



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Modernising central bank money in response to digitalisation and fragmentation

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# Current challenges

The Eurosystem aims to **modernise central bank money** in response to the transformation taking place in payments and finance.



## Digitalisation

- Digitalisation is reducing the role of cash, increasing our external dependencies
- Tokenisation and distributed ledger technology (DLT) could transform financial transactions



## Fragmentation

- No European payment solution allows digital payments throughout the euro area
- New settlement assets could reintroduce fragmentation and credit risk
- Geopolitical tensions are increasing the risk of fragmentation in the global financial system

# Our main areas of focus





# Digital euro

To deliver on our mission and fulfil our mandate, we need to bring retail central bank money into the digital age by providing **a digital equivalent to cash**.

## A digital euro would empower Europe in three ways:



### **Offer greater everyday convenience**

Available to everyone and accepted throughout the euro area for any digital payment



### **Enable private sector initiatives to scale up to pan-European level**

Open standards and acceptance network, providing a platform for innovation



### **Enhance Europe's strategic autonomy and resilience**

European governance, European infrastructure and offline functionality

Currently, **we are laying the technical foundations for the potential issuance of a digital euro**.



# New technologies for settlement of wholesale transactions

There has been a significant increase in the adoption of financial technology, particularly distributed ledger technology (DLT) and the digital representation of assets on programmable platforms (tokenisation).

- ➡ DLT can **enhance efficiency**: trading, settlement and custody on same platform; 24/7/365 operating hours; smart contracts to automate and speed up processes between issuers & investors
- ➡ A shared DLT platform could **lower barriers to entry**, enabling small and medium-sized enterprises to access capital markets

To address market demand, the Eurosystem has conducted **exploratory work** to test DLT for the settlement of wholesale transactions in central bank money.

**Next step**: in the short-term, offer a platform for the settlement of DLT-based transactions in central bank money through an interoperability link with TARGET Services.

**Looking further ahead**: the Eurosystem will explore a more integrated, long-term solution.

- ➡ **Opportunity to create an integrated European market for digital assets (digital capital markets union) from the outset**



# Cross-border interlinking

**We have recently decided to launch initiatives to help improve cross-border payments inside and outside the EU, in line with G20 objectives.**



## **Multi-currency settlement**

Leveraging the multi-currency feature of the Eurosystem's instant payments settlement service TIPS to settle funds end to end instantly in central bank money, in multiple currencies.



## **Global cross-border payments**

The ECB is committed to improving cross-border payments globally by:



implementing the cross-currency settlement service for cross-border payments between TIPS and other international fast payment systems.



interlinking with fast payment systems outside Europe through multilateral networks and bilateral links.



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Thank you