on this matter are at the time of writing still before the European Parliament (Höflmayr 2023). Since a 'paladin' is 'someone who fights for a cause', building on a consolidated body of literature that considers central banks as purposeful, quasi-autonomous actors (Quaglia 2008, Adolph 2013, Wansleben 2023, Moschella 2024, see also Introduction to this special issue), we ascribe agency to the ECB. In other words, we consider this institution as capable of thinking and acting autonomously. That characterisation is especially true for the ECB, which is consistently ranked as the most independent central bank in the world. For the purpose of this paper, we regard the ECB as a unitary actor (for a similar take, see also Howarth and Loedel 2005, Macchiarelli *et al.* 2021, Quaglia and Verdun 2023a, 2023b). A unitary actor is one where there is a body that has full authority over all of its divisions and units. We recognise that there are differences among these composite units and the people who populate them, but ultimately, we expect the Bank to speak with one voice and act accordingly. Nevertheless, in order to highlight how the ECB arrived at its position, we also concisely provide insights into internal debate sat the ECB, especially, the different views of national central banks in the Eurosystem with reference to the digital euro.

Building on the flourishing literature on the geoeconomics of finance, and the risk and opportunities associated with changes in financial technologies (Bernards and Campbell-Verduyn 2019, Falkner *et al.* 2024), our explanation hinges on the geoeconomics of CBDCs. We argue that the

rationale for the ECB's sponsoring of the digital euro was mainly geoeconomic. *Geoeconomics,* i.e. 'the systematic use of economic instruments to accomplish geopolitical objectives' (Blackwill and Harris 2016, p. 1, cf. Herranz-Surrallés *et al.* 2024), pays attention to issues such as 'economic 'sovereignty', 'vulnerability' as well as the 'weaponisation' of economic activities (Wigell and Vihma 2016). Financial services, especially, financial infrastructures (e.g. payment systems), can easily be weaponised because they are mostly cross-border, but also because the US sits squarely at the centre of all major financial networks (Farrell and Newman 2019, Brandl and Dieterich 2023).

## The ECB as the 'paladin' of the digital euro

In this section, we focus on the ECB as a 'paladin' of the digital euro and spell out its role in the EU policy process on this dossier. We also demonstrate that the ECB's championing of the digital euro was informed mainly by geoeconomic rationales. Several interviewees suggested that, initially, central banks worldwide approached discussions concerning CBDCs almost as an academic exercise, a new trend that had to be looked at, mostly by research departments and ad hoc working groups (interviews 1, 2, 5, 9). As the use of cash declines, central bank money could, ultimately, lose its role as the monetary anchor (interviews 2, 3, 4, 9, cf. Lagarde 2022, Panetta 2022b, 2022c). CBDCs could also help central banks bring down inflation. The central bank would have more information about real time balances of financial institutions and other data from industry (Shinn *et al.* 2023). Developments in the cryptocurrency space could further threaten the demand for central bank money. Therefore, central banks investigated the impact of these developments on the effectiveness of monetary policy (interviews 3, 4, 8). An interviewee noted that since banks upgraded their instruments from their seventeenth century origins, central banks would need to do the same (interview 9).

Yet, it was three additional triggers – i.e. (1) the prospect of the creation of a global stablecoin by Facebook (the Libra later called the Diem), (2) pilot projects on the digital yuan in China, and (3) the COVID-19 pandemic lockdowns and their effects to boost the digital economy – that served as wake up calls for central banks (interviews 2, 3, 4, 5, 9). Consequently, CBDCs began to be discussed as major policy issues by top ranking officials (ECB 2020b).

The ECB (2023a, 2023b) decided in October 2023 to proceed to the preparation phase of its CBDC project, finalising the rulebook and selecting providers to develop the platform and infrastructure for a digital euro. Although it began working on CBDCs later than the central banks of other European states (e.g. Sweden, UK), the ECB has now overtaken them, moving forward with the project when the others have not (interviews 8, 10, 11).[7] The ECB was primarily driven by geoeconomic rationalities. The first geoeconomic rationale was the safeguard of 'monetary sovereignty' of the EU in case (mostly non-EU based) private companies issued on a large-scale cryptocurrencies and/or other major central banks (read: China) adopted CBDCs (interviews 2, 5, 9). For instance, Yves Mersch, then ECB Executive Board member, warned that Libra 'could reduce the ECB's control over the euro, impair the monetary policy transmission mechanism by affecting the liquidity position of euro area banks, and undermine the single currency's international role' (Reuters 2019).

This geoeconomic rationale, while significant at first, did not remain as the main motivating factor for the digital euro project. The strong negative reactions at the international level by the G7, G20 and international standard-setting bodies in finance placed global stablecoin projects on hold, while the EU passed the Markets in Crypto Assets Regulation to impose regulation (Panetta 2022a, Donnelly *et al.* 2023). Thus, Facebook/Meta lost interest in its Libra/Diem project (interview 2). Similarly, in China the take-up of a digital yuan in was slow and limited (Dowd 2024, Huang 2024): most domestic payments were already digital; citizens did not trust the public authorities and thus lacked trust in a state-backed digital currency (interviews 2, 6). Consequently, the People's Bank of China began to prioritise work on a wholesale CBDC (interview 2), also to promote the international role of the yuan for global trade, investments related to the Belt and Road Initiative and central bank swap lines with other central banks (DiLeo et al. 2025).

The second geoeconomic rationale of the ECB's spearheading of the digital euro was the protection of the 'strategic autonomy' of the retail payment system in Europe, increasing the resilience of this system to various types of disruption (Panetta 2022c, Ioannou and Pérez 2023, Westermeier 2024). Despite having a large domestic market for financial services as well as considerable regulatory capacity in this realm, the EU is heavily dependent on a limited number of US-based companies that provide retail payment services (Brandl and Dieterich 2023, Westermeier 2023), notably, US-based credit cards[8] and Bigtech finance that provides digital services whose headquarters lie outside the EU (James and Quaglia 2024). Despite some country-specific success stories, there is no EU-wide payments champion and no pan-European payment solution. In Europe, the only pan-European payment instruments are US card schemes (interview 8). Since payments are crucial for all economic and financial activities, they are 'a public good that is simply too important to be left to the market' (Lagarde 2022), especially one dominated by non-EU companies (interview 8).[9] For instance, one interviewee stressed the need to have the payment infrastructure in Europe under the 'European sphere of influence' or, at least, have European companies, under European regulation and supervision, providing the European payment infrastructure 'from A to Z' (interview 3).

The ECB and the European Commission have unsuccessfully sought to promote the development of a European-based retail payment infrastructure (Bassens and Hendrikse 2022, interview 1). For instance, there was a short-lived attempt by a consortium of European banks to create a European credit card network (Meyers 2023). Although it had the blessing of the European Commission and the ECB, the project was abandoned as it was not economically viable – it would have been outcompeted by dominant non-EU incumbents (interview 2). Eventually, it morphed into the European Payment Initiative, a digital payment service based on a digital wallet backed by a limited number of European (mainly French, German, and Spanish) banks (Meyers 2023).

The ECB has considered a digital euro and its infrastructural underpinning as instrumental in making it easier and cheaper for European financial intermediaries to offer pan-European services. It would facilitate the development of a European retail payment system offering an alternative to non-EU (i.e. US) credit card providers and online payment providers (e.g. PayPal) (Kahn and Hetzner 2021, interviews 2, 3, 8). In case the US-based alternatives failed (for instance, in case of financial sanctions or cyberattacks) the digital euro would offer an alternative. It would reduce the risk of having the EU payments system be weaponised by foreign players (interview 3). Indeed, ECB President Christine Lagarde (2022) argued that the issuance of a digital euro would strengthen the 'strategic autonomy' of the EU in the retail payments market. It would also contribute to underpinning the EU's digital sovereignty (i.e. data privacy and cybersecurity in payments) (Fanti *et al.* 2022, Broeders *et al*. 2023, Heidebrecht 2024, interview 8). Thus, preoccupations about monetary sovereignty and digital sovereignty overlap in Europe with reference to digital finance (Donnelly *et al*. 2023).

The project of the digital euro has been championed by the ECB Executive Board, (Panetta 2021, 2022a, 2022b). In particular, the Board members responsible for payment systems, Fabio Panetta (formerly deputy governor of the Bank of Italy and subsequently governor of the Bank of Italy), later replaced by Piero Cipollone (formerly deputy governor of the Bank of Italy), have delivered a significant number of speeches on the digital euro from euro onwards, an indication that this project was an item of great interest to the ECB.

In the Eurosystem, looking just at the major three national central banks, the Banque de France has been supportive of the digital euro project, albeit primarily its wholesale version (interviews 2,3, 6, 8, see also François Villeroy de Galhau 2023). Indeed, the Banque de France (2024) has been one of the first central banks in the EU to research a wholesale CBDC and to launch an experimental programme in 2020. The Banque de France has also taken part in several international initiatives, notably, pilot projects for cross-border wholesale CBDCs (e.g. projects Jura and Mariana), some spearheaded by the BIS Innovation Hub.

Unlike the Banque de France, initially, the Bundesbank displayed limited interest in CBDCs (interview 1). Traditionally, the Bundesbank has been quite reluctant to engage in new experiments that could potentially threaten financial stability. Over time, however, the Bundesbank started to participate in the debate on the digital euro. In first instance, it focused on the wholesale version, which is supported by the financial industry in Germany. The retail version is resisted by banks that worry about the risk of financial disintermediation. A sizeable part of public opinion is concerned about the protection of privacy in digital payments and reluctant to abandon cash payments (interview 1, 8, Nagel 2024).

The Bank of Italy has displayed an early interest in the retail and wholesale digital euro (interviews 1, 2), not least because it has been in charge of developing and managing, with the collaboration of the central banks of France, Germany, and Spain, the TARGET Instant Payment Settlement (TIPS), which is the Eurosystem market infrastructure for the settlement of instant retail payments in central bank money (Bank of Italy n.d.). The Bank of Italy has also set up an innovation centre for digital finance in Milan. Hence, it has been well-positioned to contribute to the debate on the digital euro. Once the former ECB Executive Board member Fabio Panetta became governor of the Bank of Italy, the issue of the digital euro remained high on the agenda of this national central bank (Panetta 2023).

The European Commission has endorsed the ECB's championing of a digital euro, albeit with some important provisions (interviews 1, 2, 6). The Commission has identified the digital euro as an element of the EU's open strategic autonomy and strategic communications (European Commission 2018, 2021). Yet, an interviewee noted that there has been discussion of the respective roles of the Commission and the ECB in the issuing of a digital euro (interview 6). Initially, it was unclear whether the ECB needed an EU legislative act to issue the digital euro. Indeed, some interviewees pointed to disagreement between the Commission and the ECB about the need for legislation and which institution should have a say concerning key design features (interviews 2, 3, 6). A CBDC is a digital form of cash; the issuing of cash falls within the remit of central banks. Yet, partly to be on safe legal ground, partly because it was felt that political endorsement was needed, the ECB liaised with the European Commission which has the exclusive right of initiative to draft legislation in the EU (interviews 3, 6, 8, 11). Eventually, the European Commission (2023a, 2023b) proposed legislation, which is currently going through the EU legislative process.[10] The EU has also promoted a 'digital wallet', which would help consumers prove their identity to make digital euro payments, while using competition policy and the Digital Markets Act to enable the payment systems supported by the Commission to be usable via smartphones (Meyers 2023).

One particular geoeconomic rationale was *less relevant* with reference to the digital euro, namely, to promote the euro as an international currency. This finding is surprising because the EU has started to pay more attention to the international role of the euro (Council of the EU 2023a, 2023c, Spielberger 2025a). Furthermore, the first speeches suggested that the policy discussions about a digital euro intersected with those about the international role of the euro (interview 6) (see Panetta 2020). That argument would have gained traction had the EU decided to consider the introduction of a wholesale CBDC – a dossier the ECB has been looking at, but it is less advanced than the one on the retail CBDC (see Section 2). Once the ECB decided to concentrate its efforts on the creation of a digital euro as a retail CBDC, the argument about the international promotion of the euro as an international currency became less important (interviews 8 and 10). In fact, the digital euro is designed to be used primarily for intra-EU retail payments, with limited usage outside Europe (interviews 3, 8 and 10). By contrast, the promotion of the international use of a currency is better served through the development of a cross-border payment infrastructure for wholesale transactions (interview 2), which could impinge upon the dominant role of the dollar as the main medium of payment in cross-border transactions.

## Implications of CBDCs for central banks

Far from being a purely technical matter, CBDCs have significant consequences for the mandate, core tasks and independence of central banks. On the one hand, as pointed out in Section 2, the digital changes affecting money and payments are at the core of central banks' responsibilities; therefore, central banks, in particular the ECB, consider issuing CBDCs alongside cash as a 'logical next step in the evolution of central bank money' (Panetta 2023). On the other hand, CBDCs are a novel business for central banks, which will offer a new product to retail customers and which will be in competition with commercial banks, whilst central banks perform their other tasks (monetary policy and banking supervision) in a 'monopolisitc' manner as a public body (Angeloni 2023). Since this market is presently dominated by private companies, the emergence of CBDCs will increase the presence of central banks in the financial and economic system (interviews 3, 4, 10, 11). The issuing of CBDCs thus raises the question of whether central banks are overstretching their mandate. Are they taking on board too many new tasks, or they are simply adapting to the digital age through a 'digital extension' of their mandates? Moreover, any policy failures – ranging from the malfunctioning of the system to the limited or excessive take-up of a CBDC euro – could be detrimental to the credibility and reputation of central banks (interview 5, see also Angeloni 2023). Furthermore, contributing to picking 'winners' and 'losers' could also call into question the hard-fought independence of central banks, which is firmly based on output-based legitimacy (i.e. legitimacy based on the delivery of satisfactory performances) and in many cases a relatively simple mandate of delivering price stability (and in some cases ensuring economic growth (employment) and financial stability).

The development and introduction of CBDCs foreshadow a period of major changes in the role of central banks in the international political economy. Over the past three decades, central banks in the Global North have mostly been targeting inflation (or deflation) and, occasionally, have intervened to preserve financial stability and sustain economic recovery (Fraccaroli et al. 2025). With the development of CBDCs, central banks have acquired a new role in the digital economy, but also in the geoeconomic arena (Spielberger 2025b). Specifically, they have emerged as geoeconomic actors, challenging their (supposedly) apolitical status and neutrality (Adolph 2013). Of course, central banks have never been fully apolitical or politically neutral. In the past, however, they sought to avoid becoming embroiled in redistributive matters or foreign policy issues. In recent years, however, central banks have been dragged into or have willingly entered the realm of geoeconomics. For example, they have been enlisted for financial warfare through the adoption of financial sanctions that involved the freezing of foreign reserves held abroad by the central bank of Russia (Quaglia and Verdun 2023b, 2024). The present study shows, however, that central banks have also become geoeconomic actors of their own volition.

## Conclusion

This paper has explained why the ECB has acted as a paladin of a retail CBDC. While we acknowledge the general concern of central banks about the loss of the monetary anchor in a digital age (which can hinder central banks' ability to conduct their key task, monetary policy), we argue that, in the case of the ECB, geoeconomics explains why the digital euro project got underway. Some of these geoeconomic concerns include the changing interactions among major powers in the world: between Europe and the US, but also China and Russia. Others pertain to the increased digital and financial power of huge (non-EU based) private US-based companies operating within the EU. In the EU, monetary and digital sovereignty as well as open strategic autonomy have become political priorities.

The ECB has contributed to this trend by championing the digital euro also to facilitate the establishment of an EU-based retail payment system that would be less vulnerable to outside pressure. Once in place, the digital euro could offer a payment system that might be better protected

against cyber-attacks (or, at a minimum, meet regulatory standards that the EU could set itself) and be in line with the rather stringent data protection law in the EU. Furthermore, it might be able to reduce the chance that the EU could become negatively affected by politics that originate in the US. Yet, getting involved in a digital currency may impact the ECB's traditional mandate and core functions, potentially challenging its goals of protecting price stability and contributing to financial stability. It also remains unclear how these developments might impact the traditional cooperation among central banks at the international level.

## Notes

1. Retail payments can take place with central bank money (cash), commercial bank money (digital bank deposits), non-bank digital money (such as payment cards), and CBDCs.
2. Different types of cryptocurrencies exist: unbacked crypto-assets (e.g., Bitcoin) and backed crypto assets (e.g., 'stablecoins') (Campbell-Verduyn 2018, Bains *et al.* 2022, Chey 2023, FSB 2024).
3. Data available from https://www.atlanticcouncil.org/cbdctracker/
4. The People's Bank of China was one of the first central banks to pilot a CBDC.
5. For this study, the author(s) conducted semi-structured elite interviews with fourteen individuals in eleven interviews. They included representatives of private financial actors, non-governmental organisations and EU bodies, and a legal expert. Interviews conducted between April and August 2024 typically lasted an hour (see Appendix).
6. Moreover, the advent of CBDCs could promote financial inclusion, especially in emerging economies (Gabor and Brooks 2017, Gruin and Knaack 2020).
7. Authorities of EU countries where the euro is not (yet) legal tender have been keeping close eye on the developments see for example Börestam and Mölgaard (2024).
8. Currently, more than two-thirds of European card payment transactions are processed by companies with headquarters outside the EU.
9. Similarly, Panetta (2021) argued that 'payments are an essential service, for both individuals and the economy more broadly. We should not leave it to the private sector alone, including big techs, to provide such services'.
10. On 28 June 2023 the European Commission put forward a 'single currency package' (two legislative proposals), setting out a framework for a digital euro, and legislation aimed at the continuity of the use of cash (the ability to pay with banknotes and coins) (European Commission 2023a).

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## Appendix (List of Interviews):

Interview 1: individual from a German Banking Association, 22 April 2024
Interview 2: individual from a bank, 7 May 2024
Interview 3: individual from a euro area national central bank, 13 May 2024
Interview 4: two industry experts working in relevant roles working for a digital payments company, 17 May 2024
Interview 5: individual from The Hague University of Applied Sciences, 23 May 2024
Interview 6: individual from the European Commission, 27 May 2024
Interview 7: three persons from the European Parliament, 27 May 2024
Interview 8: individual from the ECB, 13 June 2024
Interview 9: individual from a non-governmental organisation *Stichting Ons Geld* (Foundation Our Money), 14 June 2024
Interview 10: individual from the Bank of England, 23 July 2024.
Interview 11: legal expert, 12 August 2024.

Author(s) held semi-structured interviews using a virtual platform (e.g. Zoom or MS Teams). The research procedures were approved by the University of Victoria Human Ethics Board. After review of the Participant Consent Form, each of these interviewees confirmed their willingness to participate. In those cases where more than one person is listed, those made a major contribution to the conversation. These individuals were chosen based on their close knowledge of the digital euro project and that they were representing institutions from different sides of the policy process.