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Digital Euro – Lessons learned from the evaluation phase and the way forward

Dear Mr Cipollone,

Firstly, on behalf of the German Banking Industry Committee (GBIC), we would like to officially congratulate you on your recent appointment as a member of the Executive Board of the European Central Bank. We are looking forward to fruitful discussions with you and wish you all the best for your new role. With your in-depth knowledge of European economic and payment policies, the ECB is certainly very fortunate and will benefit greatly from your thoughtful contributions.

The German Banking Industry Committee is the voice of the leading German banking associations. These are the Association of German Cooperative Banks (BVR), the Association of German Banks (BdB), the Association of German Public Banks (VÖB), the German Savings Banks Association (DSGV) and the Association of German Pfandbrief Banks (vdp). The BVR is this year's chair of the GBIC and is therefore responsible for the preparation of joint meetings.

The directors of the five GBIC organizations would be more than delighted to arrange a meeting with you to discuss the possible introduction of a Digital Euro and its possible consequences.

We understand that the development of digital money is a project of fundamental importance for Europe. A well-designed Digital Euro, with the key characteristics of cash but in digital form, and at the same time eliminating some of the disadvantages of cash (e.g. use in e-commerce), could add value to the economy and society. It could enhance European sovereignty in payments, support innovation and - for example through offline functionality - strengthen the functionality of payments even in times of crises. The Digital Euro should be designed in a way that it does not compete with privately operated payment systems, but rather in a way that private and public systems complement each other.

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In our view, a monetary system of the future will not only include the Digital Euro in the form of a digital banknote as one step further in the digital evolution of cash, but ideally also a wholesale CBDC for banks as well as solutions already being developed by the private sector, such as the commercial bank money token. We therefore welcome the fact that the Eurosystem is now also increasingly focusing on the introduction of a wholesale CBDC. The wholesale CBDC could be a real asset, as we see a strong demand from corporates, and it can also strengthen the international role of the Euro.

1. General comments on the Digital Euro

The introduction of the Digital Euro will have a significant impact on the economy, society, the monetary system, and the payments industry. It should therefore be carefully considered and prepared. Negative effects on the economy and society should be avoided and ideally, the Digital Euro should be widely accepted by the public. It is therefore important that the ECB and policymakers allow sufficient time for a democratic debate on the issue. A detailed analysis of the risks is of the utmost importance. Under no circumstances should the Digital Euro pose risks to the financial stability by restricting the lending capacity of credit institutions. A detailed quantitative impact analysis of the various options for the design of the Digital Euro, which considers the regional characteristics of the euro area and the different business models of banks, is absolutely essential. We see a significant risk that the outflow of funds from banks' balance sheets induced by the Digital Euro could jeopardize the banks' efforts to finance the transition towards a greener economy.

For European sovereignty in a global world, it is very important to build a European payments actor that has the potential to make Europe truly independent in the field of payments. It is therefore up to the legislator and the ECB to create an environment that enables private European initiatives, to grow and to compete with international players that dominate some, but not all, cross-border payments in the EU.

However, if the Digital Euro were to be created as a direct competitor to private sector initiatives such as EPI or other European card schemes (such as existing regional card schemes), the development of strong private payment actors would be hindered, not encouraged. The Digital Euro could jeopardize the existing investment plans of these schemes, which are in the process of connecting with each other based on a harmonized technical infrastructure. In the long run, damaging private solutions would weaken rather than strengthen European sovereignty.

2. Suggestions for the preparatory phase

The German Banking Industry Committee (GBIC) has actively participated in the evaluation phase. We would like to thank the ECB for the intensive technical dialogue. In view of the great importance of the preparatory phase for the future functioning of the Digital Euro, we consider it useful to reflect together on the future form of cooperation. To strengthen mutual understanding, sufficient time should be allowed for conceptual work and for discussing the different perspectives of market participants to enable the best possible outcome and make the Digital Euro a success. It will be of the utmost importance to draw from the expertise of all stakeholders in order to create added value with the Digital Euro and to avoid unintended negative effects.

Additionally, it would be very helpful to increase the transparency of the feedback received from market participants and to clarify how it has been considered and, where appropriate, why it has not been considered. This would contribute to a better understanding of the ECB's approach and allow market participants to better align themselves with the project and its objectives. Overall, this also requires longer deadlines for feedback, which would provide a serious opportunity to examine the sheer volume of content, evaluate the interactions, and allow them to flow into bundled feedback.

The preparatory phase is also particularly important as it lays the foundations for the subsequent cooperation on the introduction of the Digital Euro. Here, we would like to see the same quality of cooperation with us as for the introduction of the Euro itself more than 20 years ago.

We take the liberty of forwarding a copy of this letter to the President of the Deutsche Bundesbank, the responsible member of the Deutsche Bundesbank's Executive Board, the German Federal Ministry of Finance, the rapporteurs of the ECON Committee and the European Commission. We will also seek dialogue with the European Central Bank on this matter via the European banking associations.

We are looking forward to a meeting with you and wish you all the success for your new role.

Yours sincerely,
on behalf of the German Banking Industry Committee

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Association of German Public
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