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Considerations about the impact of wide circulation of the digital euro outside the euro area

The euro area faces benefits and risks of digital euro circulation, in particular holdings of digital euro, outside the euro area similar to that of euro cash circulating outside the euro area:

- From a euro area perspective, the circulation of euro cash outside the euro area supports the international role of the euro¹ and is a source of seigniorage.²
- From a non-euro area perspective, excessively wide circulation of euro banknotes within a country increases the possibility of euroisation (meaning a loss of monetary sovereignty if the national currency is weak or if the country prefers not to issue a currency and adopt the euro).

Circulation of euro banknotes outside the euro area is estimated to be between 30-50% of the total stock of banknotes. This share is also estimated to be growing over time.³

1. Factors to consider when assessing the possible scenario of use/holdings of digital euro outside the euro area

There are two main differences between digital euro and cash from a supply perspective:

1. Larger capacity of authorities to influence circulation of digital euro: Public authorities have fewer means to influence how widely cash flows outside the euro area. In contrast, they can more easily influence digital euro distribution outside the euro area through the application of Articles 18-20 of the Digital Euro Regulation⁴ and the fact that the holding limit for residents outside the euro area needs to be equal or lower than for euro area residents (Article 16.5).
2. Distribution of digital euro via EU Payment Service Providers (PSPs) is likely more constrained due to Know your customer (KYC) checks⁵: Given the requirements connected to digital euro distribution and onboarding currently foreseen in the draft legislation, including KYC checks, non-EU residents' ability to obtain digital euro is constrained by their

¹ As stated in the draft Digital Euro Regulation, the proposal is consistent with the European Commission Communication (2018) "[Towards a stronger international role of the euro](#)".

² However, digital euro circulation outside the euro area should not lead to circumvention of the euro adoption process and the euro convergence criteria.

³ See Lalouette et al (2021). [Foreign demand for euro banknotes](#). ECB Occasional Paper Series No 253.

⁴ Articles 18-20 foresee that the PSPs can only distribute digital euro in (i) non-euro area Member States, (ii) third countries, or (iii) countries under a monetary agreement, following (i) a signed arrangement with the ECB, (ii) an agreement with the Union or (iii) an amendment of the monetary agreement to that effect, respectively.

⁵ The digital euro could also be distributed by third country PSPs, if an equivalence agreement were reached with the public authorities as per Article 19. This is complex and needs a specific assessment on a country-by-country basis. While it is valuable to keep the option open from a regulatory perspective, wide distribution by third country PSPs is not a reasonable expectation due to the absence of mandatory distribution in third countries.

ability to open accounts with EU PSPs. This can be viewed as a ‘*natural limiting factor*’ on non-EU residents’ holding of digital euro and constitutes a more restrictive limiting factor compared to access to euro cash or commercial bank money in euro (where non-EU PSPs can offer euro-denominated deposit accounts). This limitation also impacts the ease of access to digital euro for visitors/tourists.

In sum, compared to euro cash, the circulation of digital euro outside the euro area can be influenced more easily by authorities and faces the natural limiting factor of distribution via EU PSPs, including constraints in performing KYC checks on non-residents.

2. Impact of a wide use/holdings of the digital euro outside the euro area

Demand for euros from outside the euro area – digital or cash – falls into two broad categories: (1) euro holdings for the purpose of trade with or visits to the euro area (**medium of exchange**); (2) demand for a stable foreign-currency asset (**store of value**). For each of these functions of money, short of a quantitative assessment⁶, this note outlines preliminary economic and financial considerations from a euro area and non-euro area perspective, respectively.

(a) Medium of exchange function

Outside the euro area, euro cash or digital euro are not legal tender. Facilitating the circulation of the euro as means of payment supports the standing of the euro as an international currency, insofar as it facilitates international commerce in euro. This is the case irrespective of whether this circulation takes place in the form of commercial bank money, euro cash or digital euro.

With digital means of payments, FX operations can be done at the time of payment. This means that payees do not need to hold euros, even if they set prices in euros, but that payments they receive in euro can immediately be converted into the domestic currency. This distinguishes digital euro or commercial bank money from euro cash. For example, a Swedish merchant can charge euro area clients in euro, whereas its account is credited in SEK. Enabling the possibility to accept digital euro as medium of exchange without enabling the possibility to hold digital euro therefore does not undermine the monetary sovereignty of non-euro area countries.

(b) Store of value function

The Digital Euro Regulation aims at limiting the digital euro’s store of value function, in particular by imposing holding limits. Lower or equal holding limits would apply to residents outside the euro area than to residents in the euro area.

From a euro area perspective, extensive holdings of euro in third countries supports the standing of the euro as an international currency, insofar as it facilitates the euro’s standing as a reserve currency. This applies equally to cash, digital euro or commercial bank money denominated in euros. What is specific to euro cash and digital euro is the seigniorage that their circulation outside the euro area could generate.

For third countries, if a digital euro would be widely available as store of value **and if** the third country would be facing a currency crisis, the digital euro could create a risk of currency substitution as a safe

⁶ The European Commission (2023) “[Impact Assessment Report](#)” for the Digital Euro Regulation (Annex 9 on international use of a digital euro) and Ferrari and Mehl (2021) “[The international role of the euro, June 2021](#)” provide further analysis of the digital euro impact on the euro area.

digital asset.⁷ The G7 Public Policy Principles for Retail Central Bank Digital Currencies (CBDCs) state that CBDCs should be designed to avoid risks of harm to the international monetary and financial system, including the monetary sovereignty and financial stability of other countries (Principle 7).⁸ From a Digital Euro Regulation perspective, three factors minimise this risk: (1) the presence of holding limits; (2) the ability for EU public authorities / third country authorities to influence digital euro availability via arrangements as per Article 19; (3) the need for third country residents to open a digital euro account with an EU PSP to acquire digital euro.

⁷ See Popescu (2022). [Cross-Border Central Bank Digital Currencies, Bank Runs and Capital Flows Volatility](#). IMF Working Paper No. 2022/083.

⁸ In contrast to the digital euro, a number of other CBDC projects more explicitly cover the potential use of CBDCs outside the jurisdiction in which they are issued. From a euro area perspective, the ECB will therefore take CBDC internationalisation into account in view of the digital euro's objective of supporting the euro area's open strategic autonomy. See Habib (2024). [The international role of the euro, June 2024 \(Box 2\)](#).