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The digital euro: a matter of monetary and financial sovereignty

The digital euro has now entered a decisive phase. In 2026, European negotiations reached a significant milestone with the launch of trilogue discussions on the regulation governing its issuance, while the European Central Bank has begun preparing a pilot phase involving 36 payment service providers. The project is thus moving beyond a purely theoretical debate toward practical implementation. BPCE Group is the only French institution taking part in this pilot.

Beyond the creation of a new means of payment, the digital euro sits at the intersection of several structuring issues: adapting public money to the digitalised usage, preserving European sovereignty in payments, regulating monetary innovation and maintaining financial stability. As a dematerialised form of central bank money, it differs from private instruments and requires a specific architecture, based on the intermediation of payment service providers, the protection of privacy, and a calibration designed to limit the effects of banking disintermediation.

The challenge, therefore, is no longer merely to debate its strategic character, but to assess the conditions for its integration into the European financial ecosystem. For banks, the question is at once commercial, operational and prudential. The analysis focuses, on the one hand, on the qualitative issues relating to banking franchises and the transformation of payment behaviour and, on the other, on the possible quantitative implications in terms of funding, profitability and the main liquidity ratios. Ultimately, the aim is to assess the extent to which this monetary innovation could, depending on jurisdictions and banking models, durably alter the sector's balance.

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The digital euro: monetary sovereignty, payment autonomy amid a new European financial architecture

The digital euro project is now in its finalisation phase following the adoption of the European Parliament's negotiating position on 9 July, that paved the way for trilogue negotiations to finalise the regulatory framework by year-end. The first trilogue took place on 13 July.

The digital euro has also reached an operational milestone, with the ECB selecting 36 payment service providers to participate in a pilot phase scheduled for the second half of 2027 and lasting twelve months. The digital euro is now entering a concrete testing phase intended to assess its architecture, uses and functioning alongside intermediaries. BPCE Group is the only French institution participating in this pilot.

The digital euro must be understood as a project that is simultaneously monetary, regulatory, technological and strategic, situated at the crossroads of monetary policy, retail payments and European sovereignty. Its purpose is not merely to introduce a new means of payment, but to preserve the presence of central bank money in an economy where usage is becoming increasingly digital, while strengthening the Union's autonomy in a now critical domain. This reading is explicitly defended in Christine Lagarde's speech, [Money in transition](#), delivered on 15 June 2026, in which the ECB President stresses that money itself is "in transition" under the effect of digitalisation and innovation in payments.

Why a digital euro?

Recent changes in payment behaviour

The payment statistics (excluding cash withdrawals) published by the ECB help to shed light on the issues surrounding the introduction of the digital euro. These data provide a detailed overview of the use of non-cash payment instruments, as well as activity in retail and large-value payment systems.

In the second half of 2025, the total number of non-cash payments in the euro area reached 83.5 billion transactions (for a value of EUR 117,800 billion), up 6.9% compared with the second half of 2024. The payment structure confirms the predominance of cards in day-to-day usage, accounting for 57% of the total number of scriptural payments in the second half of 2025, ahead of credit transfers (21%), direct debits (14%) and e-money payments (6%). Cheques remain marginal and account for only a very small share of transactions.

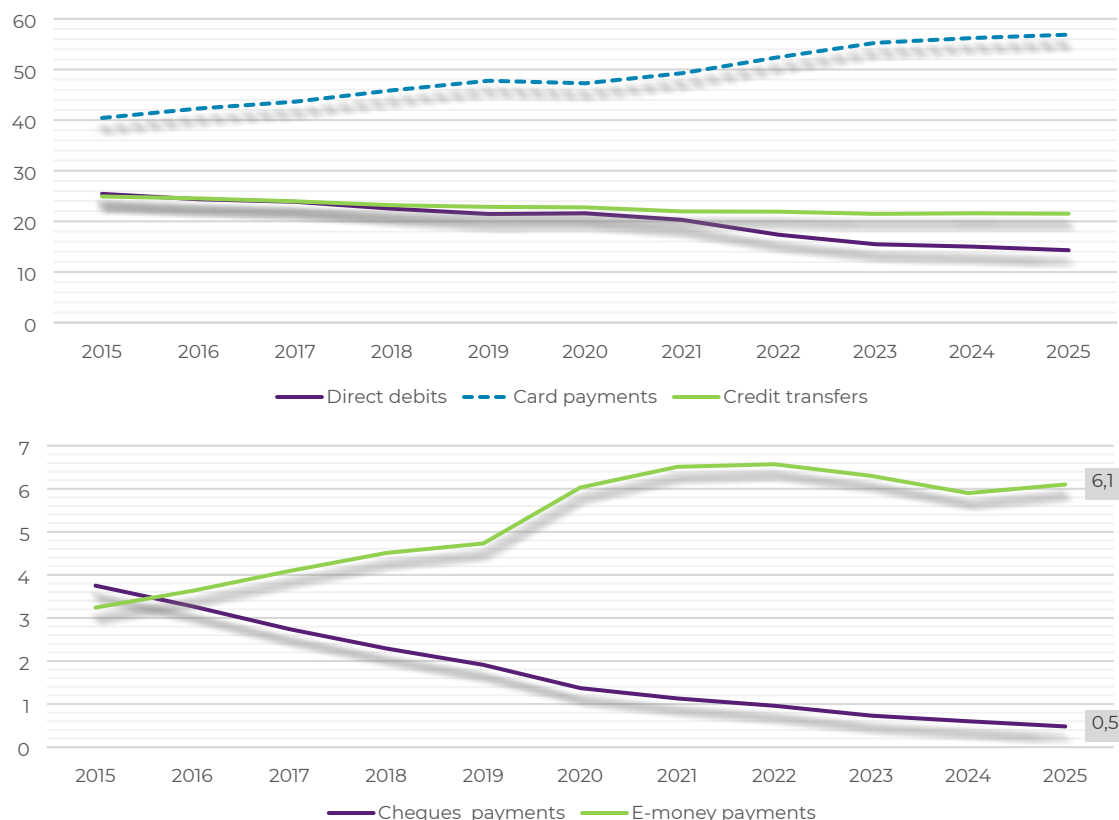
The most notable trend over the past ten years concerns developments in e-money payments, an instrument of payment with specific characteristics. Whereas card payments are electronic payments in scriptural money, e-money is a privately issued, convertible claim stored on a medium such as a prepaid card or an online wallet¹.

The share of digital money in the total number of non-cash payment transactions in the euro area has almost doubled over the past ten years (**Chart 1**). It rose from 3% in 2014 to 6.1% in 2025 (equivalent to EUR 306 billion), peaking at nearly 6.5% in 2021 and 2022, partly due to public health restriction measures and changes in household

¹ According to the ACPR, electronic money is defined by a set of cumulative criteria that establish its legal and economic framework. First, it is issued in exchange for euros or any other legal tender currency. It constitutes monetary value, in the sense that it represents a store of value that can be used for payment transactions with parties other than the issuer, within a "network of acceptors". This value is stored in electronic form and constitutes a claim on the electronic money issuer. Lastly, it must be redeemable at any time, upon simple request, at par value.

behaviour. These figures, however, mask wide disparities between euro area countries. This development has occurred at the expense of cheque payments, whose share has steadily declined, falling from 4.3% of total non-cash payments in 2014 to just 0.5% in 2025.

Chart 1: Changes in the structure of payments (excluding cash) in the euro area



Sources : ECB, Natixis CIB Research

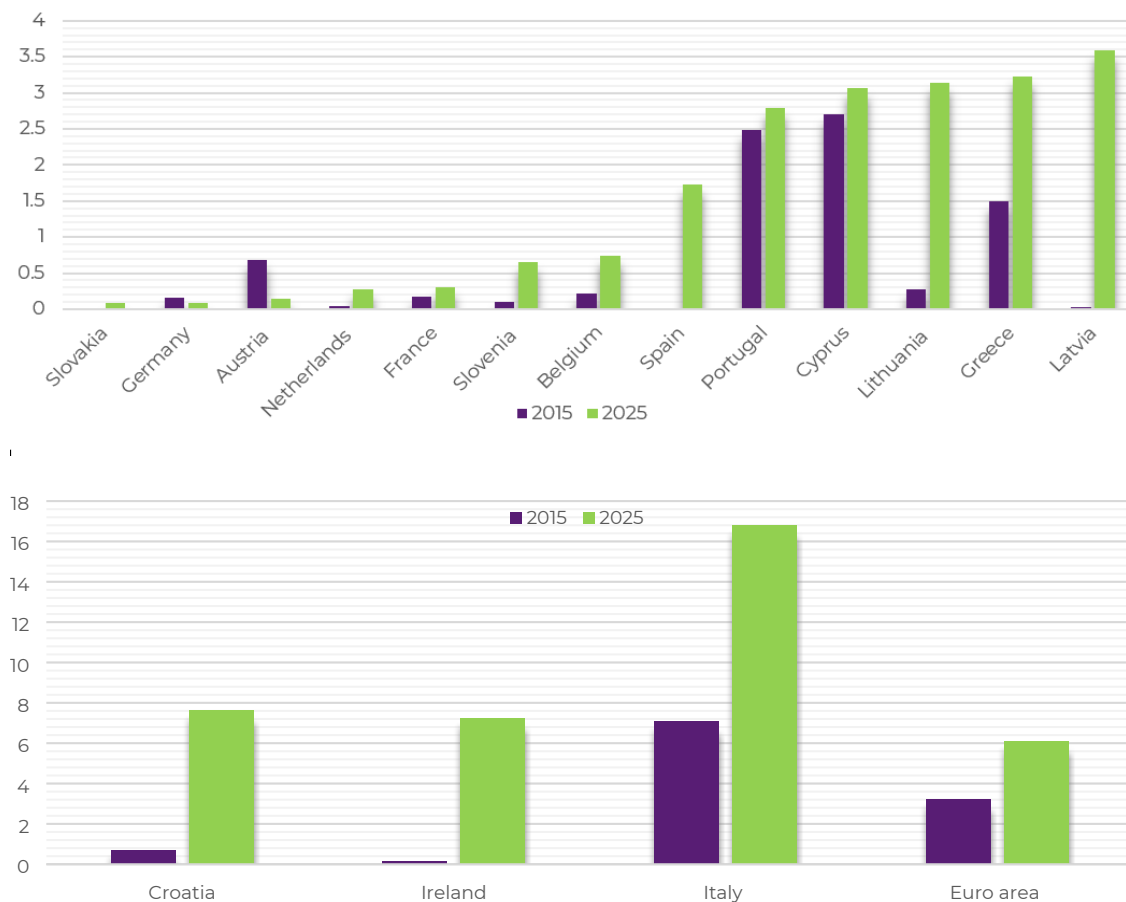
Payment data published by the ECB² suggest that digital money occupies a singular place in Italy. In 2015, the share of digital money payments stood at 7.07% of the total, compared with 3.24% on average in the euro area (**Chart 1**). Ten years later, the proportion of digital money payments in Italy has more than doubled from an already elevated level. No other large euro area country shows a comparable dynamic.

In Italy, the high share of electronic payments can be explained by several factors. First, the state has played a leading role by actively promoting alternative means of payment, particularly wallets, and seeking to limit the transaction costs borne by users, notably through measures targeting card payment fees. Second, Poste Italiane occupies a central position, notably through Postepay, a rechargeable prepaid card launched in 2003 and used as an electronic wallet without requiring a bank account. Lastly, dedicated public infrastructures have contributed to the diffusion of e-payments. The government's IO application, linked to the PagoPA platform, allows users to pay for public administration services online and to store official documents, thereby contributing to the digitalisation of public sector payments.

² Data for Bulgaria, Estonia, Finland and Malta are not available.

Ireland and Croatia also display a share of digital money payments markedly above the euro area average. However, this share remains highly marginal in many member states. In France, it is estimated at 0.3% in 2025, albeit still representing growth of nearly 70% compared with 2015.

Chart 2: Share (%) of digital money in the total number of non-cash payments by member state



Sources : ECB, Natixis CIB Research

Digital euro and stablecoins: different logics and different natures

Public debate often draws parallels between the digital euro and stablecoins, two digital instruments that can be used for payments. Yet their economic, legal and institutional natures differ. This distinction is crucial to understanding why European institutions do not present the digital euro as a simple public version of existing private assets, but rather as an instrument of a different category.

The digital euro would constitute a dematerialised form of central bank digital currency (CBDC), and thus of public money, conceived as a common good and an instrument of sovereignty at the heart of Europe's monetary architecture. Stablecoins, by contrast, are claims on private entities, backed by an official currency or a basket of assets, whose value depends on the quality of reserves, their liquidity and the prudential framework applicable to the issuer ([The Stablecoin Moment for Global Finance](#)). This difference directly affects the risk profile: a holder of digital euro would hold a public asset guaranteed by the central bank, whereas a user of a stablecoin remains exposed to a private counterparty risk.

The purposes pursued further accentuate the divergence. The digital euro is conceived as an instrument of public policy: maintaining access to central bank money in the digital age, providing a European payment solution, strengthening resilience and sovereignty, and supporting innovation without compromising financial stability. Conversely, stablecoins primarily respond to a commercial logic and to uses specific to crypto-asset ecosystems.

From a legal standpoint, the digital euro falls within a specific framework ([COM\(2023\) 369 final](#)), notably providing for legal tender status, whereas stablecoins are governed by MiCA and do not enjoy the status of public money. Within the monetary system, the digital euro would extend, in digital form, the role of banknotes, whereas stablecoins remain peripheral. The difference between the digital euro and stablecoins therefore reflects a difference in nature, involving the definition of money, and the regime of trust and public control over payment infrastructure in the digital economy.

A project now firmly institutionally anchored

The digital euro project led by the Eurosystem has gradually taken shape. The ECB first published a [Report on digital euro](#) in October 2020, before formally launching an investigation phase in July 2021. A further step was taken on 18 October 2023, when the Governing Council decided to enter the preparation phase.

At the same time, on 28 June 2023 the European Commission presented a legislative package comprising two proposals: [the proposal for a regulation on the establishment of the digital euro \(COM\(2023\) 369 final\)](#) and [the proposal for a regulation on the legal tender of euro banknotes and coins \(COM\(2023\) 364 final\)](#). The first proposal constitutes the legal foundation of the project; the second seeks to clarify and protect the role of cash. This articulation is important: the digital euro is presented as a complement to, not a substitute for, banknotes and coins. In 2026, the project entered a phase of greater institutional convergence (see annex for the main milestones of the digital euro).

Why the digital euro has become a matter of sovereignty

The context in which the project is unfolding is now well identified. Payments are becoming more digital (Chart 1), the use of cash is declining, citizens and businesses are increasingly relying on private solutions, and Europe remains heavily dependent on non-European players for retail payments. In this context, the issue is no longer merely one of innovation: it is also about maintaining a public monetary anchor in the digital economy.

The ECB justifies the digital euro by several explicit objectives. The first is to guarantee citizens access to a form of central bank money suited to digital use. The second is to provide a pan-European payment solution usable across the entire euro area. The Commission and the ECB also highlight resilience, innovation, competitiveness and support for the international role of the euro.

This international dimension is particularly central given that the stablecoin market is now almost entirely dominated by the US dollar, to which approximately 98% of the roughly USD 300 billion in stablecoins are pegged. Widespread use of these instruments, in their current configuration, would lead to greater “dollarisation” of European economies, reducing the effectiveness of euro monetary policy and weakening the Union’s monetary sovereignty.

That is why the project has a more strategic dimension. The European Parliament's press release of 23 June 2026 — [Digital euro: MEPs want to ensure sovereignty, privacy and financial stability](#) — makes this very clear: the political debate is now structured around three joint requirements: sovereignty, privacy protection and financial stability. The digital euro is therefore increasingly conceived as a European public payment infrastructure capable of reducing dependencies in a critical domain.

Preserving public money while protecting financial stability in a digital environment

The ECB's core argument is monetary before it is technological. If retail payments become overwhelmingly digital, central bank money must also be available in a form suited to that environment. Otherwise, the payments landscape could gradually be dominated by private means of payment, or even by instruments issued or controlled from outside Europe.

In that sense, the digital euro can be interpreted as a project of monetary continuity. The aim is neither to replace cash nor to disintermediate the banking system, but to ensure that public money retains an active role in everyday payments.

The Commission's proposed regulation provides for a digital euro distributed by payment service providers (PSPs). Basic services would be free of charge for individuals. The text also grants legal tender status to the digital euro, together with mandatory acceptance under certain conditions. It places significant emphasis on data protection, offline payment functionalities and the introduction of holding limits designed to preserve financial stability.

As the digital euro is not designed as a direct, disintermediated relationship between the central bank and the public, PSPs are assigned a central role in distribution, customer relationships and the operational integration of the scheme.

One of the project's central issues remains financial stability. On this point, the ECB, the Commission and the European Parliament are aligned: the digital euro must be attractive, but it must not destabilise the banking system.

The main identified risk is that of an excessively large or rapid transfer of bank deposits into digital euros, particularly in periods of financial stress. In this regard, the calibration of holding limits, the absence of remuneration and the retention of an active role for PSPs appear to be the main instruments for controlling risk.

Holding limits: definition and implications

The issue of holding limits is central because it directly concerns the balance between, on the one hand, the attractiveness of the digital euro for individuals and businesses and, on the other, the preservation of banking system stability and the financing of the economy.

Holding limits correspond to the maximum amount of digital euros that a user can keep in a digital euro wallet or account. In other words, they would set a threshold beyond which an individual — and, depending on the choices made, possibly a business — can no longer accumulate the digital euros.

In the project's logic, the digital euro is designed above all as a means of payment, rather than a savings or investment product, and is therefore not intended to bear interest. Holding limits are precisely intended to reflect this distinction in the architecture of the scheme itself, at a time when bank deposits play a central role in financing the economy. If economic agents were able to freely and massively convert their bank deposits into digital euros, part of banks' funding resources could be weakened.

The risk is twofold: first, in normal times, a gradual substitution of bank deposits by digital central bank money could increase banks' funding costs; second, in periods of stress, the digital euro, perceived as an immediately accessible safe asset, could facilitate rapid deposit flight towards the central bank. In the latter case, the issue is not merely monetary but also systemic: a safe, liquid digital instrument directly backed by the central bank could considerably accelerate liquidity shifts during a crisis.

The holding limit is conceived as an instrument for protecting financial stability, designed to limit deposit outflows from the banking sector and prevent the digital euro from competing too strongly with traditional deposits.

One of the most important developments in 2026 has been the publication of the [Digital Euro Scheme Rulebook](#). This document sets out a body of rules describing how the scheme will operate, the roles of participants, interoperability principles and the main use cases.

The Rulebook and the pilot phase: from theory to operations

It signals the transition from a theoretical phase to one of operational standardisation, and also demonstrating that the digital euro is being built as a genuine European infrastructure governed by common rules, rather than as a technical extension of existing systems.

The year 2026 also marks a concrete intensification of the project. In a press release dated 14 July 2026, the ECB announced that it had selected 36 payment service providers to participate in the digital euro pilot ([ECB selects 36 payment service providers to join digital euro pilot](#)). According to the information available, this pilot is due to begin in the second half of 2027 and run for 12 months. Among the 36 selected participants, BPCE Group is the only French institution.

This transition to a pilot phase shows that the project is no longer merely the subject of regulatory or academic debate; it is entering a quasi-operational testing phase. In practice, such a phase aims to verify the robustness of the architecture, the quality of the user experience, the interaction between the Eurosystem and PSPs, and the feasibility of the main use cases under near-real conditions.

A project within the broader set of European policies

The digital euro aligns with the continuity of the [Retail Payments Strategy for the EU \(COM\(2020\) 592 final\)](#) adopted in September 2020 and, more broadly, within the integration of the single payments market. It also interacts with other European initiatives, notably the regulation on the pilot regime for market infrastructures based on DLT ([Regulation \(EU\) 2022/858](#)) and the regulation on crypto-assets adopted in May 2023, MiCA ([MiCA \(Regulation \(EU\) 2023/1114\)](#)). Lastly, the wholesale digital euro (wholesale central bank digital currency, CBDC) has also advanced through the ECB's [Pontes](#) and [Appia](#) projects. The wholesale digital euro concerns wholesale settlement arrangements in central bank money within an environment based on distributed ledger technology and the tokenisation of financial assets. Pontes aims to connect market DLT platforms to TARGET services in order to settle wholesale transactions in central bank money, with a pilot launch scheduled for September 2026. Appia, whose [roadmap](#) was published in March 2026, constitutes the cornerstone of the Eurosystem's strategy to provide central bank money within innovative and tokenised wholesale financial markets based on technologies such as distributed ledger technology (DLT).

Finally, while the digital euro (both wholesale and retail) does not fall directly within the framework of the Savings and Investments Union, it reflects the same broader dynamic: the construction of pan-European infrastructures and the reduction of critical dependencies in the financial sphere. In that sense, it may be viewed as one of the pillars of European financial autonomy. By unifying settlement and payment infrastructures, these projects reduce cross-border fragmentation within the European Union; the wholesale and retail versions of the digital euro constitute major levers for integrating the single market and the Savings and Investments Union.

The digital euro is neither merely a payment innovation nor simply a technological response to crypto-assets. It is a structuring project within European financial policy because it simultaneously impacts public money, sovereignty, payment architecture, and the integration of the European market. Its value lies not only in the modernisation of usage, but also in preserving direct access to public money in the digital sphere, reducing strategic dependencies, and consolidating European financial autonomy.

In 2026, the debate is no longer whether the project is strategic: it manifestly is. The central question now concerns the conditions for its implementation. The further the project advances, the more the challenge lies in finding a credible balance between sovereignty, privacy protection, financial stability, operational efficiency and political acceptability. The project's success will therefore depend less on the Eurosystem's technological capacity alone than on the quality of its political and regulatory calibration.

Disintermediation Risks, Funding Cost Pressures, and Strategic Imperatives for European Banks under a New Monetary Order

The forthcoming launch of the digital euro marks a decisive step in the modernisation of European payment systems, while also raising crucial questions regarding its systemic integration and its long-term repercussions for the euro area banking sector. While the parameters put forward by the ECB, notably strict holding limits, are intended to preserve the intermediation role of commercial banks, the introduction of a sovereign digital currency will inevitably disrupt existing models.

This section examines the qualitative issues facing banking institutions, in particular the preservation of the direct customer relationship, access to transactional data and, more broadly, the defence of the value of their franchise in a rapidly changing digital wallet ecosystem. In addition, we analyse the quantitative financial implications of a potential migration of retail deposits, assessing its impact on banks' funding costs, net interest margin and their key regulatory liquidity ratios, namely the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

Lastly, by weighing these threats against the operational opportunities that could arise from them, our analysis seeks to determine the extent to which these new dynamics are likely to affect banks' credit quality across different European jurisdictions.

Qualitative impacts on business models and franchise value

A Threat to Customer Ownership and risk of Disintermediation

The major issue raised by the imminent launch of the digital euro arguably lies in the question of control over the customer relationship and payment flows.

In retail banking as it currently operates, a current account is systematically linked to a bank card, which constitutes the true pivot of the transactional relationship and, by extension, of the broader customer relationship. Tomorrow, this balance could be unsettled by the introduction of the digital euro wallet, which risks disintermediating payments and weakening banking franchises, relegating banks to the mere role of providers of a settlement account (or funding account). Such a development could, over time, commoditise current accounts, payment cards and the full range of transactional services. In practice, major technology groups and leading digital wallet providers could integrate the digital euro into their ecosystems, pushing banks into the background. Banks therefore run the risk of being reduced to the role of back-office infrastructure providers, thereby losing direct access to, and the interface with, the retail customer.

In addition, banks are exposed to a significant risk of losing proprietary data. Payment flows are currently a goldmine for credit scoring and product penetration. If consumers shift a significant share of their transactions towards digital euro wallets, especially if those transactions benefit from enhanced confidentiality mechanisms, banks will lose access to this granular transactional data. Such a drying-up would also weaken their lending models, both for consumer credit and for mortgage lending.

Fragmentation of the payments' ecosystem and the battle for card infrastructure

The digital euro directly targets the Visa-Mastercard duopoly. However, there is also a risk that it will at least partly compete with initiatives led by the banks themselves, foremost among them the European Payments Initiative (EPI) and its Wero solution. Banks therefore face a complex strategic trade-off and may find themselves questioning whether it is still appropriate to continue investing heavily in Wero so that the two solutions can coexist, or whether they should fully align themselves with the digital euro project.

Financial impacts on the income statement and balance sheet

Balance sheet structure and impacts on liquidity ratios

The main risk to European banks' balance sheets lies in the pressure that the digital euro could exert on deposits, as customers may reallocate part of their transactional sight deposits towards their digital wallet. Deposit outflow simulations suggest that a holding limit set at €3,000 could trigger an aggregate net outflow of €300-500bn from euro area bank deposits (roughly 3% to 5% of total household deposits). However, the ECB's latest analyses indicate that such deposit disintermediation should remain contained under 'normal' market conditions. With a €3,000 cap, gross deposit outflows are estimated at around €100bn in a baseline business-as-usual scenario, whereas an extreme flight-to-safety scenario could generate outflows of up to nearly €700bn, or 8% of household sight deposits. The introduction of waterfall and reverse-waterfall³ mechanisms could also help limit these deposit movements and this risk to banks' funding structures.

The potential decline in high-quality liquid assets (HQLA) resulting from the transfer of these deposits into digital euro wallets constitutes a further point of vigilance. When a retail customer transfers €3,000 into a digital euro wallet, the bank must settle that transaction with the ECB. Consequently, both the commercial bank's reserves held with the central bank (asset side) and its retail deposits (liability side) decline by €3,000. This mechanism is liable to weigh on the Liquidity Coverage Ratio (LCR), a key credit metric used to assess banks' liquidity profile. Under Basel III, retail deposits are assigned very low runoff assumptions (generally a runoff rate of 5% to 10%). If a bank loses €100 of stable retail deposits, the denominator of its LCR (30-day net cash outflows) declines by only €5 (assuming a 5% runoff rate). By contrast, in order to settle the outflow, the bank must reduce its cash and reserves (HQLA) by €100, thereby reducing the LCR numerator by the same amount and directly worsening the ratio.

Chart 3: Numerical example of a € 100 reduction in sight deposits (5%) in favour of the digital euro on the LCR of Bank X, assuming €1,500 of HQLA and €1,000 of net outflows

$$LCR = \frac{\text{Stock of HQLA}}{\text{Total Net Cash Outflows 30d}}$$

$$LCR = \frac{1500}{1000} = 150\% \rightarrow \frac{1400}{995} = 141\% (-9ppt) \blacktriangledown$$

Sources : Natixis CIB Research

³ A mechanism that automatically transfers to a linked bank account any amount received in digital currency above the regulatory wallet ceiling or, conversely, instantly tops up the digital wallet from the commercial bank account when a payment exceeds the available balance in digital euro.

Moreover, if these deposit outflows are offset by market funding, characterised by a 100% runoff rate under stress, banks' LCR would deteriorate structurally. Institutions would then be compelled to hold more liquidity or purchase additional HQLA, which would weigh on profitability.

That said, according to recent stress tests, the anticipated impact of the digital euro on European banks' LCR should be limited to a few percentage points, thanks in particular to the €3,000 cap. The effect therefore remains marginal and does not pose a systemic threat to euro area banks' balance sheets, given the comfortable safety buffers currently maintained above the 100% regulatory threshold (the aggregate LCR of banks under ECB supervision stood at 153.9% at end-Q1 2026).

A comparable dynamic could also weigh on the Net Stable Funding Ratio (NSFR), which measures one-year liquidity risk. The introduction of the digital euro could thus reduce its numerator, Available Stable Funding (ASF), of which stable deposits are an essential and very favourably weighted component (95% or 90% depending on their nature). To restore this ratio, banks could then find themselves compelled to shift towards more expensive sources of funding.

Impacts on the income statement and profitability

To offset the loss of cheap retail deposits (often unremunerated or very lightly remunerated current account balances), banks may need to turn to market funding (senior debt, covered bonds) or raise the remuneration on their remaining deposits. This phenomenon will inevitably lead to higher funding costs and exert pressure on net interest margins, particularly for institutions that are heavily dependent on large pools of stable, low-cost retail deposits.

Banks' net fee income could also be affected by the launch of the digital euro, as the ECB plans to make the associated basic services free of charge for individuals. This free provision could threaten part of interchange fee income. Merchants and issuers would in effect see their fee structures capped or compressed by the introduction of the digital euro, which presents itself as a low-cost public alternative to traditional card networks. These pressures could, however, be partly offset by distribution-related revenues linked to the digital euro in merchant and payment services, as well as by a potential reduction in payment infrastructure costs, particularly for the most agile banking groups able to adapt rapidly to this new ecosystem.

Here again, the direct negative impact should remain contained thanks to the regulatory holding limits. Nonetheless, banks will need to remain vigilant regarding medium-term risks linked to payment disintermediation, competition from Big Tech or FinTechs and, more generally, the erosion of the customer relationship. If FinTechs take control of the digital euro interface, banks risk losing the day-to-day banking relationship with their customers, even if they retain the underlying account. The danger would then be that these new players gradually diversify into more traditional banking products, thereby putting at risk a much larger share of banks' fee income, or even of their overall revenues.

Levers of action for European banks

The major risk for European banks appears to be strategic first and foremost, rather than financial. Faced with the digital euro, banks cannot be content with a defensive stance; they must anticipate developments and adopt a proactive strategic approach.

First, they will need to make every effort to retain control over the customer interface by distributing the digital euro through their own applications. By deploying unified, user-friendly digital wallets capable of managing different types of assets (digital euro, commercial bank deposits and tokenised assets), institutions should be able to defend against disintermediation of the customer relationship.

Second, banks will need to work to counter the initial outflow of deposits (capped at EUR 3,000 per customer) by strengthening the attractiveness of commercial deposits relative to the digital euro. This strategy will be facilitated by the ECB's decision not to remunerate digital euro holdings, thereby avoiding unfair competition with the private sector. In addition, the waterfall/reverse-waterfall mechanism could prove a powerful mitigating factor against the automatic reallocation of liquidity, particularly if the retention of sight deposits is accompanied by financial or commercial incentives.

Preserving the deposit franchise could also involve developing high value-added services such as cash management, fraud prevention, bank aggregation/reconciliation and programmable payments.

As noted above, this transition also gives banks an opportunity to rationalise their transaction costs by using the digital euro as an alternative payment infrastructure to existing networks.

Finally, finance departments and treasury teams will need to anticipate and actively manage the impact of a structurally lower deposit base.

What are the implications for investors in the credit market?

A bank's credit quality fundamentally rests on four financial pillars: profitability, liquidity, asset quality and capitalisation. The digital euro will structurally exert some pressure on the first two. However, as noted above, the impacts and risks of the digital euro for European banks appear first and foremost to be strategic rather than purely financial. These effects will be far from homogeneous across the euro area; they will depend primarily on banks' business profiles rather than simply on their geographical location, even if those two dimensions are at times closely related. The task, therefore, is to assess the impact of the digital euro on the main identified vulnerability drivers, which revolve around four criteria: (i) dependence on retail deposits, (ii) diversification of funding sources, (iii) the strength of the payments franchise, and (iv) critical size combined with the agility of IT infrastructure. In this respect, we anticipate greater vulnerability among domestic retail banks than among large universal banking groups. Indeed, banks in Southern Europe and medium-sized to smaller co-operative banking groups could prove more exposed to the deployment of the digital euro than large French branch-based banks or leading German institutions. Consequently, the impact on deposits will be felt more acutely by small- to medium-sized banks and retail banking pure players, while G-SIBs (global systemically important banks) and institutions specialised in corporate and investment banking are likely to rank among the most resilient.

Financial vulnerabilities by business model and by country: the potential losers...

Small domestically focused retail banks appear to be the most vulnerable to the introduction of the digital euro. In this regard, institutions operating in Greece, Portugal, Cyprus and other smaller euro area markets are particularly exposed owing to their historic dependence on household deposits for refinancing purposes (high loan-to-deposit ratios), their more limited liability-side diversification with more restricted access to debt markets, and their strong sensitivity to the strength of their retail franchise. These institutions are all the more vulnerable because they have limited capacity to absorb the fixed costs of technological implementation and less flexibility to adjust their business models. In its estimates, the ECB explicitly identifies small-market lenders and retail banks as the business models most affected. Under a flight-to-safety scenario with a €3,000 cap, smaller banks suffer deposit outflows equivalent to around 4.7% of their balance sheet (after taking digitalisation into account), compared with only 1.2% for G-SIBs.

Banks with a strong branch-network orientation, characterised by a predominant share of retail deposits, limited recourse to market funding and weak monetisation of payment services, are also structurally exposed to a risk of deposit substitution. This phenomenon would weigh on funding costs and, consequently, compress NIM.

Lastly, neobanks (digital challenger banks) display specific vulnerabilities, although these are more complex to assess. According to ECB data, digital banks derive around 80% of their funding from retail deposits, and their customer base generally proves more price-sensitive and less attached to a physical branch network. These players could face greater deposit volatility and faster adoption of the digital euro by their users. Nevertheless, the agility of their IT infrastructure could facilitate the technical integration of the digital euro relative to traditional banks. In short, neobanks face a major strategic challenge with the arrival of this new monetary asset.

The strength of banks' payments franchise must also be taken into account. Indeed, the solidity of an institution's payments franchise may constitute a decisive mitigating factor for banks whose risk profile is otherwise exposed through their deposit franchise. This cushioning effect is particularly important for large retail banks.

...and the possible winners

Taken together, the dynamics outlined above help position the large universal banking groups of Germany, France, Italy and Spain among the least vulnerable players, albeit for markedly different reasons. These institutions nonetheless share a number of common characteristics, notably more diversified sources of income with a larger contribution from fees, very good access to the bond market as regular issuers across the entire capital structure, and lower loan-to-deposit ratios.

- ▶ German banks have historically benefited from a powerful deposit franchise, which might suggest greater theoretical exposure. However, the large German players are diversified and enjoy easy access to funding markets. As a result, sensitivity is far more pronounced among smaller German savings banks (Sparkassen) and co-operative banks than among the large international institutions.
- ▶ Large French banks should display strong resilience thanks to the size and diversification of their balance sheets, the robustness of their corporate franchises, the variety of their funding sources, their leading payment activities and their critical scale in terms of IT investment. For these players, the risk

relates more to the overall economics of payments and the customer relationship than to solvency or liquidity concerns.

- ▶ Large Italian banks could prove somewhat more exposed owing to the importance of their retail deposit base, which introduces a certain sensitivity to funding costs. Nevertheless, the main Italian institutions benefit from robust critical size, diversified business models, strong domestic franchises and substantial liquidity buffers, all of which act as major mitigating factors.
- ▶ The same observation broadly applies to the large Spanish players, which rely on leading retail franchises, but also on highly diversified activities together with strong capabilities in transaction banking (corporate banking) and payment flows.

European banks and the digital euro: fundamentals preserved, business models challenged and differentiated credit profiles

In conclusion, and under our base-case scenario, the roll-out of the digital euro should prove broadly neutral for the credit quality of European banks and should not present a material risk to their balance sheets in the short term, thanks to the safeguard mechanisms envisaged by the ECB, notably holding limits, the absence of remuneration and waterfall/reverse-waterfall mechanism. The structural transfer of part of transactional sight deposits to digital wallets is liable to moderately increase funding costs and exert contained pressure on revenues and margins via deposit substitution. Moreover, the direct effects on liquidity, capital ratios, profitability and overall credit profiles should remain entirely manageable.

The most significant risk is in reality strategic rather than financial. Over time, the digital euro could erode banks' grip over payment flows and the customer relationship, weaken their payments franchises, compress net fee income and diminish the value of their proprietary transactional data, effectively acting as a new digital competitor within the ecosystem. That said, banks, and especially large universal groups endowed with critical size, diversified funding structures, strong digital distribution capacity and solid payment capabilities, are well equipped to adapt. They could even turn the digital euro into an opportunity through operational efficiency gains, the development of high value-added digital services and the capture of new fee-generating flows.

By contrast, small- to medium-sized institutions focused on retail banking and highly dependent on household deposits appear more exposed to erosion of their franchise and, at the margin, to a deterioration in their credit profile.

For credit investors, the conclusion is therefore relatively straightforward: the digital euro represents a limited financial and balance-sheet risk, but a potentially significant challenge for business model and franchise profiles. In short, this is a path of transformation and adaptation rather than a disruptive technological rupture akin to a "Kodak moment".

Very low Vulnerability

Very high Vulnerability



Corporate/Wholesale lenders

- Diversified Funding Mix
- Diverse Revenue Streams
- Scale

G-SIBs

→ Ability to absorb deposits outflows and to tap capital market for alternative sources of funding with limited NIM impact

Universal Banks

- Holders of the vast majority of retail deposits in Core Europe
- Business models moderately to highly dependent on maturity transformation

Diversified Regional Banks

→ More retail deposit exposure but also scale, diversification and strong distribution

Digital Banks

- Higher deposit mobility + faster digitaleuro adoption Vs
- IT Ability to implement and integration potentiality

Retail Lenders

- High Retail deposit Reliance
- High Loan/Deposit Ratio
- Restricted Market Access
- Domestically concentrated business models

Small-market Lender

→ Severe NIM contraction, Lower ICR and Lower Organic Capital Generation

Sources : Natixis CIB Research

Appendix : the main milestones of the digital euro

Date	Project stage	Nature the progress
June 2023	Initial proposal	Presentation of the draft regulation by the European Commission
Nov. 2023 – Oct. 2025	Preparatory phase	ECB technical work and drafting of the rulebook
19 December 2025	Council mandate	Adoption of the negotiating mandate by the Council of the EU
23 June 2026	Committee vote	Green light from the European Parliament's Committee on Economic and Monetary Affairs (ECON)
9 July 2026	Parliament position	Formal adoption of the negotiating position in plenary session
July 2026	Start of trilogue	Launch of negotiations between Parliament, Council and Commission
End-2026 (forthcoming)	Political agreement	Target for finalisation and adoption of the final regulatory framework
1 January 2027 (forthcoming)	ECB decision	Target date for formal approval of the launch by the ECB
H2 2027 (forthcoming)	Pilot phase	Real-world testing with around 40 banks and service providers
2029 (forthcoming)	Official launch	General circulation of the digital euro to the wider public

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