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Making Euro(pe) Competitive

the closing window for financial sovereignty

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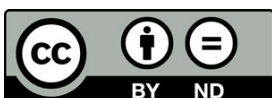
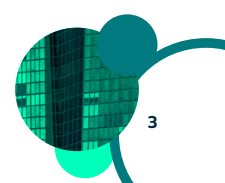


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00 Executive Summary

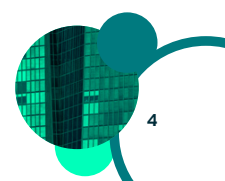
Financial sovereignty is more than the right to issue a currency and run its payment systems free from foreign coercion or sanction. It is the structural competitiveness that generates genuine global demand for that currency, turning a legal prerogative into real purchasing power and resilience against external pressure. In an age of public, neutral and permissionless blockchains it is no longer secured by duplication (a walled-off parallel stack the world has no reason to join) but by participation in the open, censorship-resistant networks already in use.

Europe's financial sovereignty is being eroded from two directions at once. **Internally**, a regulatory posture built to protect incumbents and preserve consensus has become self-defeating in the markets that will define the next decade of finance. **Externally**, the vacuum that posture creates is filling with dollar-based digital infrastructure: dollar stablecoins are roughly 99% of the global market [1], the United States has made dollar dominance explicit policy through the GENIUS Act [2][3], and China has re-engineered the e-CNY into interest-bearing money [4]. The architecture of the next monetary order is being assembled now, and the window in which Europe can shape rather than inherit it is open for perhaps eighteen to twenty-four months.

“
Europe's financial sovereignty is being eroded from two directions at once.”

Europe is not weak. It is under-exploited. It holds the world's second reserve currency [5], the second-deepest pool of high-quality safe assets [6], and an institutional credibility (rule of law, governance, supervision) that no other challenger to the dollar can match. By weaponising the dollar, the United States is itself manufacturing demand for a credible, neutral alternative. Record central-bank gold purchases already show this demand [7]. Europe can offer what gold cannot: yield, settlement, programmability, and what the dollar increasingly cannot, neutrality from any single state. **The correction required is a change of logic:** from control and duplication to participation and influence, because sovereignty is a property of infrastructure, not of instruments.

“
Europe is not weak. It is under-exploited.”





The execution divides cleanly: the central bank keeps the shield, a European public hand wields the sword. The ECB retains what only it can provide (price and financial stability, settlement, central bank money), while a European public-private vehicle builds a deliberate, resourced presence in the public networks the world already uses. That vehicle need not be invented from scratch: it can be governed on the InvestEU template (an EU budget guarantee deployed through the EIB Group and national promotional banks under an independent investment committee, open to private co-investment) [8] or stood up as an EIB special-purpose subsidiary under Article 28 of the EIB Statute, the same mechanism that created the European Investment Fund [9]. **Three packages follow:**

“**The execution divides cleanly: the central bank keeps the shield, a European public hand wields the sword.**”

1. INFRASTRUCTURE AND GOVERNANCE.

Fund European core-software teams, operate nodes, hold a ring-fenced stake, and make privacy-preserving compliance a European standard.

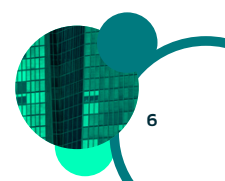
2. REGULATORY EASING.

Remove MiCA's self-imposed handicaps with minimal disruption: a single narrow Level 1 amendment to the interest prohibition (Article 50) and the rigid bank-deposit reserve quota (Article 54), with opaque disclosure, fragmented issuance, and on-chain transferability handled faster through technical standards and guidance.

3. ASSET DEPLOYMENT.

Put interest-bearing tokenised deposits and tokenised sovereign and EU debt on shared rails, anchored by a Eurosystem-controlled digital euro built for settlement and resilience, interoperable with the public chains that carry global demand.

The next twenty-four months are for signals under existing law while the legislative build of 2027–2030 follows. Inaction is not neutrality. It leaves the euro's everyday plumbing governed by United States policy and private dollar issuers. The alternative is not public-chain maximalism but an active strategy: regulated euro instruments, central-bank settlement anchors, deep interest-bearing tokenised assets, and bounded engagement with open infrastructure.



01

Europe's stalemate of its own making

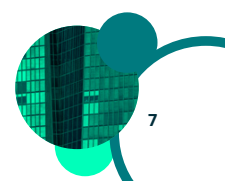
Europe's financial sovereignty is being eroded by two forces that reinforce each other. *The first* is internal paralysis: a regulatory and institutional posture that prioritises stability and consensus over competitiveness has become self-defeating in the markets that will define the next decade of finance. *The second* is external dependence: the vacuum created by that paralysis is being filled by dollar-based digital infrastructure. Each year spent perfecting a defensive, incumbent-preserving design is a year in which liquidity, standards, and user habits consolidate around dollar rails.

A system designed not to compete

The pattern is consistent. Almost every European initiative, from the digital euro to the Eurosystem's distributed-ledger settlement programmes, is justified first by what it protects (bank intermediation, central bank money, financial stability) and only second, if at all, by what it builds.

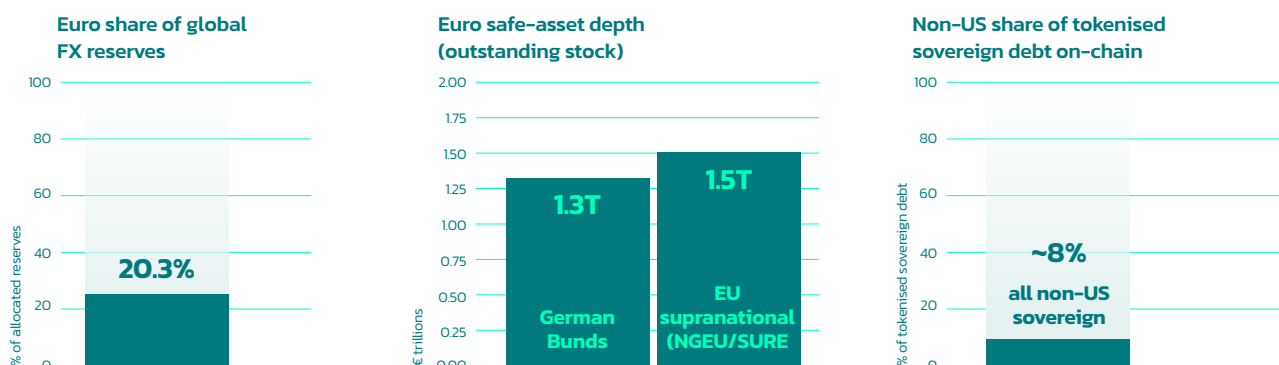
Because nothing is visibly broken (cards clear, SEPA works, deposits are safe), there is no urgency, and the institutions with the most to lose from disruption hold the loudest voice in designing its replacement. European bankers interviewed for this brief judged the cumulative weight of EU digital regulation to be net-negative for the sector's own competitiveness, innovation capacity, and even regulatory effectiveness [10].

Europe's competitors are doing the opposite. The contrast is in digital-money strategy and in sequence: the United States builds the infrastructure first and regulates it afterwards, while Europe regulates first and builds later, if at all. The United States has turned digital money into statecraft: the GENIUS Act (July 2025) created a federal framework for payment stablecoins, requires full reserves in cash and short-term Treasuries [2], and is explicitly intended to "extend US dollar dominance globally" [3]. Dollar-denominated stablecoins already account for roughly 99% of the global market, and their issuers now rank among the top twenty foreign holders of US government debt [1][3]. China has moved on a different axis: from January 2026 it reclassified the e-CNY from digital cash into interest-bearing deposit money [4]. The rate is negligible and the pull today is small, but the signal is clear: China has re-engineered its sovereign digital instrument to be worth holding. Europe is engineering its own not to be.



Europe: strong off-chain, absent on-chain

The euro's weight in traditional markets has not followed money on-chain



Source: IMF COFER Q4 2025; ECB/Intereconomics safe-asset data; crypto.news (refs 5, 6, 27). On-chain share approximate.

European institutions over-comply and refuse to experiment until regulatory certainty is established in advance, so innovation depends on permission rather than market demand. The Draghi report documents the environment that produces this behaviour, with more than 60% of EU companies citing regulation as an obstacle to investment, roughly 100 tech-focused laws, and over 270 digital-sector regulators across Member States [12]. **Meanwhile the Eurosystem's** own DLT programme illustrates the speed problem: Pontes, the short-term track, aims to pilot a bridge between market DLT platforms and TARGET in late 2026, and Appia's principal deliverable is a strategic blueprint expected in 2028 [13]. At the same time, smaller, more centralised jurisdictions such as Singapore and Hong Kong have already moved tokenisation beyond piloting into live, real-value settlement.

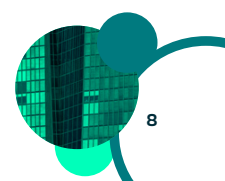
“A European pilot and a blueprint are the outputs of a process designed to maintain consensus, not to capture a market.”

The digital euro deadlock

The digital euro distills the contradiction. It has been designed, above all, to preserve commercial-bank business models: holdings would be non-remunerated and capped, corporates would hold nothing, and a “reverse waterfall” links wallets to bank accounts precisely to minimise the balances held [14].

The Eurosystem presented its own analysis as a success because testing found no meaningful deposit outflows [15]. But an instrument engineered to have no effect on bank balance sheets is, by construction, engineered to have no transformative effect: anything capable of anchoring euro liquidity on-chain or competing with dollar stablecoins would necessarily alter those business models.

“The design criteria that make the digital euro politically acceptable are the same criteria that make it strategically inert as a competitive answer to the dollar.”



The result satisfies no one. Consumers, already well served, meet the project “with a shrug” [16], while banks see cost and threat, with industry estimates of euro-area implementation costs around €18 billion that the ECB disputes but whose political effect is real either way [17][18].

Its genuine merits deserve to be stated plainly: as a direct claim on the central bank it removes private-issuer default risk, and it is built for universal acceptance and cash-like offline settlement.

The binding limits on its competitive reach lie elsewhere, in the holding caps and non-remuneration that, by design, stop it anchoring euro liquidity on-chain (conditional payments, contrary to a widespread impression, remain permitted under Article 24(2) of the Commission proposal [19]).

Understood for what it is, a domestic retail payment instrument and a direct central-bank liability for Europeans, it is a worthwhile public good; it is simply not, by itself, an answer to dollar network effects.

With issuance assumed around 2029 [20], it will arrive in a market whose terms were set elsewhere. This is a verdict on its current design, not on the asset itself.

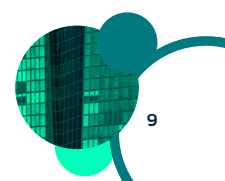
Regulation without rails

Europe has become the world’s most prolific writer of rules for financial technology while remaining a marginal owner of the systems those rules govern. MiCA’s achievement is real and worth stating plainly: a single, passportable rulebook that gives the market a legal certainty no US federal framework yet matches. But rulemaking alone does not create sovereignty: a jurisdiction that writes the rules but owns none of the rails ends up being unable to set the direction of the technology or capture the value it generates.

The burden of that rulebook falls hardest on the firms most likely to innovate. **MiCA’s costs** are largely fixed (governance, custody controls, audit, reporting cost roughly the same at any scale), so compliance consumes a disproportionate share of small-firm resources, consistent with the Draghi report’s findings on regulatory burden [21]. Nor is the burden only a start-up complaint: interviews conducted with European bankers, assessing EU digital regulation across five performance dimensions (resilience, customer experience and protection, financial inclusion, financial performance, and innovation) found the cumulative effect net-negative on the margins that decide competition, eroding a level playing field, crowding out innovation as implementation absorbs scarce budget, and yielding diminishing returns as rules grow ambiguous and costly to interpret [10]. That the regime’s supposed beneficiaries report the same drag is the strongest evidence that the system is designed not to compete.

The predictable result is consolidation in favour of incumbents, often the largest, frequently non-European platforms, compounded by debanking: crypto-, DeFi-, and DAO-linked firms that are fully compliant on paper routinely struggle to open and retain the bank accounts ordinary market participation requires [22]. And the rulebook’s most visible effect to date is telling: as MiCA enforcement tightened, major EU-facing exchanges delisted the largest dollar stablecoin (USDT) while the compliant dollar stablecoin (USDC) gained a first-mover advantage [23].

“**The principal achievement of Europe’s crypto-asset regime so far has been to reorganise competition between two US dollar instruments on European soil.**”



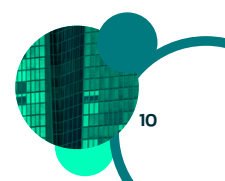
Dependence on non-European infrastructure

The consequence is already visible in the most ordinary transactions Europeans make. More than twenty-five years after the launch of the euro, international card schemes account for roughly two-thirds of euro-area card payments (a share that is rising, not falling), thirteen of twenty euro-area countries have no national card scheme at all, and by the ECB's own 2026 assessment there is still no pan-European, European-governed digital payment solution covering the whole currency union [24]. The Wero wallet is the most serious attempt in a decade to close the gap, but it remains a work in progress. A common currency was layered on top of fragmented national systems, and foreign providers filled the space between them. The cause is structural rather than accidental: the dollar's reserve status and the multi-sided network effects of payment systems are each self-reinforcing, and both scaled inside a large, unified US market before being exported into a European one still divided along national lines.

Dependence is a question of control, not convenience. Infrastructure operated under another jurisdiction's law carries that jurisdiction's reach: United States secondary sanctions export US foreign policy into European boardrooms, the EU maintains a blocking statute in response, and empirical work shows that financial sanctions sever correspondent-banking relationships and reshape payment networks [25]. When rails can be weaponised, whoever owns the rails holds leverage over everyone who uses them, and for Europe that leverage rests largely abroad. **The next expansion of this dependence is underway through stablecoins.** European corporate treasuries are adopting dollar stablecoins for cross-border settlement and liquidity management (on one European platform, USDC's share of stablecoin activity rose from roughly 13% to 32% in the six months to March 2026) [26], and the ECB itself has warned that reliance on such instruments would leave European payment infrastructure "anchored outside Europe and shaped elsewhere." [1]

The ECB transmits monetary policy through the banks it supervises. The more activity migrates to instruments anchored outside that perimeter, governed by the GENIUS Act and the commercial decisions of two non-European issuers, the more its levers act on a shrinking share of the real economy. **Interest-rate sovereignty without infrastructure sovereignty is increasingly nominal,** a trajectory, not yet a present fact, since on-chain euro balances remain negligible beside M1 and M3. Central banks do retain regulatory authority over these downstream instruments, but regulating infrastructure one does not own is precisely the weaker position.

Incremental fixes do not resolve this: with most of the stablecoin market capitalisation already dollar-denominated [1], a euro stablecoin is a catch-up play, not a sovereignty strategy, and a bank consortium token built for intra-European interoperability does not contest the global liquidity layer. Europe cannot win on stablecoins alone, because sovereignty is a property of infrastructure, not of instruments.



02 Europe's remaining leverage

Europe's predicament is one of under-exploitation, not weakness. It holds some of the strongest non-dollar foundations in the world, but they sit almost entirely off-chain, invisible and inaccessible to the digital-asset ecosystem now forming around them.

The euro and its safe assets

The euro is the world's second reserve currency by a wide margin: 20.25% of global allocated foreign-exchange reserves in the fourth quarter of 2025, against 56.77% for the dollar and roughly 2% for the renminbi [5]. In a world actively seeking to diversify away from dollar dependence, there is exactly one incumbent alternative operating at global scale.

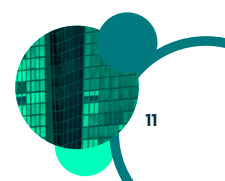
Behind the currency lies the second-deepest pool of high-quality safe assets on earth. German Bunds¹ stand at roughly €1.3 trillion outstanding²; through SURE (~€100 billion) and NextGenerationEU (€806.9 billion planned over 2021–26) the European Commission became the largest net issuer of euro-denominated securities over 2024–26, lifting the AAA-rated segment of euro-area government and supranational bonds by almost 40%³; the stock of supranational European safe assets reached close to €1.5 trillion by end-2025, with analysts arguing it could expand to €4–6 trillion were joint issuance made permanent in a fiscal-union that may never arrive [6].

The contrast with the on-chain world is stark. The tokenised real-world-asset market (about \$34 billion by mid-2026) is anchored in US government debt: tokenised US Treasuries account for roughly \$15 billion, while all tokenised non-US sovereign debt amounts to barely \$1.4 billion [27]. Tokenised equities tell the same story, a fast-growing market (roughly \$1.2–1.6 billion by mid 2026, from \$30 million a year earlier) composed almost entirely of US stocks [28].

“**The emerging digital financial system is being built on a dollar foundation not because no alternative exists, but because the obvious alternative, European debt and equity, has not been made available.**”

Legal coherence as a competitive advantage

Europe's least quantifiable asset may be its most durable: **institutional credibility in law, governance, and supervision**. A reserve asset is a claim backed by trust in the institutions behind it, and on that test the principal non-dollar challengers fall short on rule of law, capital mobility, or independent supervision in ways the euro area does not. The advantage is sharpened, for now,



by a temporary gap: MiCA is a single, passportable rulebook in full force, while the United States still lacks a comprehensive market-structure law, with the CLARITY act still in the making [29]. **MiCA the framework is the asset to build on; specific calibrations within it are the handicap.** Defending the framework while amending its parameters is exactly what a jurisdiction does with infrastructure-grade regulation it intends to win with.

The weaponised dollar is Europe's best salesman

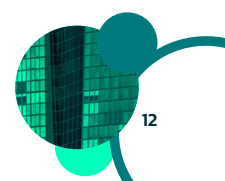
This is the place to answer the objection that recurs whenever this brief is discussed: why promote the euro at all, and where are the euro and the dollar even substitutes? The answer is not mercantile. A euro absent from the rails where value increasingly moves is a euro over which European monetary policy has diminishing purchase (Section 1), so promoting it there is a precondition for policy to keep serving the European economy, not competition for its own sake.

A skeptic is still right that none of this conjures demand from nothing: the world holds dollars for invoicing, depth, and habit, Europe will not displace the dollar as the invoicing currency soon, and European consumers will not trade legal tender for a dollar stablecoin. But the euro and the dollar are not substitutes in a single market; two different demands must be separated. *Demand for a currency of denomination* favours the incumbent through habit. *Demand for a neutral settlement and reserve asset*, somewhere to hold and move value that cannot be frozen for political reasons, is rising, and the dollar is manufacturing it.

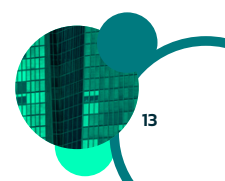
When the G7 immobilised roughly \$300 billion of Russian central-bank reserves in 2022 [30], it demonstrated to every reserve manager that reserves are contingent on political alignment. Since then central banks have bought gold at a pace unseen in modern history, above 1,000 tonnes in each of 2022, 2023 and 2024, against a 2010–21 average near 470. In the World Gold Council's 2025 survey, 95% of reserve managers expected official gold holdings to keep rising and none expected a decline [7].

The flight to neutrality is real, and it is parked in an inert metal that yields nothing, settles nothing, and cannot be programmed. All that out of want for a credible sovereign alternative. And the euro's near-absence from these on-chain markets is no revealed verdict against it: the instruments that would carry euro demand are held back by the interest ban and reserve quota examined in Section 4, suppressed by law rather than spurned by users. Of the plausible suppliers of that alternative, only one exists. **China fails on convertibility and rule of law, and gold cannot be a payment rail.**

1. The euro is the one incumbent non-dollar reserve currency at global scale, freely convertible, backed by deep safe-asset markets and credible institutions.
2. A natively on-chain, euro-denominated safe asset would offer what gold cannot (yield, settlement, programmability) and what the dollar increasingly cannot, neutrality from any single state's foreign policy.



Two honest caveats sharpen rather than blunt the point. *First*, neutrality in practice is relative: regulated issuers comply with sanctions wherever they are domiciled, freezing addresses on request, so the credible neutrality that matters lives at the base-protocol layer (Section 3) while the euro instrument's own edge is institutional. *Second*, a euro asset is still a claim on European institutions that Europe could itself freeze, as the Russia immobilisation showed. But the demand the dollar is manufacturing is not for an asset beyond all law but for one beyond any single state's discretion. Freezing a euro asset would require collective action across twenty-plus member states bound by treaty and reviewable before the Court of Justice which resembles a higher, more predictable threshold than a unilateral stroke in Washington, and a genuine middle ground between gold (neutral but yieldless) and the dollar (liquid but under one state's control). *The condition* is that Europe not squander the premium: an asset engineered as its own freeze-and-seize tool would forfeit the neutrality that is its selling point, which is why compliant privacy (Section 3) is a competitive specification, not a technicality.



03

The strategic shift:
participation over
duplication

The diagnosis and the endowment point to one change in logic: from control and duplication (building closed European replicas and regulating infrastructure owned by others) to participation and influence in the global public networks where value is now being created, on terms that advance European interests.

The fortress fallacy

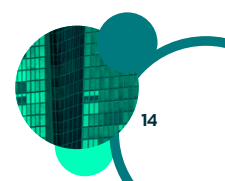
The instinctive response to dependence is to build a closed European alternative. The instinct fails on a bootstrapping problem hard to overcome: global liquidity, developers, and users are already concentrated on public networks, and the concentration is self-reinforcing. A closed European chain would start with none of that gravity and would ask the world to leave deeper, more useful venues for a shallower one. Europe's own EBSI, a competent permissioned network still in pilot after launch, illustrates the ceiling [34]. The objective is not a walled garden but weight inside the networks the world already uses.

That is a more tractable task than building a chain, because the hardest property of a public network already exists: credible neutrality, as it is no single state's instrument, and thus beyond unilateral sanction. The principle was tested in the open. After the United States sanctioned the Tornado Cash protocol in 2022, a US federal appeals court held in 2024 that its immutable, ownerless smart contracts were not anyone's "property" and lay beyond the Treasury's reach, and the designation was withdrawn in 2025 [35]. A base layer that the issuer of the world's reserve currency could not durably switch off is precisely the foundation Europe should build on. What remains is not to manufacture neutrality but to acquire weight upon it, a resourcing race, not a network-effects contest, and one whose entry price climbs every year.

This discipline governs how euro instruments should be issued. A bank-issued euro token is welcome, but its value turns on its rails: issued on shared, openly accessible infrastructure it consolidates euro liquidity and brings the regulated banking system on-chain. However, confined to a closed, proprietary settlement layer it merely repatriates the gatekeeping problem this brief warns against. Quality alone does not win adoption. The largest dollar stablecoin became systemic through distribution and everyday utility, not reserve quality. While quality, distribution, and interoperability are jointly necessary, European credibility supplies only the first.

Influence as it actually works: protocols, nodes, stake

Influence over public networks must be described accurately, because the claim is tested by technically literate readers. Public blockchains are not governed by ballots of nodes or stake. Protocol rules are set off-chain, through core developers, client teams, and processes such as Ethereum's EIPs. Running nodes and holding stake confer economic-security weight, censorship



resistance, and the standing to be heard, not formal votes on rule changes. The decisive lever is therefore authorship of the code itself; nodes and stake support it but do not substitute for it. **Europe has three levers, and the order matters.** The argument is illustrated here with Ethereum, where the data is clearest and European software strongest, but the principle is network-agnostic: it holds wherever liquidity, developers, and settlement concentrate.

Protocol engineering: Influence over rules accrues to those who write and maintain the software: client teams and core-protocol contributors sit at the centre of decision-making. Here Europe is better placed than it is given credit for. It is the world's second-largest region for blockchain developers (the combined North American and European share has fallen from 81% in 2015 to ~55%, but Europe's share has held up far better than North America's [36]), and it already maintains front-rank Ethereum software: Nethermind, the second-largest execution client at roughly a quarter of the network, and Nimbus, an established consensus client, are both European-built [37].

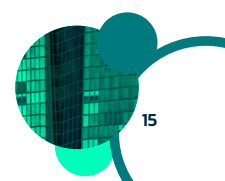
The weakness is not at the base layer but one storey up: the high-growth layer-2 networks where activity is concentrating, Arbitrum, Base, and Optimism, are all US-controlled [36]. The recommendation follows from that asymmetry: fund and anchor the European client teams that already exist, so their roadmaps and runway are not left to chance, and back European core-protocol contributors and a competitive layer-2 effort where the gap is genuine.

Node operation: This is about self-verification and censorship resistance. Europe already hosts a large share of Ethereum's nodes (Germany alone ~14–21%, second only to the United States at ~39–41%), but location is not control: roughly a third of hosted execution nodes run on AWS [38], and "European" nodes are frequently rented servers serving no European purpose. A coordinated institutional presence, operated by the public-private vehicle described in the next chapter, converts an accident of hosting geography into a deliberate position.

Stake: Staking concentration on Ethereum is commanded by Lido (~25–29% of staked ETH), Coinbase (~7–11%), and Binance (~7–9%) [39]. No European regulated operator is of comparable scale. Stake is bought with capital, which Europe has, but the binding constraint is prudential, not appetite. Under CRR III (Article 501d), unbacked crypto-asset exposures carry a 1250% risk weight and a tight exposure limit for banks [40], EIOPA's 2025 advice points toward a 100% stress for insurers' crypto exposures [41], and pension funds sit under prudent-person rules and national limits. European financial institutions cannot simply allocate to staking, and this brief does not pretend otherwise.

The pathway is twofold: the *public-private* vehicle holds the position on its own balance sheet, ring-fenced, sized to an explicit risk budget, diversified across regulated operators with slashing insurance and distributed-validator technology. In parallel, *legislators* define a narrow prudential treatment for regulated, hedged staking by supervised institutions, so that private European capital can follow where the public hand leads. The objective is a bounded, professionally managed position that secures economic-security weight and censorship resistance, not an unhedged public wager on a token price. It is fair to ask whether cheaper instruments would do the same work.

Enforcing competition law against concentrated market power, and removing the 1250% risk weight that keeps regulated European capital out, are both worth doing, and this brief supports the second directly. But neither assembles a European presence on its own: competition law curbs abuse without creating a single European validator or client team, and lifting the risk weight unlocks private capital without solving the collective-action problem that no private actor internalises the sovereignty benefit of that presence. That gap, not a shortage of private appetite, is what the public vehicle exists to close, leading so that private capital can follow.



Compliant privacy as a competitive feature

Privacy is where Europe can differentiate most credibly. The dominant dollar model is one of programmable control: under the GENIUS Act, issuers must retain the technical capability to freeze, burn, and block tokens and to screen even secondary transfers [42], and that model travels with the dollar everywhere. **Europe** can offer a genuinely different proposition, because the cryptographic tools are taking root in European law: the EU Digital Identity Wallet framework points toward selective disclosure, proving that a rule is satisfied without exposing the underlying data [43].

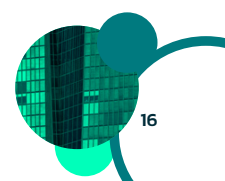
This connects to a larger contest: the United States runs a services surplus in Europe built on digital platforms whose market power derives from exclusive control of data and identity, while the EU's identity framework is an attempt to return that control to users. Privacy-preserving compliance extends the same principle to money. It is data-control sovereignty applied to payments. The claim must be precise, or it is self-defeating.

Privacy-preserving compliance is not censorship resistance: anti-money-laundering rules, the travel rule, and sanctions screening continue to apply in full [44]. The differentiator is the form of supervision with obligations discharged through cryptographic proof rather than the bulk harvesting of personal data, with full identity checks staged by risk and reserved for genuinely higher-risk junctures such as conversion into the banking system. This is a bet to be resourced, not a capability to assume: zero-knowledge proofs do not yet perform at full transaction scale, so the near-term model pairs selective disclosure with auditable, retroactive disclosure to supervisors, and complementary techniques such as homomorphic encryption may resolve the liability concerns that make banks cautious. What Europe holds is the legal direction, the research base, and the standards process to make it real.

The yield question: where return lives today

No element of the shift matters more for adoption than yield. An instrument that pays nothing loses balances to one that pays, and euro instruments are currently non-remunerated by law on every margin, the digital euro by design, e-money tokens by MiCA [45]. The objections to remunerating central bank money are genuine, and the IMF literature treats deposit-substitution and run risks seriously [46]. But the conclusion Europe has drawn that euro instruments must therefore pay nothing anywhere is wrong, and the correction does not begin with a remunerated central bank currency. It begins with instruments that are already legal, already on-chain, and already consistent with central-bank preferences: **tokenised bank deposits**, which carry interest by nature and keep money inside the regulated system, and tokenised bonds, which carry coupons by construction.

Europe can be bold here, at scale, without touching the digital euro's design. Two stability questions must be settled first, not after: deposits that move around the clock on open rails can accelerate runs, and guarantee coverage is unclear once a token passes beyond the original account holder, neither disqualifying, but both to be engineered for. China's e-CNY reclassification is instructive precisely because it follows this layered logic: the PBoC did not remunerate central bank money but repositioned e-CNY balances as interest-bearing, deposit-insured commercial-bank liabilities [4]. Yield was added at the banking layer while the sovereign core stayed intact. Europe should draw the same lesson, make euro instruments worth holding, while rejecting the surveillance model that accompanies the Chinese version.



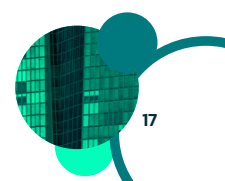
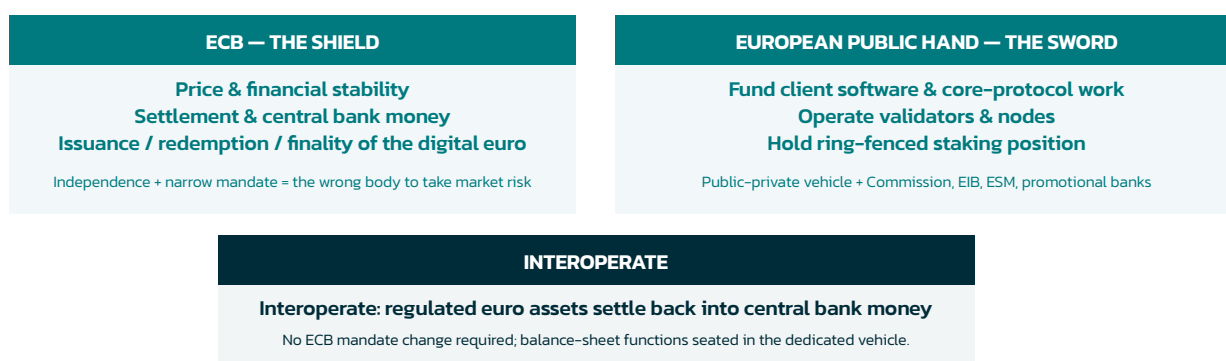
04 Policy actions: a three-package execution plan

The strategy translates into three mutually reinforcing packages: **presence in global networks, regulatory easing, and asset deployment**. Two principles govern them. *First*, the division of labour: the central bank keeps the shield, a European public hand wields the sword. The ECB's credibility rests on its independence and its narrow mandate, which is precisely why it is the wrong institution to operate validators, take stakes, or shape markets. Those functions belong to a European public hand (the European Commission, the EIB, the ESM, national promotional banks, and a dedicated public-private vehicle open to private co-investment) all of which already issue, invest, and act in markets. None of this requires an ECB mandate change, which would be the hardest, treaty-level lift.

It does require a clear mentioning about the others' limits: operating validators and holding staked crypto fall outside the ESM's crisis-lending remit and, as it stands, the EIB's investment statute. The fix is to seat those balance-sheet functions in the dedicated vehicle, mandated for them from the outset, while the Commission and promotional banks act within existing competence and any EIB or ESM role is paired with the targeted authorisation its board would need, which again is a far smaller step than amending the ECB's mandate. The ECB provides what only it can provide: settlement, central bank money, and stability. *Second*, sequencing: Package 2 is an on-ramp, and Package 3, where sovereignty is actually decided.

Shield and sword: a deliberate division of labour

The central bank keeps the shield; a European public hand wields the sword



PACKAGE 1: infrastructure and governance

Stand up the public-private vehicle with a mandate, a balance sheet, and quantified targets on the three levers of the previous chapter: European-maintained client software and funded core-protocol contributors (the formal-influence lever), institutional node operation, and a prudentially ring-fenced staking position with the carve-out pathway described above. The vehicle, not the central bank, represents Europe in protocol governance and technical standards bodies.

The point of feasibility is that none of this requires a new institution or a treaty change. *On legal basis*, the vehicle can be governed under the InvestEU Regulation, an EU budget guarantee deployed through implementing partners under a Steering Board and an independent Investment Committee [8], or established as an EIB special-purpose subsidiary with its own legal personality under Article 28 of the EIB Statute, the route that created the European Investment Fund in 1994 [9]. *On the capital stack*, it draws on an EU budget guarantee, EIB Group capital, and co-investment from the national promotional banks (KfW, CDP, Bpifrance, ICO), with private capital invited alongside, the European Tech Champions Initiative, a multi-billion-euro fund-of-funds managed by the European Investment Fund and backed by exactly those promotional banks, is a working precedent for a public-private vehicle of this membership and shape [47]. *On governance*, an independent investment committee insulates allocation decisions from political direction, and the ring-fenced staking position sits on the vehicle's own balance sheet, sized to an explicit risk budget, rather than against any Member State's public accounts.

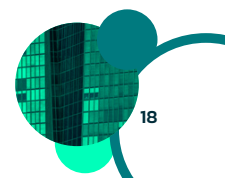
The vehicle is not a grant: it invests on market terms, through an independent investment committee, alongside private co-investors and for a market return, so it acts as a market-economy operator rather than a source of state aid, the same footing on which the EIB Group and InvestEU already operate. The public balance sheet is there to crowd private capital in and to carry a first, coordinating position no single private actor would take, not to displace the market.

Alongside presence, supervisory capability: Europe's sandbox instruments (including the DLT Pilot Regime) are under-resourced and structurally disconnected from the reform pipeline, so that pilots produce reports rather than regulatory change. It is necessary to provide more resources and connect their findings into legislative revision. Compliance itself should evolve from ex ante constraint toward adaptive, ex post supervision, with obligations differentiated by size and risk so that proportionality becomes a precondition for entry rather than a loophole. Know-your-transaction tooling, wallet screening, and staged identification make this workable in public-chain environments.

Finally, extend the EU Digital Identity Wallet's selective-disclosure architecture to financial transactions [43], making privacy-preserving compliance an exportable European standard.

PACKAGE 2: regulatory easing (the on-ramp)

MiCA is a landmark framework whose specific calibrations handicap the euro instruments it governs. **Five corrections follow:** the legal hooks are cited precisely because they will be checked. Sequencing matters as much as substance: reopening MiCA's Level 1 text is slow and, barely a year into application, signals instability, so only the two changes that truly require it (the interest prohibition and the bank-deposit quota) should go through co-decision, as a narrow, named-article amendment rather than a wholesale review. The rest move faster and sooner through Level 2 regulatory technical standards, Level 3 EBA and ESMA guidance, and existing review clauses, leaving



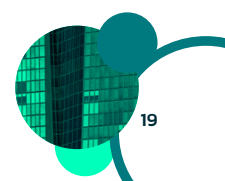
the rulebook in full force while it is improved at the edges. The scheduled MiCA review supplies the near-term legislative opening for the two Level 1 changes, so they need not wait on a fresh mandate.

1. Remuneration. MiCA's Article 50 prohibits issuers and crypto-asset service providers from granting interest on e-money tokens (Article 40 provides the parallel prohibition for asset-referenced tokens) [45]. The prohibition does have a rationale, and it should be stated fairly: MiCA treats an e-money token as e-money, e-money is a means of payment, and there is a long convention that means-of-payment money does not itself bear interest. But the convention is not a law of nature, i.e., commercial-bank deposits are money and pay interest, and it now carries a strategic cost that outweighs its conceptual tidiness, structurally disadvantaging euro instruments in a contest increasingly decided by yield. It should be replaced with a calibrated allowance: remuneration permitted within supervised limits, with safeguards (tiering, thresholds) used as throttles on the pace of balance migration rather than as a ban. The allowance should be conditioned on, not precede, the work that wins the financial-stability constituency: quantified analysis of deposit substitution, run dynamics, and monetary-policy transmission, with the tiering and threshold parameters calibrated to that evidence rather than asserted. This is what makes the ask credible to supervisors instead of a target for them to block.

Notably, both MiCA and the GENIUS Act currently prohibit yield to holders [42][45], so reform here is also an opportunity for differentiation. This is the one change that genuinely requires reopening Level 1, and it should be exactly that, a single targeted amendment to Article 50, with Article 40 in parallel. The durable yield story does not run through MiCA at all, since tokenised bank deposits sit outside its scope (Package 3), so the Article 50 fix competitively upgrades the near-term e-money on-ramp rather than being the destination itself.

2. Reserve composition. Article 54 requires e-money token issuers to hold at least 30% of reserve funds as bank deposits, and significant-token issuers are brought into the stricter reserve architecture of Articles 36–38 via Article 58 (with the 60% deposit requirement, for asset-referenced tokens the reserve hook is Article 36, with Article 45 adding the significant-token layer) [45]. Forcing reserves into uninsured bank deposits manufactures the very contagion it purports to prevent, as the March 2023 USDC episode demonstrated when \$3.3 billion of reserves trapped in Silicon Valley Bank drove a depeg to \$0.87 [48]. Independent analysis (Bruege, and Blockchain for Europe with the former ECB Director General for Market Infrastructure) concludes the quota cannot be justified prudentially [49]. Replace it with flexible allocation across euro-denominated high-quality liquid assets aligned with the Liquidity Coverage Ratio framework, with stress testing and concentration limits [50]. Only the deposit percentage itself sits in Level 1 and must be amended there; its replacement calibration (eligible high-quality liquid assets, concentration limits, stress parameters) is Level 2 work the EBA can set by regulatory technical standard.

3. Disclosure and issuance. Import GENIUS-grade reserve transparency (recurring, standardised public disclosure of exactly what backs the token), applied proportionately by significance. And issue multi-issuance guidance so that multiple regulated European issuers can mint fungible euro instruments against shared, well-supervised reserve arrangements (the dual-issuer structures Circle already operates under its French e-money authorisation point the way) [51], consolidating euro liquidity rather than splintering it, while heeding the ESRB's warning on reserves split across jurisdictions [51]. Neither needs Level 1: standardised, recurring reserve disclosure can be specified as a Level 2 technical standard, and multi-issuance is precisely a matter for Level 3 EBA and ESMA guidance, available now without amending the text.



To aid European leadership in deposit tokenisation, transferability without secondary market per-transaction identity checks. Money that circulates on public infrastructure cannot carry a fresh identity check at every hop, or it is not on-chain money in any useful sense. The dollar stablecoin already enjoys exactly this and Europe's answer could be not to copy it but to better it: to extend equivalent transferability to a bank liability while keeping the safeguards a stablecoin lacks (supervision, reserve and capital requirements, central-bank access, deposit-guarantee protection). In the near term that runs through the regulated e-money token, which MiCA already lets a credit institution issue as a liability on its own balance sheet [45][52] and which, once the interest ban is lifted, can circulate freely on public chains, its limit is that an e-money token is not a deposit and carries no guarantee cover [53][52]. The more ambitious destination, a deposit that is itself freely transferable yet stays deposit-guaranteed, is set out in Package 3. Either way the compliance perimeter belongs at the on- and off-ramps, not on every transfer, as EU law already largely provides: the near-term ask is to preserve the Transfer of Funds Regulation's exemption for person-to-person transfers made without a crypto-asset service provider through the Commission's pending self-hosted-address review, not to extend per-transaction identification on-chain [54]. Identity at the edge, privacy in the middle.

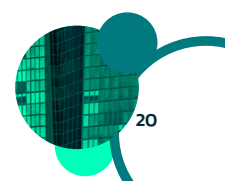
4. Settlement access, framed correctly. The Eurosystem has already opened a route: under its 2024 policy and Decision (EU) 2025/222, non-bank payment service providers, including e-money institutions, may access TARGET for settlement purposes, subject to eligibility requirements and a balance cap (twice peak daily outward payments), and explicitly not for safeguarding client funds [55]. The ask of this brief is deliberately narrow: ensure euro token issuers can use this settlement route in practice, diversify safeguarding arrangements to reduce single-bank concentration risk, and establish a review pathway for tokenised settlement models. What this brief does not ask for is central-bank reserve backing of token issuance. That would amount to a synthetic CBDC through the private sector, a model the MiCA negotiations deliberately rejected and the ECB's own policy logic excludes, because it would blur the line between commercial and central bank money and create narrow-bank dynamics.

5. A final, complementary move converts defence into attraction: a reciprocal equivalence regime on the GENIUS model, granting foreign issuers access to the European market conditional on a comparable-regime determination and on localisation of euro-facing reserve assets within the EU [42], a magnet for reserve assets rather than a wall. Framed as a minimal mutual-recognition standard rather than full harmonisation, this is also what payment firms straddling both regimes have asked for.

PACKAGE 3: asset deployment (the destination)

This is where Europe can be boldest soonest, because the yield story is already legal and already aligned with central-bank preferences. One idea unifies the three moves that follow, and it is the through-line of the package: Europe's financial rulebook is still built around legal forms and intermediaries, not around the token as a direct store-and-transfer layer. Adapting it to recognise the token itself, the same asset whether held in a custody account or moved wallet-to-wallet, is the coherent aim, and **tokenised debt, deposits, and equity** are three applications of that single principle. The sequence runs from the least to the most institutionally demanding.

First, tokenised short-dated sovereign and EU debt and money-market instruments: the highest-quality, most liquid collateral Europe possesses, the natural base layer for euro-denominated on-chain markets (mirroring the role tokenised Treasuries play for the dollar) [27], and the reserve



asset reformed euro stablecoins should hold. Native issuance pilots of EIB, ESM, or Commission paper can begin under existing law and would be the single most powerful signal of intent Europe could send.

Second, the transferable tokenised deposit, Europe's genuine differentiator. A tokenised deposit carries yield by nature, keeps money inside the supervised, deposit-insured banking system, gives incumbents a constructive role, and is the direction the ECB itself has signalled it favours, account-based versions are legal today and can be piloted now [53]. The prize is a deposit that also moves like a stablecoin: freely transferable on permissionless networks, across borders and intermediate holders, while remaining deposit-guaranteed, reserve-backed, and central-bank-connected. No dollar instrument pairs bearer transferability with deposit-grade safeguards, this is ground the euro can take first.

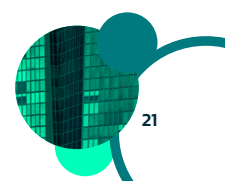
Crucially, such an instrument is governed by the banking framework (CRD/CRR, the Deposit Guarantee Schemes Directive, and the resolution regime, not by MiCA) recognising it means clarifying a new legal class around one unifying principle: a deposit is a liability, not an account, and the ledger is merely its register. Six frameworks each need one consistent clarification. Banking law (CRD/CRR) must confirm that a ledger-tokenised deposit remains a deposit notwithstanding on-chain transfer, with unchanged prudential treatment (same classification and liquidity ratios, no crypto-asset capital charge) without which banks will not issue [40].

The deposit-guarantee regime (DGSD) must protect the lawful ledger-holder, fixing beneficial ownership by ledger state at the opening of resolution and making eligibility independent of the holder's residence or nationality, with identity established at issuance, redemption, and payout and pseudonymous in between [56]. The AML package (the AML Regulation and the Transfer of Funds Regulation) must site customer due diligence at issuance and redemption rather than in circulation, with a safe harbour so that self-hosted secondary transfers create no customer relationship or ongoing identification duty for the issuer, and a travel-rule exemption for self-hosted transfers in which no service provider participates. In other words, treatment is equivalent to physical cash [54][57].

MiCA needs only a carve-out confirming that bank-issued transferable tokenised deposits are neither asset-referenced nor e-money tokens and that public-ledger representation does not recharacterise them as crypto-assets [45]. Payments law (PSD3/PSR) must clarify that a direct wallet-to-wallet transfer is not itself a regulated payment service, with finality on ledger confirmation mirroring that already recognised for designated systems [58][59]. And the resolution regime (BRRD) must treat distributed-ledger records as prima facie evidence of ownership, empowering resolution authorities to snapshot balances, freeze transfers, compute guarantee claims, and move liabilities to a bridge institution from ledger data [60]. Legal recognition is necessary but not sufficient: a transferable tokenised deposit also needs shared market infrastructure, a common scheme and a clearing-and-settlement mechanism that lets one bank's tokenised deposit be accepted and redeemed against another's.

Third, tokenised European equities. On-chain equity markets are forming almost entirely around US stocks [28], bringing euro equity onto these rails is the same infrastructure-sovereignty argument that runs through this brief, applied to equity. Institutional forecasts put tokenised markets at \$2–9 trillion by 2030 on mainstream estimates [61], the question is whether euro assets are present at the formation of those markets.

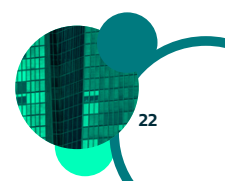
Anchoring all of this, the digital euro, repositioned. Its defensible core is settlement and resilience: a Eurosystem-controlled instrument whose issuance, redemption, and finality remain with the



central bank, extending the logic of the Eurosystem's own Pontes and Appia work [13], with legal settlement finality anchored in a designated system under the Settlement Finality Directive, the mechanism it developed for permissioned systems, extended here to a public-chain setting that is legally novel and must be designated deliberately [58]. Public-chain interoperability should be a design requirement where it adds value, so that regulated euro instruments and tokenised assets circulating on open networks can settle back into central bank money, sovereignty over issuance is retained while reach is borrowed from the networks the world uses.

This brief does not ask the ECB to issue an interest-bearing retail token on a public chain. It asks for a settlement anchor governed at the core and interoperable at the edges, around which the interest-bearing asset layer above can grow. And it should be said plainly that the asset layer does not depend on it: the case for tokenised deposits, bonds, and equities stands whole without the digital euro, which is complementary here, not load-bearing.

The trajectory this implies is explicit, and it is what the chapter asks regulators to engage with: interest-bearing instruments on decentralised infrastructure are where European finance is heading. Account-based tokenised deposits and bonds today, the transferable tokenised deposit as the structural destination. Whether sovereign digital money itself should ever carry remuneration is a question this brief deliberately leaves to a formal review clause. A genuinely open one, capable of concluding that a remunerated CBDC is neither needed nor desirable, not a pre-decided endpoint awaiting a date. As adoption deepens and supervisory evidence accumulates, the case should be examined against data rather than priors. Whichever way it lands, the interest-bearing asset layer built on bank and sovereign instruments stands on its own.



05

The closing window

The architecture of the next monetary order is being built now, by the Federal Reserve through the GENIUS framework, by the People's Bank of China through the e-CNY, and, if it chooses, by the ECB and the European institutions around it.

“**The window for shaping rather than inheriting it is roughly eighteen to twenty-four months, as network effects do not wait for legislation.**”

Every quarter the on-chain economy runs on dollar rails, those rails accumulate more liquidity, more developers, and more habit; switching costs rise, and a contestable market becomes an entrenched default. Reserve weight off-chain confers nothing on-chain, and Europe's advantage decays a little more each month it goes unused.

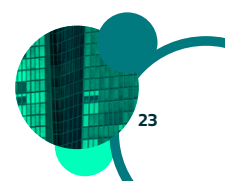
The response has two gears. *The first*, the next eighteen to twenty-four months, secures entry while the market is still contestable, entirely under existing law. The actions are set out in the box below, with two signals that must land first. *The second*, 2027–2030, scales from a position already taken: enact the MiCA reforms and bring the digital euro to readiness with tested interoperability, establish the transferable tokenised deposit as a legal class through the six coordinated clarifications, scale the tokenised on-ramp (deposits, green bonds, equities) toward an integrated on-chain capital market, and convert early pilots into durable positions on software, nodes, and stake, conducting the formal review of remunerated sovereign instruments.

Targets convert intent into accountability. The figures are illustrative, to be refined against data.

By 2028: a regulated euro stablecoin established at material, multi-billion-euro scale as a credible on-ramp on the order of 5% of euro-area short-dated sovereign and EU debt issuance available natively on-chain, interest-bearing tokenised deposits live from at least three systemically important banks on shared rails, and at least one European-built, top-tier piece of core software maintained for each major network layer, with a ring-fenced European staking presence sufficient for standing and censorship resistance.

By 2030: a Eurosystem digital euro ready for issuance or pilot, with tested public interoperability, on the order of a quarter of euro-area short-dated issuance on-chain, anchored by a consolidated euro safe asset, the transferable tokenised deposit established as a legal class, with the first deposit-guaranteed tokens circulating cross-border, an integrated on-chain market in euro debt, deposits, green bonds, and equities, and a completed review of remuneration for sovereign on-chain instruments.

The next 24 months: what to do under existing law



Signals that matter and need to be done first

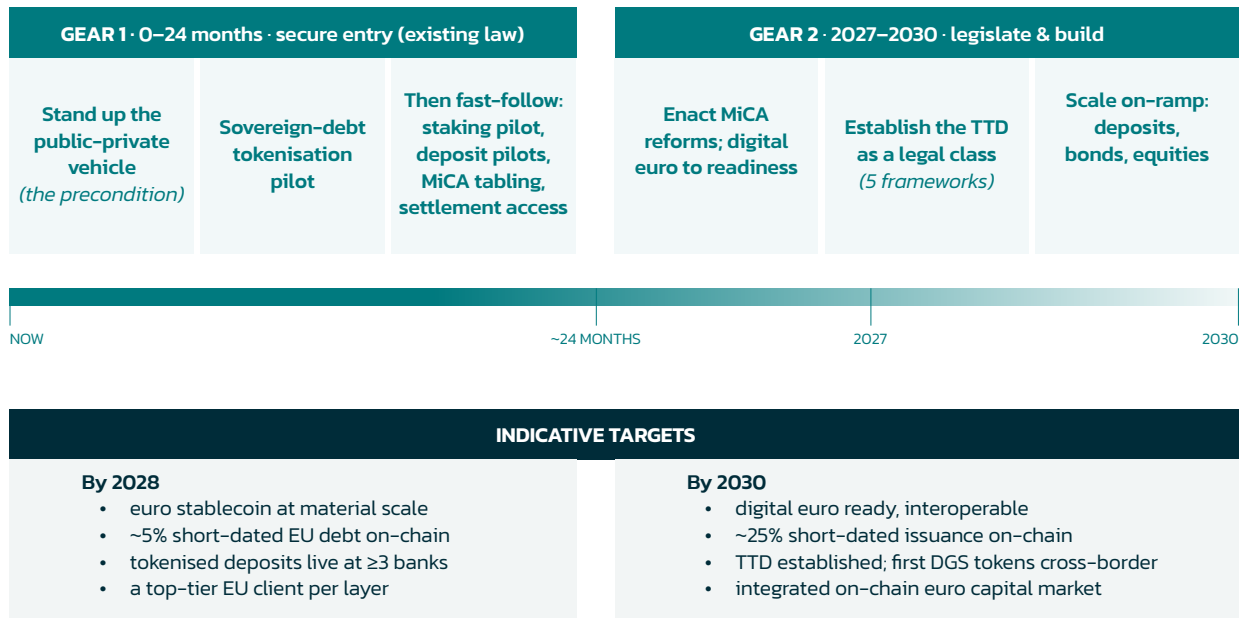
- Stand up the European public-private vehicle, with a mandate, balance sheet, and quantified targets for core-software contribution, node operation, and ring-fenced stake. This is the precondition for almost everything else.
- Run a native tokenised-issuance pilot of short-dated EIB, ESM, or Commission paper.

Fast-follow once the vehicle is standing

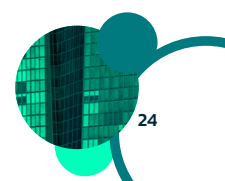
- Launch a network-security (staking) pilot through the vehicle, and take up standing European participation in protocol governance and standards bodies.
- Launch interest-bearing tokenised-deposit pilots with systemically important banks on shared rails.
- Table the narrow amendment (Articles 50 and 54) and mandate the technical-standards track in parallel.
- Operationalise settlement access under Decision (EU) 2025/222 and resource the DLT Pilot Regime.
- Have the ECB publish a public-interopability roadmap for the digital euro and the Pontes/Appia programme.

A two-gear roadmap

Secure entry while the market is contestable, then scale from a position taken



The choice should be stated carefully, because it is not between radical disruption and passive rule-taking. Europe has a defensible, active path: regulated euro instruments competing on yield and quality, interest-bearing tokenised deposits and bonds on shared rails, a Eurosystem settlement anchor with public interoperability, and bounded, deliberate participation in the governance of open networks. What Europe does not have is a neutral option. Inaction is itself a decision, and that decision is to leave the euro's everyday plumbing exposed to US monetary



policy, to the implementation choices of the GENIUS Act, and to the commercial decisions of private dollar issuers. The cost would arrive not as a crash but as drift: a gradual erosion of the euro's international role, a steady narrowing of the policy space available to European authorities, and, at the end of that road, a currency that is formally sovereign and functionally dependent.

The outcome is not predetermined. Europe holds a global currency, the world's second-deepest pool of safe assets, institutional trust no challenger can match, and a legal framework its competitors have not yet built, and the dollar's own weaponisation is generating demand for exactly what Europe could supply. The task of this decade is to act while acting still makes a difference: to put Europe's assets to work on the rails where the next financial system is being assembled, and to shape the monetary order rather than discover, too late, that the most important decisions about Europe's money were made elsewhere.

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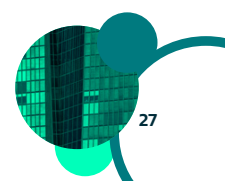
References

Sources supporting Sections 1–5. Each numbered marker in the text is an endnote pointing to the corresponding entry below.

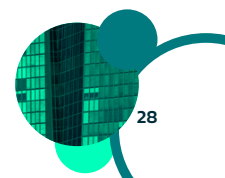
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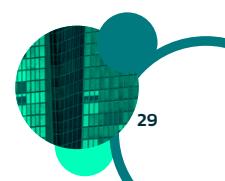
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