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The Reasons Behind Digital Euro Holding Limits: Preserving Financial Stability or Bank Profitability?

By

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22 September 2026

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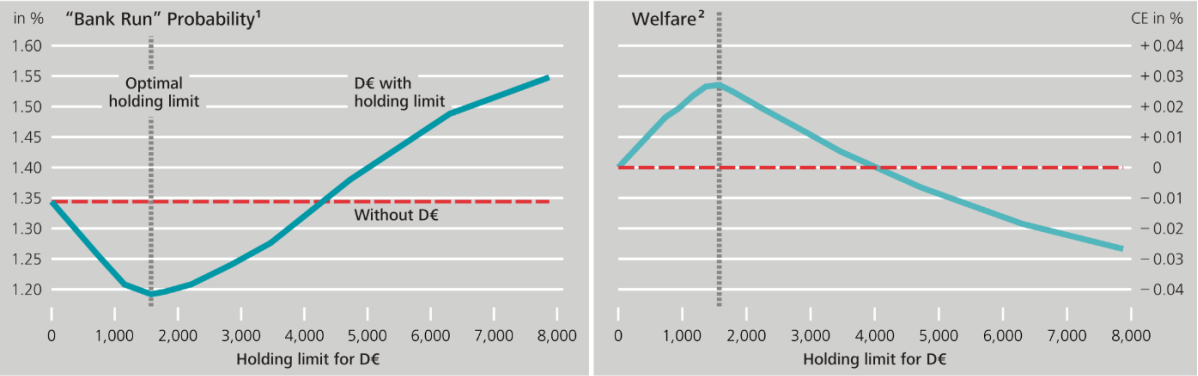
Executive Summary

- The European Central Bank's (ECB) official justification that a low individual holding limit (around €3,000) is necessary to prevent systemic deposit flight and bank runs is unsupported by its own data.
- ECB simulations indicate that under normal conditions the limit marginally affects net interest income, and even in an extreme bank run, only nine small, non-significant institutions would breach liquidity buffers.
- Theoretical models demonstrate that if the central bank recycles incoming digital euro funds back to commercial banks via replacement funding, the overall credit and lending capacity of the banking system remain intact.
- Consequently, the €3,000 limit serves primarily as a defensive tool to preserve banks' cheap deposit margins and profitability rather than to protect systemic stability.
- Capping holdings - especially setting a zero-holding limit for businesses - impairs the digital euro's real-world utility and conflicts with EU objectives to build strategic payment autonomy against foreign providers.
- Strict quantity caps fail to prevent runs toward alternative safe assets, whereas price-based controls (such as tiered remuneration) or phased reductions in deposit guarantee schemes offer more effective alternatives.
- If the ECB offsets deposit outflows by providing central bank liquidity against collateral, the criteria, pricing, and haircuts applied to that collateral will inevitably steer cheap funding toward specific banking activities, turning central bank balance sheet management into an implicit form of credit allocation policy.
- To prevent credit allocation and monetary design from being decided by technical defaults, we advocate for a pre-committed schedule of gradual increases to holding limits, with the European Parliament - rather than the ECB alone - holding statutory authority over reviews, deviations, and collateral criteria.

Key Picture: Digital Euro Holding Limits vs. Financial Stability and Welfare

Impact of the holding limit on financial stability and welfare — Figure 2



1 Change of the annualized run probability depending on the holding limit (blue line). **2** Welfare is measured as the percentage change in consumption units needed to make household welfare equivalent to the economy without the D€ (light blue line).

Source: Deutsche Bundesbank Eurosystem

1. Whose Interest Does the Digital Euro's Holding Limits Serve?

A close reading of the disintermediation argument suggests the digital euro's holding limit protects bank funding costs more than it protects financial stability — and that the debate it obscures, about who should influence the allocation of credit, deserves to be had in the open.

As the EU's co-legislators head toward trilogues on the digital euro regulation, one design parameter has come to dominate the debate: the holding limit. Current discussion centers on a cap in the region of €3,000 for individuals and zero for businesses, with a "reverse waterfall" mechanism sweeping any incoming payment above the limit straight back to the user's commercial bank account. The official justification is financial stability: without a cap, a crisis could trigger rapid deposit flight into digital euro as a perceived safe haven, starving banks of funding and impairing their ability to lend to the real economy.

Through a synthesis of recent publications that have taken aim at the holding limits from different policy domains, this essay argues that the stability rationale is weaker than commonly assumed. We further argue that the debate over the holding limit is best understood as a proxy fight over a larger question: who should influence the allocation of credit in a monetary union where the central bank is set to play a more active role in funding banks — with some expansion of its own balance sheet as a likely, if modest, consequence if it chooses to fully offset the resulting deposit outflows.

2. The Disintermediation Story and its Limits

The banking sector's position, articulated for instance by the Dutch Banking Association (NVB, 2025) in its position paper on the digital euro's design, is straightforward: a low holding limit is necessary to prevent instability from sudden, large liquidity swings, and to make clear that the digital euro is meant as a means of payment rather than a savings vehicle, so that banks' lending capacity to the economy is preserved. The ECB's own published analysis is considerably more measured than the political rhetoric around it and offers two relevant scenarios. Under ordinary use (the scenario the ECB describes as "widely expected to prevail," with no crisis involved), a €3,000 holding limit is estimated to reduce bank net interest income by 8 to 18 basis points, at most about 4.8% of banks' usual year-to-year variation in return on equity (European Central Bank, 2025).

Under the more extreme case of an unprecedented, economy-wide bank run — a scenario the ECB itself calls highly unlikely — only 9 of the roughly 2,000 banks assessed would risk dipping below their required liquidity buffer, and the ECB states plainly that "none of these banks would be a significant institution" (European Central Bank, 2025). Even on the ECB's own extreme assumptions, the fallout falls on a small, identifiable subset of smaller, deposit- reliant lenders rather than the system as a whole: a targeted funding problem, not the sector-wide catastrophe invoked in the political debate. A companion ECB analysis that specifically models how banks would respond to these outflows reaches an even more direct conclusion: simulating a €3,000 limit introduced in 2021, it finds that concerns for financial stability and monetary policy "could only emerge if the holding limit exceeded€5,000" (Assenmacher and Soons, 2025) — leaving the proposal under discussion with real headroom below the point where the ECB's own methodology would start to worry.

That gap — between a "catastrophe" framing in public debate and a "manageable, and we chose a conservative number anyway" conclusion in the underlying analysis — is the starting point for a closer look at the mechanism itself.

This tension between a public safe haven and system stability is not unique to the digital euro. The Dutch Scientific Council for Government Policy (WRR), in its 2019 review of the public role of banks, made a closely related point about a fully safe public payment account: the fact that a safe haven can destabilize the present system by attracting deposit flight says at least as much about weaknesses already built into that system as it does about the risk of the alternative itself — predecessors of such an account, such as the former Dutch state postal bank (Postbank), never generated this kind of instability while they existed (WRR, 2021).

The second chapter of the CEPR Digital Money report (Niepelt, Rey, Cecchetti and Vives, 2026) formalizes this argument as a neutrality result. When households move deposits out of banks and into retail central bank digital currency (rCBDC), banks lose deposit funding but the central bank gains it. If the central bank passes those funds back to banks on terms equivalent to what deposits previously offered, banks' funding conditions and lending capacity are unaffected. The change amounts to a relabelling of the liability side of the bank's balance sheet, not a shrinkage of the banking system's ability to intermediate.

The result holds cleanly under two conditions: households must value public and private money about equally at the margin, and the central bank's replacement funding must be no more restrictive than the deposits it replaces. Neither condition is as radical as it may sound, the authors note, since central banks already implicitly back a large share of deposits through lender-of-last-resort guarantees; a neutral substitution would simply make that backing explicit. Quantity limits are not a costless stability tool, though: Cecchetti and Schoenholtz (2022) note that capping CBDC can simply redirect a run toward other safe assets such as T-bills and banknotes, rather than stop it.

The same chapter also examines the ECB's stated objectives for the digital euro — strategic autonomy, reduced rent extraction by payment providers, a robust monetary anchor — and argues that a fourth, unstated objective, not disturbing bank business models, has in practice become dominant in the design choices actually made: the holding limit and the absence of remuneration. Its political-economy analysis quantifies the stakes: using US data, the authors estimate bank net interest margins net of deposit franchise costs (the portion of bank profitability exposed to this kind of substitution risk) at roughly 0.2% of GDP over the past fifty years.

On this basis, they read banks' and their customers' insistence on holding limits and zero remuneration as a defensive strategy: preventing rCBDC adoption now forecloses a future in which bank profitability depends on the central bank's willingness to keep subsidizing banks through favourable funding terms. This sits alongside the neutrality result rather than contradicting it. The neutrality result concerns capacity: banks can keep lending the same amount either way. The 0.2% figure concerns price: refinancing through the central bank costs banks the policy rate, above the near-zero rate they currently pay depositors.

What is exposed to competition is the margin, not the credit supply. That margin exists in the first place because bank funding is cheap not chiefly from market power, but because banks create the deposits, they fund themselves with, a privilege extended to them by the public. The digital euro holding limit would protect that specific privilege, not merely an abstract profit line.

3. What the Limit is Actually Protecting

The Sustainable Finance Lab's open letter to MEPs (2026), signed by seventy European academics including several former central bankers, and Positive Money Europe's updated position paper (2026) both argue, independently of the CEPR analysis, that holding limits should be calibrated to financial stability and user-need considerations rather than to the preservation of existing bank deposit franchises. The CEPR chapter's conclusion converges with this from a different direction, summarizing the underlying dynamic as "a contest over institutional power": banks seeking to preserve deposit franchises and the associated rents, central banks seeking to preserve monetary autonomy and a public anchor for the payment system (Niepelt et al., 2026, Executive Summary).

Bank concerns about funding costs are not illegitimate — a genuine cost is at stake, and the CEPR authors put a number on it. But the specific instrument chosen to manage that cost is a poor match for the underlying problem: a low, largely arbitrary quantity cap, defended in the language of systemic catastrophe. A price-based instrument (remuneration, including negative rates above some threshold) would let the market clear at the actual funding-cost differential rather than rationing access outright; the authors note that policymakers have generally been skeptical of price-based tools on political-feasibility grounds, and have defaulted to quantity

restrictions instead, despite these being neither fully effective at preventing runs nor free of their own distortions.

A more radical position, which this essay cites as evidence of directional convergence, comes from Stichting Ons Geld (a Dutch monetary reform NGO): they would go further still, and the sequence in their proposal matters. First, remove the holding limit altogether so that a genuinely unlimited digital euro actually becomes available. Then, only once that safe public alternative exists, phase out the deposit guarantee scheme that currently backstops commercial bank accounts. Done in that sequence, holding money at a commercial bank

becomes what it arguably always was: a deliberate choice to accept a modest, disclosed risk in exchange for a return on investment, rather than a default backstopped by taxpayers. Ons Geld also adds the political demand that the limit itself be set by the European Parliament rather than the ECB.

Triodos Bank (2025) reaches a similar design preference from its own direction, pairing gradually rising holding limits and low or zero remuneration with a phased wind-down of deposit guarantee schemes. A parallel critique from an unrelated debate reaches much the same conclusion: writing on the EU's Capital Markets Union rather than the digital euro, Bezemer and Sanders (2025) argue that the EU's €100,000 deposit guarantee scheme strengthens commercial banks rather than depositors, and name banking-sector lobbying against the digital euro as a comparable source of cost and fragility in Europe's financial system. On this reading, banks would have to compete for funding through longer-maturity debt and higher equity buffers rather than relying on an implicitly guaranteed retaildeposit base: a structural change to bank funding, not merely a price adjustment. Criticism

of the (proposed) low holding limit keeps arriving from quite different directions: for example proponents of euro internationalization have also separately argued for a higher, not lower, holding limit, to make the digital euro more useful as a strategic public good vis- à-vis the dollar (van der Linden, 2026).

Since one of the digital euro's stated objectives is reducing European dependence on foreign payment providers and dollar-denominated stablecoins, it is worth flagging the zero holding limit for businesses as well. A payment instrument that firms are not permitted to hold at all is poorly positioned to advance that goal, a tension the debate rarely engages with once it narrows to the household figure.

4. The Larger Question the Limit is Deferring

Whether the ECB actually takes this path of pass-through funding is not a purely hypothetical question. Avoiding visible stress to the banking sector has been the Eurosystem's revealed institutional instinct since 2008, evident in its repeated willingness to expand its own balance sheet through quantitative easing rather than let deposit or funding shortfalls play out unaddressed. There is little in that record to suggest a different reflex here. If digital-euro funds are recycled back into the banking system, the mechanism matters. True neutrality requires unsecured central bank lending back to banks, the CEPR authors note; in practice, central banks lend against collateral, with eligibility criteria, pricing and haircuts.

Once a collateral framework of this kind exists at scale, the central bank is, by design or default, exercising a form of credit policy: deciding which assets qualify for favorable funding terms, and therefore which activities and institutions are financed more cheaply than others. The CEPR report treats this as a risk to weigh against the benefits of a rCBDC, warning of "pressure for directed lending, intensified lobbying, or broader fiscal claims on seigniorage" as the central bank's balance sheet grows (Niepelt et al., 2026, Executive Summary).

An alternative reading treats this development as an opportunity rather than a risk to minimize. Triodos Bank (Hobma and Koolstra, 2026) argues that credit or investment guidance (public authority deliberately steering the allocation of credit toward social objectives) is not a novel intrusion into market allocation but something Europe already practices pervasively, just without acknowledging it as policy. In the Netherlands alone, the National Mortgage Guarantee scheme de-risks lending below a price ceiling to extend homeownership, a

statutory ban prevents financing of cluster munitions, and a tax facility channels capital toward circular-economy and renewable-energy projects; at EU level, capital and reserve requirements and the ECB's Targeted Long-Term Refinancing Operations already tilt the relative cost of different kinds of lending, whether or not anyone calls this "guidance." Triodos organizes this scattered practice into a policy toolkit that varies along three dimensions: demand-side or supply-side; merely inducive or coercive; and which institution administers it — ministry, central bank, or supervisor.

The historical precedent Triodos cites is instructive. From 1945 to the early 1980s, France's Conseil National du Crédit coordinated credit toward reconstruction and export priorities such as agriculture, rail, electricity and export manufacturing, throughexemptions from aggregate credit ceilings, while leaving day-to-day lending decisions to banks (documented in Monnet, 2018); comparable arrangements operated in Germany, Italy and Belgium over the same period. China today runs a far more centralized version through government guidance funds, a design Triodos itself calls "probably irreproducible outside China," and not the model this essay is pointing to. The point is narrower: the mildest, most inducive end of the spectrum has ample precedent in Europe's own postwar history and requires no exotic institutional leap.

This is where the digital euro's collateral mechanics matter most: a central bank recycling digital-euro funding through a collateral framework is already practicing a form of credit guidance, named or not. Some assets get better haircuts, so some activities get financed more cheaply. The digital euro makes some version of this influence close to unavoidable; the real question is whether the criteria for it are set in the open. Building on Downey's (2025) "Preferred Asset Taxonomy" proposal for the Bank of England, one option is a recurring parliamentary review in which the European Parliament sets or endorses explicit social desirability criteria against which the ECB's collateral eligibility and haircuts are calibrated, in the inducive rather than coercive register Triodos describes: favorable terms for activities Parliament has identified as priorities, rather than ceilings or bans. Every two years would seem like a good frequency for such parliamentary reviews.

The same logic would apply to a schedule of gradual increases of the digital euro holding limits. Rather than leaving the pace of any future increase open-ended, the ECB and co- legislators could commit in advance to a published timetable for periodic increases, paired with a standing impact-evaluation mechanism through which the ECB can recommend deviations from that schedule — with the European Parliament, not the ECB alone, holding the authority to accept or reject them.

Positive Money's companion analysis of the ECB's mandate (Cerrato García, 2026) suggests that neither proposal would require Treaty change. Under CJEU case law (Gauweiler and Weiss), the ECB may lawfully favor whichever of two equally effective policy options also supports the Union's secondary objectives, provided this does not compromise price stability.

5. Conclusion

The debate over the digital euro's holding limit has so far been conducted almost entirely in the register of crisis prevention. On closer inspection, the stability case for the specific limit under discussion is weaker than its proponents suggest, and weaker than the ECB's own technical work implies is necessary. What the debate is more plausibly deferring is a question about the future architecture of credit provision in the euro area: as the ECB takes on a larger operational role in bank funding to accommodate a genuinely useful public payment instrument, expanding its balance sheet somewhat if it chooses to fully offset the resulting deposit outflows, someone will decide, via collateral terms if nothing else, which activities get financed cheaply and which do not. The choice is not whether this decision gets made, but whether it gets made openly, with democratic input, or by default, through a holding-limit number quietly settled in a technical annex.

NOTES

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