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Key legal aspects of the digital euro

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1. General considerations and current developments (1)

(1) A CBDC is defined as “*a digital payment instrument, denominated in the national unit of account, that is [like banknotes] a direct liability of the central bank*”

(2) This form of central bank money, offered by application of distributed ledger technology (‘DLT’), is a digital form of central bank money that is different from balances in traditional reserve or settlement accounts, and is being introduced, *inter alia* but predominantly, to **preserve the role of central bank money in the digital economy**

(3) Retail CBDCs (r-CBDCs) differ from existing forms of private cashless payment instruments

(4) All CBDCs (r- and w-CBDCs) should also be distinguished (*inter alia*) from: *first*, crypto-assets, including asset-referenced and e-money tokens (jointly referred to as “**stablecoins**”), which are (also) based on DLT, are digital representations of value or rights but are not issued by central banks; and *second*, the so-called “synthetic CBDCs”, namely liabilities issued by private sector payment service providers and matched by funds held at the central bank

1. General considerations and current developments (2)

(5) The Bank for International Settlements (BIS) has established an **“Innovation Hub”** aimed at developing public goods in the technology space to support central banks and improve the functioning of the financial system. One of the six new projects included in its 2024 work programme (as of January of this year) refers to CBDCs

(6) Among other members of the central banking community, the ECB has undertaken initiatives to introduce a **retail digital euro (r-CBSC)** (currently, implementation phase, see **under 5(2), below**)

(7) The ECB initiatives on the introduction of a digital euro

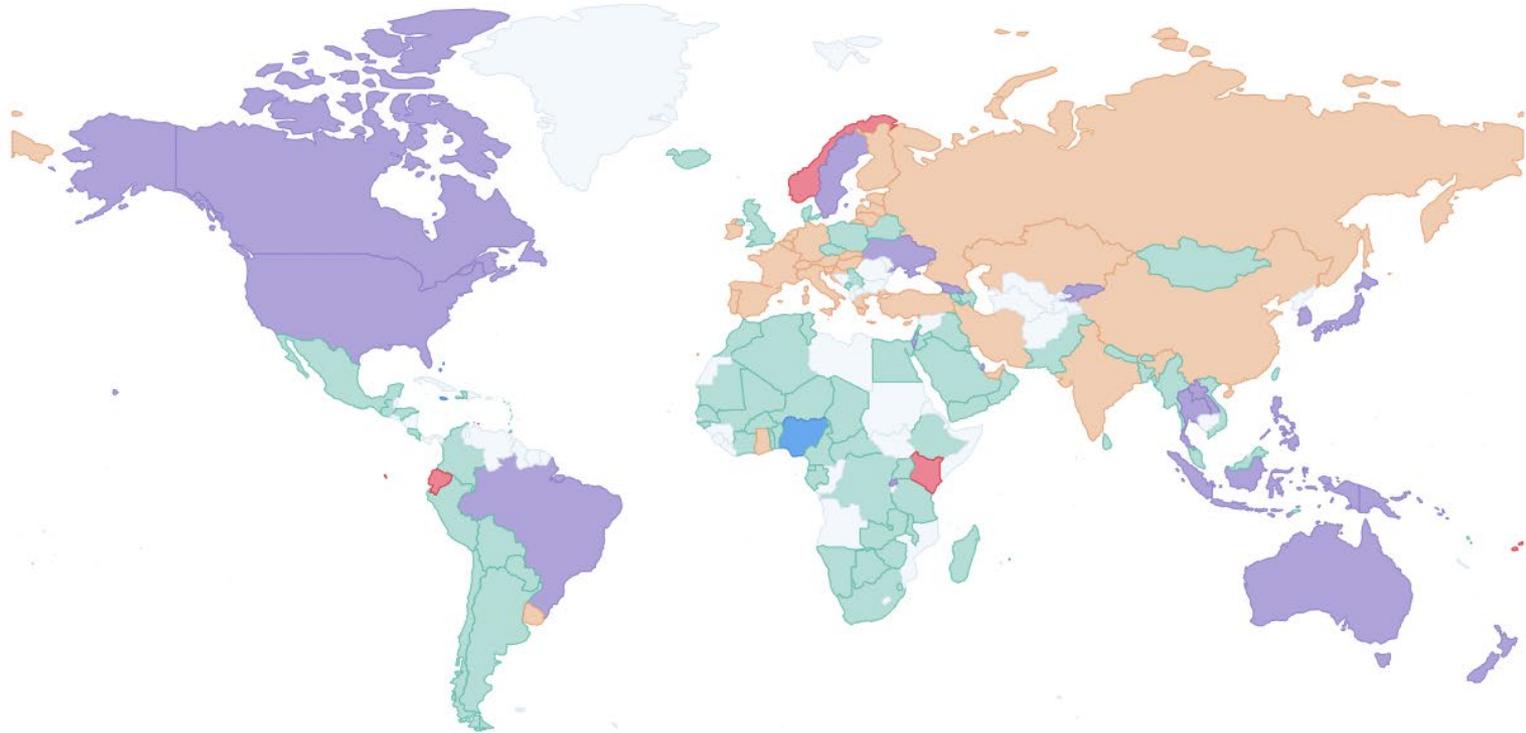
- from the “investigation” to the “implementation phase”
- the work of the **“Rulebook Development Group”**

CBDCs worldwide

Today's Central Bank Digital Currencies Status

Database update: January 2026 • News update: Feb, 02 26

Cancelled Research Proof of concept Pilot Launched Show all



Source: CBDC-Tracker (<https://cbdctracker.org>), February 2026

2. The Commission's June 2023 “Single Currency Package”

- (1) Proposal for a Regulation of the European Parliament and of the Council (co-legislators) “*on the establishment of the digital euro*” – legal basis: **Article 133 TFEU** (alternatives?)
- (2) Proposal for a Regulation of the co-legislators “*on the provision of digital euro services by payment services providers [PSPs] incorporated in Member States whose currency is not the euro*” – legal basis: **Article 114 TFEU**

2. The Commission's June 2023 “Single Currency Package”

(3) Proposal for a Regulation of the co-legislators “*on the legal tender of euro banknotes and coins*” – legal basis: **Article 133 TFEU** – this proposed Regulation sets out, for the first time in secondary legislation, a definition and regulation of legal tender for cash, a defining characteristic of central bank money. The term “legal tender” is currently only defined in a soft law instrument (**Commission Recommendation** of 22 March 2010) and a recent CJEU judgment (judgment of 26 January 2021 in **joined cases C-422/19** and **C-423/19**, *Johannes Dietrich and Norbert Häring v Hessischer Rundfunk*)

ECB Opinions delivered in autumn 2023

3. Key provisions of the “digital euro” proposed Regulation (1)

(1) Establishment: by the Regulation

(2) Issuance: by ECB and euro area NCBs – direct liability of those (thus, the amounts of digital euro will be reflected on the liabilities side of the Eurosystem’s consolidated accounts; see **Table 3 below**) – no contractual relationship of the issuer with the users of digital euro

(3) Legal tender status:

- the rule of “mandatory acceptance”;
- general exceptions and exceptions of a monetary law nature;

(4) Interaction between the digital euro and euro banknotes and coins

(5) Functionalities: accessibility and use – online and offline, conditional payment transactions

3. Key provisions of the “digital euro” proposed Regulation (1)

(5) Distribution: PSPs (including credit institutions) providing digital euro payment services – **“DEPA”**

(6) Mitigation of risks:

- **monetary stability:** impact on the balance sheet and the demand for broad monetary aggregates;
- **financial stability:** impact on banks’ maturity transformation function vs. mitigation of bank runs
- **legal risks:** data protection – AML

(7) Limits:

(a) Limits to the use of the digital euro as a store of value – **see under 4 below**

(b) Fees on digital euro payment services: prohibition, limitations and exceptions

3. Key provisions of the “digital euro” proposed Regulation(1)

1. The key consideration: recital (32):

“An unrestricted use of digital euro as a store of value could endanger financial stability in the euro area, with adverse effects on credit provision to the economy by credit institutions. This may require that the ECB, with a view to ensuring the stability of the financial system, and in line with the principle of proportionality, introduce limits on the digital euro’s use as a store of value. The policy tools that could be used for this purpose include, but would not be restricted to, quantitative limits to individual digital euro holdings and limits to conversion of other categories of funds to digital euro in a specified timeframe.”

4. Limits to the use of the digital euro as a store of value (2)

2. The objectives set out in Article 15(1)

(a) The use of the digital euro as a store of value may be subject to limits, with a view to:

- enabling natural and legal persons to access and use digital euro;
- defining and implementing the single monetary policy; and
- **contributing to the stability of the financial system** (preventing outflows of bank deposits)

4. Limits to the use of the digital euro as a store of value (3)

(b) In accordance with **Auer *et al.* (2024)**:

(i) the impact of the introduction of a CBDC (in general) depends on a number of design choices and on how credit institutions shall re-optimize their balance sheets in response to the outflow of deposits caused by their substitution with CBDCs;

(ii) the introduction of a CBDC may reduce the probability and size of systemic bank runs;

(iii) based on illustrative simulations, the overall impact on credit institutions' funding could be manageable in the presence of individual holding limits, provided that liquidity and stable funding is ample and that credit institutions will not need to (extensively) resort to the issuance long-term liabilities to maintain stable funding levels above regulatory requirements

4. Limits to the use of the digital euro as a store of value (4)

(c) In accordance with **Panetta (2022)**:

“Our preliminary analyses indicate that keeping total digital euro holdings between one trillion and one and a half trillion euro would avoid negative effects for the financial system and monetary policy. This amount would be comparable with the current holdings of banknotes in circulation.”

4. Limits to the use of the digital euro as a store of value (5)

3. The provisions of Article 16

(a) The ECB is required to develop instruments to limit the use of the digital euro as a store of value, including (individual) “**holding limits**”, and decide on their parameters and use. These limits shall be applied to DEPAs by the **PSPs** distributing the digital euro

(b) Three criteria are proposed which the parameters and use of the instruments developed by the ECB should meet and be applied in a non-discriminatory manner and uniformly across the euro area:

4. Limits to the use of the digital euro as a store of value (6)

3. The provisions of Article 16

(b) The three criteria are:

first, safeguard the objectives set out in **Article 15(1)**, in particular financial stability;

second, ensure the usability and acceptance of the digital euro as a legal tender instrument; and

third, respect the principle of proportionality

4. Limits to the use of the digital euro as a store of value (7)

Accordingly:

- limits on the amounts of digital euro that its users can hold may be imposed to safeguard monetary and financial stability;
- the ECB would be able to decide harmonised holding limits, which should follow a strict proportionality principle to ensure that credit institutions continue to efficiently perform their maturity transformation function in view of financing the economy; and
- these limits would not affect the ability to make payments with a higher value, since additional funds shall be transferred automatically from and to a user's PSP through the **“waterfall/reverse waterfall” mechanism**

4. Limits to the use of the digital euro as a store of value (8)

4. Two scenarios on the impact to financial stability:

(1) Manageable reduction of bank deposits:

- deposit reduction is offset by a reduction of excess reserves held at the ECB/NCBs;
- no change in the Eurosystem's balance sheet

(2) Extensive reduction of bank deposits:

- if deposit reduction cannot only be offset by such a reduction of excess reserves, credit institutions must increase central bank or market funding to cover the liquidity gap; and/or reduce their assets;
- the Eurosystem's balance sheet becomes larger, reflecting the increased lending to credit institutions and/or asset purchases to cover liquidity shortfall

TABLE 1

Basic scenario: mild demand for digital euro

Eurosystem (stylised balance sheet)			
Assets		Liabilities	
Foreign reserves and gold	–	Banknotes in circulation	↓
		Digital euro	↑
Claims on credit institutions related to monetary policy operations (open market operations & lending facility)	–	Liabilities to credit institutions related to monetary policy operations (reserve requirements & deposit facility)	↓
Other claims and assets (in domestic and foreign currency) – including Government and corporate securities	–	Other liabilities (in domestic and foreign currency)	–
		Reserves and capital	–
Total	+/-0		+/-0
(1) Digital euro is exchanged for banknotes and excess reserves held by credit institutions to the Eurosystem in response to deposit reduction			
(2) No change in the Eurosystem's consolidated balance sheet			

TABLE 1

Basic scenario: mild demand for digital euro

Credit institutions (stylised balance sheet)			
Assets		Liabilities	
Cash holdings	—		
Reserves at the Eurosystem	↓	Central bank funds	—
Loans	—	Deposits	↓
Securities held	—	Securities issued (market funding)	—
Other	—	Own funds	—
Deposit reduction is offset by a reduction of excess reserves held at the Eurosystem			

TABLE 2

Adverse scenario: (very) significant demand for digital euro



Eurosystem (stylised balance sheet)			
Assets		Liabilities	
Foreign reserves and gold	—	Banknotes in circulation	↓
		Digital euro	↑
Claims on credit institutions related to monetary policy operations (open market operations & lending facility)	↑	Liabilities to credit institutions related to monetary policy operations (reserve requirements & deposit facility)	↓
Other claims and assets (in domestic and foreign currency) – including Government and corporate securities	↑	Other liabilities (in domestic and foreign currency)	—
		Reserves and capital	—
Total	↑		↑
Increased lending to credit institutions and/or asset purchases to cover liquidity shortfall arising from large deposit outflows = the Eurosystem's consolidated bank balance sheet becomes larger			

TABLE 2

Adverse scenario: (very) significant demand for digital euro



Credit institutions (stylised balance sheet)

Assets		Liabilities	
Cash holdings	–		
Reserves at the Eurosystem	↓	Central bank funds	↑
Loans	↓	Deposits	↓↓
Securities held	↓	Securities issued (market funding)	↑
Other	–	Own funds	–

Deposit reduction cannot only be offset by a reduction of excess reserves held at the Eurosystem – accordingly, credit institutions must:

- increase central bank funding and/or resort to market funding to cover the liquidity gap; and/or
- reduce their assets (deleveraging) if substitution of deposits with other market funding sources at reasonable cost is not feasible

5. The way forward

(1) **Role of the co-legislators:** adoption of the Regulations

(2) **Role of the Eurosystem:** completion of the next stage of the “**preparation phase**” of the digital euro project, which started on 1 November 2023 and initially lasted last two years – in terms of governance:

- steering by the Eurosystem’s “**High-Level Task Force on Central Bank Digital Currency**”;
- drafting of the “digital euro rulebook” by a “**Digital euro scheme Rulebook Development Group**”; its members are senior professionals from the private and public sectors with experience in finance and payments, nominated by different EU stakeholder associations in the EU retail payments market;
- support by the “**Euro Retail Payments Board**” (‘**ERP**’), a high-level strategic body (forum) for institutional dialogue with the market on a digital euro

(3) **Public awareness:** financial & digital education

TABLE 3: A simplified central bank balance sheet

Assets	Liabilities
1. Gold and foreign reserves	1. Banknotes in circulation & CBDCs
2. Claims on banks related to monetary policy operations (“open market operations” & “marginal lending facility”)	2. Liabilities to banks related to monetary policy operations (“reserve accounts” and “deposit facility”)
3. Other claims on banks	3. Liabilities to other parties (in domestic or foreign currencies)
4. Securities issued by Governments & non-financial firms	4. Other liabilities
5. Other claims (in domestic or foreign currencies)	5. Revaluation reserves
6. Other assets	6. Capital and reserves

TABLE 4: A simplified, typical bank balance sheet

Assets		Liabilities	
Cash	5	CB funds:	5
		Monetary policy – LLR	
Loans – performing	68	Retail deposits	55
Loans – non-performing	3	Corporate deposits – Government deposits	15
		Interbank deposits	5
Securities (issued by Governments and corporates)	14	Senior bonds	10
Other	10	OF - Subordinated bonds	
		(Additional Tier 1 cap + Tier 2 capital)	5
		OF - Capital (CET 1 capital)	5
	100		100