

Norges Bank Papers

Assessment of the potential consequences
for Norway of the introduction of a digital
euro

Table of contents

1. Summary and conclusions	2
2. Key design features of the digital euro	2
2.1. The ECB's arguments in favour of a digital euro	2
2.2 Payment situations where the digital euro could be used	3
2.3 Some key design features of the digital euro	3
3. Legal implications of the use of a digital euro in Norway	4
3.1 Proposed regulatory framework for the digital euro	4
3.2 Use of a digital euro outside the euro area, but within the EEA	5
3.3 Norway's legislative process	5
3.4 Requirements for a single set of rules across the EEA	6
4. How will the introduction of a digital euro affect Norges Bank's ability to perform its missions?	7
4.1 Would the introduction of a digital euro lead to currency substitution?	7
4.2 Likely use cases and extent of digital euro use in Norway	8
4.4 The significance of a digital euro for the assessment of the need for a retail CBDC in Norway	9
4.5 Implications for liquidity management/conduct of monetary policy	9
4.6 Implications for financial stability	10
5. Conclusion	12
References	13

1. Summary and conclusions

The European Central Bank (ECB) launched a public consultation on a digital euro in 2020.¹ Issuing a digital euro would be part of the EU's efforts to promote digitalisation in Europe.²

In parallel with the ECB's efforts to prepare the introduction of a digital euro, there is an ongoing legislative process in the EU.³ On 17 December 2025, the Council of the European Union published the formal negotiating position on a digital euro (Council of the European Union (2025)). This framework provides the basis for further negotiations with the European Parliament on a digital euro regulation.

Given that the legislation is in place and the Eurosystem decides to introduce a digital euro, this will be "...the first public, digital means of payment to provide pan-euro area reach".⁴ Under the draft regulation, the digital euro will be available for use by both natural and legal persons throughout the European Economic Area (EEA).⁵ Use of the digital euro in Norway will require some amendments to Norwegian legislation and an agreement between Norges Bank and the ECB.

Norges Bank has considered how issuance of a digital euro will affect the payment and financial system in Norway and the Bank's ability to perform its missions. In Norges Bank's assessment, the introduction of a digital euro is highly unlikely to lead to significant currency substitution and replace NOK as a payment currency to any great extent. The public will therefore likely not reduce their NOK holdings in favour of the digital euro, and, as a result, the consequences for the Norwegian payment system, financial stability and monetary policy will likely be very limited. However, in some areas with many foreign visitors, such as typical tourist destinations, the digital euro may to a certain extent replace current card payments. This may contribute to stronger competition for payment services and strengthen payment preparedness at these destinations. However, this will be of only limited importance for efficiency and security in the payment system as a whole.

The introduction and successful adoption of the digital euro in Europe may affect the assessment of the need for and the design of a potential Norwegian solution for retail digital central bank currency (CBDC)⁶. The ECB's digital euro infrastructure may then be a candidate to host a Norwegian retail CBDC.

2. Key design features of the digital euro

2.1. The ECB's arguments in favour of a digital euro

The ECB has a number of arguments in favour of introducing a digital euro. They have been summarised as follows in the report from the preparation phase of the digital euro project:

"As payment habits evolve, the use of cash declines and digital transactions become the norm, the need for a public digital means of payment – complementary to cash – has become increasingly urgent. As digital cash, the digital euro is designed to complement physical cash, ensuring that everyone in the euro area can keep using a public, trusted and universally accepted means of payment – now and in the future. Therefore, it will preserve freedom of choice and Europe's monetary sovereignty across the euro area. In addition, it will foster innovation in payments and help make European payments competitive, resilient and inclusive." (ECB (2025d), p.1)

¹ For more information on the timeline of the digital euro project, see ECB (2026).

² Ibid.

³ Legislation is expected to be in place before the end of 2026 (ECB (2025c) and ECB (2025d)).

⁴ See ECB (2024), p.6.

⁵ European Commission (2023). See Section 3 for a further discussion on legal implications.

⁶ Norges Bank makes a distinction between "retail CBDC", intended for the general public, available for use in everyday payments and with some characteristics similar to cash, and "wholesale CBDC", which will only be available to banks and other market participants holding an account with Norges Bank and can be used in interbank settlements like traditional central bank reserves.

2.2 Payment situations where the digital euro could be used

The ECB intends for the digital euro to be a public, available, resilient and future-proof payment solution in various payment situations in Europe.

“The digital euro is designed to... (provide) a public, pan-European digital payment solution that covers all use cases and allows people to pay everywhere in Europe, while being resilient, inclusive and future-proof.” (ECB, 2025d, p.7).

The digital euro is intended for making payments in both physical and digital environments, between private individuals and between private individuals and public authorities. At physical points of sale, digital euro payment services will be facilitated through integration with existing payment infrastructures.

To ensure broad availability, a number of payment methods using the digital euro will be developed, including mobile payment services by both the ECB and payment service providers. Payment cards will be an alternative for users without a smartphone. The ECB is also looking into offline solutions, so that digital euro payments can be made at merchants with no internet access.

In addition, the ECB is exploring how the digital euro can simplify cross-border payments and how this means of payment / payment system can be integrated in both European and more international payment systems.⁷

2.3 Some key design features of the digital euro

The framework for a digital euro will be set out in a comprehensive scheme rulebook⁸, currently under preparation. The rulebook describes the terms and conditions for the use of the digital euro and includes a set of rules, standards and procedures to govern the rights and obligations of the parties involved. Box 1 describes key design features of the digital euro based on a draft scheme rulebook published in 2025 (ECB (2025b)).

⁷ The ECB innovation platform is exploring conceptual use cases where the digital euro can be integrated into wider payment systems, including receiving digital euro in local currencies or in predefined currency conversion mechanisms. For more details on the innovation platform, see ECB (2025b).

⁸ A version of the document can be found in ECB (2025a). This document is a work in progress – a number of status reports from the ongoing work on the scheme rulebook have been shared by the ECB.

Box 1

Key design features of the digital euro

While the ECB will be responsible for infrastructure and underlying agreements, banks and other authorised payment service providers (PSPs) will handle customer relations, distribution and the development of services. Through such PSPs, end-users can use digital euro wallets. In the first phase, the digital euro will be made available to natural and legal persons in the euro area, including both permanent and temporary residents.

The digital euro will be made available to the general public using pseudonyms and aliases such as telephone numbers or other identifiers.⁹ The ECB will not have access to information on private individuals' digital euro payments or holdings. Banks and PSPs will be responsible for carrying out anti-money laundering (AML) and know-your-customer (KYC) control measures and will have sufficient payment information to do so.

The digital euro will be legal tender in the euro area on par with cash. The digital euro is intended for use throughout the EEA (see Section 3 for a detailed discussion) but will not be designated as legal tender outside the euro area.

The Eurosystem will bear the costs related to digital euro issuance and core infrastructure operation. Digital euro payments made by private individuals will not be subject to fees. However, PSPs can charge commercial users to accept payments and any ancillary services, within specified limits.

The digital euro is intended as a means of payment and not as a significant store of value, and digital euro holding limits for private individuals will therefore apply. The European Central Bank (ECB) has suggested a holding limit of EUR 3 000, though this has yet to be decided. Commercial users such as merchants will not be able to hold digital euro. The funds received by a merchant from a payment in digital euros must therefore be immediately converted into bank deposit money and transferred to a bank deposit account. The same rules on holding limits will apply to users and merchants outside the euro area.

Should a private individual receive a digital euro payment that puts them above the holding limit, the excess will automatically be transferred to a deposit account designated by the user in advance. This is called the *waterfall mechanism*.

Reverse waterfall refers to a feature whereby the user designates in advance a bank account to be drawn upon automatically when digital euro holdings fall below a user-defined threshold or when the user's digital euro wallet amount is insufficient to execute a desired payment transaction.

Since the digital euro is not intended for saving purposes, digital euro holdings will not bear interest.

3. Legal implications of the use of a digital euro in Norway

3.1 Proposed regulatory framework for the digital euro

The manner in which the digital euro is to be used by the general public is proposed in a separate regulation - "*Proposal for a regulation of the European Parliament and of the Council on the establishment of the digital euro*" (see European Commission, 2023). The proposal provides, inter alia, that the public in the euro area may be given access to the digital euro, which would have legal tender status on par with banknotes and coins. This regulation would only be binding for EU member states that have also adopted the euro, ie the euro area. It would not be EEA relevant and thus not applicable to Norway.

The digital euro could nevertheless be distributed and used for payments outside the euro area, and specific provisions have been proposed to cover such use. According to Recital 48 of the proposed regulation:

⁹ This is described further in the definitions provided by the ECB (2023, p.2).

“The provision of digital euro payment services to digital euro users residing or established in a Member State whose currency is not the euro should be subject to a prior arrangement between the European Central Bank and the national central bank of the Member State whose currency is not the euro, following a request from the Member State whose currency is not the euro. In line with the Agreement on the European Economic Area, digital euro users residing or established in non-euro area Member States may be provided digital euro payment services by payment service providers established in the European Economic Area.”

The proposal is therefore based on the digital euro being usable throughout the EEA. This implies, inter alia, that the digital euro should be usable for payments in both Norway and other EEA member countries.

In line with this purpose, a separate regulation has been proposed on the provision of the digital euro in EU member countries whose currency is not the euro (European Commission (2023)). Under this proposal, the regulation will be EEA relevant and consequently incorporated into the EEA agreement. As the regulation is established as EEA relevant, Norway will be treated on par with non-euro EU countries such as Sweden and Denmark.

3.2 Use of a digital euro outside the euro area, but within the EEA

Throughout the EEA, PSPs will be able to offer digital euro payment services to both natural and legal persons. The Proposal for a Regulation on the establishment of the digital euro sets out detailed provisions on how a digital euro should be distributed in non-euro countries within the EEA. A fundamental condition is that a written agreement is entered into between the ECB and the central bank of the relevant non-euro country. In Norway, the authorities would need to notify the other member states, the Commission and the ECB of their request to access and use the digital euro. Norges Bank would then be required to commit to following all guidelines and directives issued by the ECB (*“any rules, guidelines, instructions or requests issued by the European Central Bank in relation to the digital euro”*) by entering into a separate agreement with the ECB/Eurosystem. Moreover, Norway would be required to implement all relevant digital euro legislation, which in this context is the proposed regulation applicable to non-euro member states (as described above). The same requirements apply to other EEA countries seeking to allow the use of the digital euro in their jurisdictions.

This part of the proposed regulation raises questions concerning the obligations Norges Bank may become subject to in light of the Bank's independence according to the Central Bank Act, notably Section 1-4. The regulation must be implemented as ad hoc legislation, under which Norges Bank may be required to enter into an agreement with the ECB and comply with the aforementioned guidelines and directives. In that case, the ad hoc legislation would take precedence over the Central Bank Act. Alternatively, the King in Council may instruct Norges Bank to assume such tasks and obligations pursuant to Section 1-10 of the Central Bank Act on *“tasks that are consistent with the purpose of central bank activities under Section 1-2, Subsection 1”*. At this stage, Norges Bank assumes no position on which solution would be most appropriate.

Under the proposal, banks and other PSPs that will offer the digital euro will *“implement the limits set by the European Central Bank in accordance with Article 16(4) on the use of the digital euro by natural and legal persons residing or established in Member States whose currency is not the euro, which are applicable in those Member States”*. This means that the provisions on the digital euro will be consistent throughout the EEA, and consequently identical in the euro area and non-euro member countries.

3.3 Norway's legislative process

A regulation that is deemed EEA relevant is not necessarily automatically applicable in Norway. It must first be adopted as law by the Storting (Norwegian parliament). Generally, any regulation or directive to be incorporated into the EEA Agreement is first considered by the EEA Joint Committee before being sent to the government, which then submits a legislative proposal to the Storting. In practice, the incorporation of an EEA relevant regulation into Norwegian law can take some time.

In the aforementioned regulation on the use of the digital euro in non-euro EEA countries, the purpose of offering the digital euro outside the euro area is described in Recital 3 as follows:

“It is essential to ensure that all payment services providers, whether incorporated in Member States whose currency is the euro or in Member States whose currency is not the euro, may distribute the digital euro and therefore exercise their freedom to provide services in the Union. The provision of digital euro payment service by all payment services providers would contribute to a high level of innovation, facilitate payments and increase competition across the Union and is necessary to safeguard the integrity of the single market. All payment services providers incorporated in the Union should therefore be in a position to distribute digital euro payment services under the same conditions to natural or legal persons residing or established in the Member States whose currency is the euro, to natural or legal persons who opened a digital euro account at the time they resided or were established in the Member States whose currency is the euro, but no longer reside or are established in such Member States, and to visitors in the euro area. Payment services providers incorporated in Member States whose currency is not the euro should also be in a position to distribute the digital euro to any other natural or legal persons residing or established in Member States whose currency is not the euro and in other countries of the European Economic Area or any third countries subject to the conditions laid down in the Regulation (EU).”

In other words, the proposal is intended to ensure that PSPs outside the euro area, but within the EEA, can provide digital euro payment services to all natural and legal persons in the EEA on equal terms. The proposal must be considered in conjunction with the proposed amendments to the Payment Services Directive (EU 2015/2366). PSPs seeking to offer digital euro services will be subject to the provisions of the revised directive, which, inter alia, means that the supervisory authority will be Finanstilsynet (Financial Supervisory Authority of Norway). Finanstilsynet will therefore have to cooperate with the ECB to establish the requirements that will apply to these PSPs.

The Norwegian authorities will be required to transpose the proposed regulation into Norwegian law. However, this does not mean that the authorities will also be obligated to submit notification or that Norges Bank is obligated to enter into an agreement with the ECB on the use of digital euro in Norway. The wording of the proposal contains no such obligation, suggesting instead that the Norwegian authorities are free to choose whether or not the digital euro should be offered in Norway. Whether Norwegian authorities are in fact free to make such a choice must, however, be viewed in light of the EEA Agreement’s provisions on the four freedoms. This issue is not assessed here.

3.4 Requirements for a single set of rules across the EEA

Payment service providers that wish to provide payment services in digital euro outside the euro area are bound by the same provisions governing those who offer such services in the euro area. This means for example that holding limits¹⁰ and the automatic transfer of the excess to accounts¹¹ (ie waterfall as described above) must be the same. Neither will it be permitted to offer interest on digital euro holdings in Norway.

As a whole, digital euro payment services in Norway will therefore be subject to the same regulation as in the euro area, and Norwegian authorities will not be permitted to introduce provisions that make it more or less attractive to hold digital euros in Norway, such as different holding limits or the option to remunerate holdings. In line with this, Norwegian citizens in the euro area will be permitted to pay with digital euros obtained in Norway, but the conditions for use must be the same as for digital euros obtained in the euro area. Digital euros used in Norway will of course be regarded as foreign currency and will not be given legal tender status in Norway.

¹⁰ A provision that is of particular relevance for Norwegian conditions is Art. 16 no 5 first sentence that states: “Visitors to the euro area as referred to in Article 13(1), point (c), and natural and legal persons as referred to in Article 13(1), points (b), (d) and (e), shall be subject to limits as regards the use of the euro as a store of value that are not higher than the ones effectively implemented in the euro area for natural and legal persons residing or established in Member States whose currency is the euro.” According to this provision, it is not permitted to have divergent holding limits in non-EEA countries.

¹¹ The rules do not yet state whether these accounts must be in euro or in national currencies.

4. How will the introduction of a digital euro affect Norges Bank's ability to perform its missions?

This section discusses whether the introduction of a digital euro could affect the payment system in Norway and Norges Bank's ability to perform its mission to promote an efficient and secure payment system and financial stability, and to maintain monetary stability. The assessments in this section are based on available knowledge about the design of and framework for a digital euro and on rough estimates of potential use of the digital euro as a means of payment in Norway.

4.1 Would the introduction of a digital euro lead to currency substitution?

To what extent the introduction of a digital euro would affect Norges Bank's ability to perform its mission is in particular contingent upon the degree of currency substitution, ie the extent to which NOK is substituted by the digital euro.

Currency substitution means that the citizens of a country to a large extent shift to a currency other than the national currency for payments and as a unit of measurement when setting prices and wages and when entering into financial contracts and taking out loans in that country. In Norway's case, currency substitution could weaken NOK's function as the unit of measurement for goods and services prices and lead to other currencies assuming this function fully or to a significant extent.

According to macroeconomic literature, currency substitution normally occurs in countries with irresponsible monetary policy and unsustainable public finances.¹² Such policies may threaten the value of the national monetary unit and reduce confidence in the financial system in general and in the banking system in particular. This in turn may result in people choosing a more stable foreign currency over the national currency. Historically, the stable foreign currency has been the US dollar. However there have been cases where, the euro, the South-African rand and the French franc have also functioned as substitute currencies.

In Norges Bank's assessment, the introduction of a digital euro will not lead to substantial currency substitution in Norway. This view is based, inter alia, on the following:

- Macroeconomic developments in Norway are stable, and the payment and financial system is resilient, efficient and widely trusted by the public.
- Keeping substantial funds in a foreign currency will entail a foreign exchange risk for many private individuals and businesses. This is due to requirements that Norwegian businesses must keep accounts in NOK and government receipts and payments must be made in NOK.
- The public can already open accounts in foreign currencies, but few have taken advantage of this opportunity other than businesses in need of foreign currency in their business activities.

The current payment system in Norway is secure, efficient and attractive, and the public's need for payment services appears to be well served as a result. Based on the above, there is no reason to expect that the opportunity to place funds in a digital euro will increase the general public's holdings of foreign currency to any great extent.

Measured against international standards, Norwegian banks have high credit ratings.¹³ The same applies to branches of foreign banks operating in Norway. Accordingly, the Norwegian public is unlikely to seek to hold euros due to low confidence in Norwegian banks.

Furthermore, Norwegian households and businesses can already easily hold euros by opening a euro account in a major Norwegian bank, in Norwegian branches of foreign banks or in banks in the euro area.¹⁴ In addition, unlike a digital euro, there are no limitations on how large euro deposits the public can hold in a bank. Moreover, euro deposits in Norwegian banks will normally bear interest, unlike digital euro deposits. The introduction of a digital euro is therefore unlikely to lead to materially higher

¹² For a more in-depth discussion, see Norges Bank (2023).

¹³ See e.g. bank analyses on Norges Bank's website: [Financial Stability Reports](#).

¹⁴ In Norway, the public can also invest in fixed-income, and other, funds denominated in euro.

demand for digital euro holdings other than for limited transaction purposes, e.g. in connection with travel abroad. The consequences for financial stability will therefore likely be minimal.

Given the high level of confidence in the financial system, a large share of financial contracts is denominated in NOK. In addition, wages, prices and central government receipts and payments are also denominated in NOK. Setting wages and prices in euros would entail a substantial foreign exchange risk for actors if accounts still have to be kept in NOK and taxes and duties have to be paid in the national currency. The introduction of a digital euro is therefore unlikely to affect wage and price formation in Norway and will likely have minimal impact on the consumption and investment decisions that are decisive to Norges Bank achieving its monetary policy objectives.

Should the introduction of a digital euro lead to far more user-friendly payment services than otherwise available, the likelihood that Norwegians will also want to use these services cannot, however, be completely disregarded. Such developments could result in wider adoption of the digital euro than assumed herein, but Norges Bank does not consider this likely.

4.2 Likely use cases and extent of digital euro use in Norway

There is reason to believe that any use of digital euros by Norwegians and in Norway will be in one of two areas: i) Norwegians using digital euros abroad, and ii) foreigners using digital euros in Norway.

It may also be the case that Norwegians with digital euro holdings, for example after a trip abroad, will want to use these to make payments in Norway – should this become possible. However, such use will likely be so limited that we have disregarded it at this stage.¹⁵ In terms of foreigners' use in Norway, acceptance of digital euro payments would likely first emerge among merchants serving a high proportion of foreign tourists and visitors.

It is difficult to provide good estimates of potential digital euro payment volumes in the two mentioned areas. The following estimates are intended to illustrate potential scope of digital euro usage and are based on uncertain assumptions and preconditions. Rough estimates of the potential use of digital euro are produced based on international payment card data, tourism-sector data on the origin of tourists in Norway and the destinations of Norwegian travellers, as well as distribution assumptions.

Norwegians' use of digital euros in the euro area

Norwegians are likely to use the digital euro primarily when purchasing goods and services during short stays in the euro area in connection with vacation, work or studies. Digital euros may be used at both physical points of sale and for online purchases.

There is reason to believe that digital euros will primarily replace some of those payments abroad that are now made by international cards. Naturally, it is difficult to estimate the share replaced by digital euros. Transactions abroad or with parties abroad totalling NOK 275bn were made with such cards issued in Norway in 2024. Of these transactions, NOK 14bn were cash withdrawals, NOK 174bn were online purchases and NOK 87bn were purchases at points of sale. There are no statistics on how many of these transactions took place inside and outside the euro area. However, Statistics Norway's travel survey shows that 41% of Norwegians' trips abroad in 2023 were to the euro area (Statistics Norway (2024)).

Based on this, and using the illustrative, albeit simplified, assumption that digital euros will be used for half of these transactions in the future, total payments using digital euros per year can be estimated at NOK 56bn.¹⁶

¹⁵ Norwegian banks currently offer foreign currency accounts primarily to business customers, but private individuals can also open such accounts. Accordingly, direct euro exposure is already offered in the market. There are no publicly available statistics on total euro holdings in Norway, but both foreign currency accounts in euro and mutual funds exposed to euro may be more attractive to end-users than digital euro holdings.

¹⁶ This estimate is highly uncertain, primarily with respect to how large a share of these payments will be made in digital euros. Adding to the uncertainty is the likelihood that it will take some time before the digital euro becomes available as a means of payment in Norway. By then, both payment and travel habits may have changed significantly.

Foreigners' use of the digital euro in Norway

Foreigners' use of the digital euro in Norway will likely take place at merchants that cater heavily to foreign tourists and visitors. Should the digital euro become a common means of payment in the euro area, there is reason to believe that some merchants in Norway with a substantial share of European tourists among their customers¹⁷ will intend to facilitate this means of payment. This is particularly the case if merchant fees become substantially lower than those of foreign payment cards, if the costs of using an arrangement for accepting digital euros are limited and if foreign exchange charges and other costs of the merchants' exchange and transfer of digital euros to a NOK account become favourable.

Payments in Norway made by payment cards issued abroad amounted to around NOK 50bn in 2024. Of these payments, around NOK 35bn were made at points of sale and around NOK 15bn were made on Norwegian websites. Figures obtained by Innovation Norway in 2023¹⁸ indicate that tourists from the largest euro area countries made up around 49% of foreign visitors (in guest nights). Based on this, tourists from the euro area are estimated to make payments totalling around NOK 24.5bn per year. In principle, these payments could have been made in digital euros.¹⁹ This means that if half were made in digital euros, it would have amounted to slightly more than NOK 12bn.

4.3. The importance of an efficient and secure payment system

These rough estimates show that, using highly uncertain assumptions, transactions equivalent in value to NOK 12bn of foreigners' consumption in Norway and, correspondingly, around NOK 56bn of Norwegians' consumption abroad could be made with digital euros. Foreigners' card use in Norway comprises a relatively modest share of annual card payments in Norway, which totalled NOK 1100bn in 2024.

Based on this, Norges Bank assesses that the volume of digital euro payments will not be extensive enough to significantly affect the efficiency of the Norwegian payment system. However, if digital euro adoption becomes widespread in the euro area and if points of sale in Norway with a large share of foreign tourists facilitate payments in digital euros, this will be an alternative to other means of payment and thereby strengthen competition in these areas. This could then also strengthen payment preparedness somewhat. However, this will as mentioned likely be concentrated to very limited geographical areas.

4.4 The significance of a digital euro for the assessment of the need for a retail CBDC in Norway

Norges Bank has concluded that introducing a CBDC is currently not warranted (Norges Bank (2025)). This applies to both a retail and a wholesale CBDC. Should the ECB issue a digital euro, however, this may be an argument in favour of introducing a retail CBDC in Norway as well. This is the case if the digital euro becomes a success, with wide adoption and good user experiences and if the gains encompass more efficient and inclusive payment services.

However, the ECB's arguments for introducing a digital euro differ from what Norges Bank has so far stated as the purpose of a Norwegian retail CBDC.

4.5 Implications for liquidity management/conduct of monetary policy

Extensive currency substitution and high digital euro demand could potentially weaken the impact of monetary policy. The most important monetary policy instrument is the policy rate. Norges Bank sets the policy rate to affect consumption and investment decisions by Norwegian households and businesses to achieve monetary policy objectives. The policy rate only affects financial contracts denominated in NOK. Should the euro become the unit of measurement to a greater extent when

¹⁷ Norges Bank assumes that this may be the case for points of sale such as those at Bryggen in Bergen, fashion outlets around Egertorget in Oslo and in destinations such as Geiranger, Lofoten, Nordkapp, Flåm and Briksdalen.

¹⁸ See Innovasjon Norge (2024).

¹⁹ These figures are also highly uncertain as the data do not provide enough information about the variation in and composition of the payments.

setting prices and wages and when entering into financial contracts, the policy rate will have less impact on the economic decisions of households and businesses.

The Norwegian public has, as mentioned, strong confidence in monetary policy and government finances, in particular when compared with countries that have experienced currency substitution. Strong confidence in the financial system results in a large share of Norwegian financial contracts being denominated in NOK. In addition, wages, prices and central government receipts and payments are also denominated in NOK. The introduction of a digital euro is therefore unlikely to affect wage and price formation in Norway and will likely have minimal impact on consumption and investment decisions that are decisive for Norges Bank to achieve its monetary policy objectives.

Furthermore, increased demand for digital euro could have consequences for the NOK exchange rate, and capital movements could become more volatile. Whether currency substitution and increased demand for digital euro will affect liquidity management may depend on how banks' and Norges Bank's balance sheets are affected and by any resulting measures implemented by Norges Bank. This is discussed in more detail below.

With a minimal degree of currency substitution and without an appreciable increase in digital euro demand, the NOK exchange rate will not be affected by the introduction of a digital euro. Should Norway find itself in a situation with a higher degree of currency substitution, with a shift to wages, prices and financial contracts in euro, the opportunity to hold digital euros is unlikely to be the cause, given the limitations on digital euro holdings.

On this basis, Norges Bank's liquidity management will also not be affected. Liquidity management in Norway is based on a quota system, with reserves in the banking system managed to ensure that the shortest money market rates are kept close to the policy rate.²⁰ As the introduction of a digital euro as a possible means of payment in Norway is unlikely to result in Norwegians migrating from bank deposits to digital euro holdings, neither banks' nor Norges Bank's balance sheets will be appreciably affected. This also means that the consequences for Norges Bank's liquidity management will be insignificant. How increased demand for digital euros may impact bank's deposit funding and Norges Bank's balance sheet, and how a digital euro and a digital CBDC in NOK may have differing impacts on these balance sheets is discussed in box 2.

4.6 Implications for financial stability

Widespread use of digital euros in Norway may affect financial stability if the public shifts their liquidity holdings away from NOK deposits in banks to holdings of digital euros instead. Some banks may experience reduced deposit funding, and banks' funding may become more unevenly distributed (as described in Box 2).²¹

Banks that lose deposit funding may find their ability to extend credit limited. Banks can maintain access to deposits by offering higher deposit rates, but this will increase funding costs and entail higher lending rates for borrowers.

Likewise, banks can shift their funding towards more wholesale funding to become less vulnerable to changes in the public's deposit demand, but this too will lead to higher funding costs. Less stable deposits may also increase banks' costs related to liquidity buffers. For some banks, the introduction of a digital euro could, in a worst-case scenario, lead to an increased risk of deposit flight, which can lead to banks becoming unable to meet their payment obligations.

The introduction of a digital euro, as discussed, is unlikely to lead to a particularly pronounced increase in the public's euro holdings at the expense of NOK, this will therefore not entail significant deposit flight. Financial stability consequences will therefore likely be insignificant.

²⁰ For a more detailed discussion of Norges Bank's liquidity management system, see Norges Bank (2021) and the Bank's website, [The liquidity management system](#).

²¹ The impact on banks and financial stability from the introduction of a central bank currency in NOK is discussed in Norges Bank (2018) and Norges Bank (2021).

Box 2

Possible effects on central bank reserves and banks' deposit funding resulting from the introduction of a digital euro

When the public draw on their bank deposits in NOK and purchase digital euro, the balance sheets of Norges Bank and banks may be affected depending on how the purchase and sale of digital euros is made, including whether banks fund the purchase of digital euros with deposits in NOK or by borrowing in foreign currency (euro).

Assume that a Norwegian bank purchases digital euros from a foreign bank and funds the purchase by borrowing in euro. Digital euro on the asset side and debt securities denominated in euro on the liability side increase on the Norwegian bank's balance sheet. When a customer in the same bank draws on a NOK deposit and purchases digital euro from that bank, this reduces NOK deposits on the liability side and digital euro on the asset side. The bank loses deposit funding (in sum deposit funding in NOK is replaced by currency funding in euro). Furthermore, central bank reserves are unaffected, both on the bank's and the central bank's balance sheet.

If, on the other hand, it is assumed that the Norwegian bank purchases digital euros from a foreign bank and funds the purchase with NOK deposits, this will be changed. On the asset side of the foreign bank, digital euros are reduced while NOK deposits with the Norwegian bank increase. On the balance sheet of the Norwegian bank, digital euros increase on the asset side while deposit funding in NOK increases on the liability side. When a customer in the Norwegian bank draws on a NOK deposit and purchases digital euros from the bank, this reduces NOK deposits on the liability side and digital euro on the asset side. In isolation, this leads to the bank losing deposit funding, but this is offset by the purchase of digital euro being initially deposit funded. The bank's deposit funding is unchanged if the purchase and sale of digital euros is considered as a whole. Also assume that a customer in a smaller Norwegian bank wants to buy digital euros by drawing on a NOK deposit at the same time as the smaller bank does not have digital euros on its balance sheet. The customer deposit in the smaller bank will then be transferred to the larger bank that sells digital euros at the same time as central bank reserves are transferred from the smaller bank to the larger bank on the balance sheet of the central bank. The total supply of central bank reserves and banks' total deposit funding is unchanged. Banks' deposit funding may, however, become more unevenly distributed, with consequences for the banks that lose deposit funding (see main text).

It should be noted that the consequences for banks' deposit funding, central bank reserves and Norges Bank's liquidity management of digital euro being used as a means of payment in Norway could differ substantially from the consequences of the introduction of a retail CBDC in NOK. While demand for digital euros will not affect central bank reserves unless Norges Bank is directly involved in the transactions, demand for a retail CBDC in NOK will reduce banks deposit funding and central bank reserves in a one-to-one relationship. The issuance of a retail CBDC in NOK will result in "leakage" from the banking system. This affects structural liquidity in the banking system and thus Norges Bank's liquidity management. Somewhat depending on the situation, for example if there are considerable or little initial reserves in the banking system, the reduction in banks' deposit funding must be replaced by central bank funding or wholesale funding. This could have serious consequences for banks' funding costs and financial stability. The potential for adverse consequences for financial stability is the reason for limitations on how much retail CBDC can be held in the euro area (and in other countries that are considering introducing a retail CBDC). For a more in-depth discussion, including the reasons for and consequences of "leakages" from the banking system, see Norges Bank (2021) and Bernhardsen and Kloster (2023).

5. Conclusion

In Norges Bank's assessment, the introduction of a digital euro and potential usage in Norway will neither lead to an appreciable degree of currency substitution nor to the public shifting their liquidity holdings away from bank deposits in NOK to digital euro holdings. Consequently, this will have little effect on the Norwegian payment system and the consequences for financial stability and liquidity management/monetary policy will likely be negligible.²²

However, in areas and businesses with a considerable portion of foreign customers, one can envisage that a non-negligible share of payments will be made using digital euros in the future, for example at typical tourist destinations. In that case, this would provide an alternative payment method for Norwegians with holdings of such money, which in isolation may increase competition for payment services at relevant merchants and strengthen contingency arrangements there. However, this would have a limited effect in very limited areas and would not impact efficiency and security in the Norwegian payment system as a whole to an appreciable extent.

If the ECB decides to introduce a digital euro, this may affect the assessment of the need for a retail CBDC in NOK. If the digital euro becomes a success in terms of adoption and customer satisfaction, this may also strengthen arguments for issuing a retail CBDC in NOK. In that case, the infrastructure the ECB establishes for a digital euro may be a potential candidate for the infrastructure for a Norwegian CBDC. This is likely dependent on Norges Bank entering into an agreement with the ECB to use T2 as an interbank settlement system. This issue has not yet been clarified.

²² Danmarks Nationalbank and Sveriges Riksbank have published their own analyses of the consequences of a digital euro for their respective economies (see Danmarks Nationalbank (2023) and Sveriges Riksbank, (2024)).

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