The digital euro project

Investigation phase outcomes and lessons learnt

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1. In Europe **digital payments are on the rise**, but cash remains important.

2. Extrapolating these trends suggests that central bank money could lose its role as providing the **monetary anchor** and being an **available option for citizens**.

   - **Payments is a network function** which easily leads to market concentration and attempts to abuse market power.
   - **Efficient and resilient payments** is not just important for modern society, but a pre-condition of it.

**The downward trend in cash usage intensified after the pandemic**

Share of payment instruments used at the point of sale in terms of number and value of transactions, 2016-22, euro area

*See Study on the payment attitudes of consumers in the euro area (SPACE) – 2022.*
Exploring central bank digital currencies

More than 90% of central banks are exploring retail central bank digital currencies (CBDCs)

More than half of central banks are developing CBDCs or running concrete experiments.

More than two thirds of central banks are considering it likely or might possibly issue a retail CBDC in the short or medium term.


Financial stability has been a **core consideration** of the project

“The excessive use of the digital euro as a form of investment and the associated risk of sudden large shifts from bank deposits to the digital euro should be avoided.”

(ECB Report on a digital euro, 2020)

The digital euro would be **designed ex-ante in a way to have no material impact** on financial stability and the transmission of monetary policy.

In this context, a central bank has **three important tools** at its disposal:

1. **CBDC design features** to reduce excessive use as a form of investment (e.g. limits to individual holdings; reverse waterfall option)
2. A distribution model based on **supervised intermediaries**
3. The possibility for the central bank to **steer liquidity conditions** if necessary
A digital euro outside the euro area

Rules for **geographical access** will be set down in legislation → design of digital euro can accommodate them

If **legislation** allows, access could be extended to consumers and merchants in the European Economic Area and selected non-EU countries, if they so wish

Use cases

- Payments in digital euro outside the euro area
- Cross-border payments in digital euro
- Use by visitors

Use cases
Digital euro interoperability with other CBDCs

Use cases

- **Person-to-person** payments in CBDC (e.g. remittances)
- **E-commerce** payments from an online merchant outside the euro area
- **Payments to a merchant** outside the euro area

Possible models

- **Interlinking model:** allows transacting without participating in each system
- **Single system model:** single system across multiple currencies
Digital euro project: investigation phase

Digital euro investigation phase October 2021 to October 2023

“The digital euro is **central bank money for retail payments** made by citizens and businesses in the **entire euro area**”

- Complements, rather than substitutes, cash
- Available both **online and offline**
- Ensures **high level of privacy by default**
- The ECB has no interest in seeing or storing users’ private information
- The digital euro will **never be programmable money**: it will not constrain to whom, when and why people could do payments
Timeline of the investigation phase

July 2021
Governing Council decision to launch investigation phase

Q4-2021
• Project team onboarding
• Governance set-up

Q2-2022
• Prioritisation of use cases
• Publication of report on focus groups with citizens and merchants

Q1-2022
• Design options to control take-up
• Distribution model

Q3-2022
• Compensation model
• Access to digital euro ecosystem
• Value added services
• Advanced functionalities
• Prototyping results

Q4-2022
• Settlement model
• Amount in circulation
• Role of intermediaries
• Integration and form factor
• Prototype development

Q1-2023
• Finalisation of user requirements
• Preparations for project realisation phase

Q2-2023
• Selection of sourcing strategy for project realisation phase
• Preparation of decision-making document with advice on potential digital euro design and implementation

Q3-2023
• Online/offline availability
• Data privacy level

Autumn 2023
ECB Governing Council decision to launch next phase

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Prioritised digital euro use cases

Person-to-person payments

A payment for goods or services purchased in a physical store (point-of-sale payment) or online via e-commerce

Payments to the government (X2G, e.g., taxes) and by the government (G2X, e.g., allowances and subsidies)
Online and offline use

Online and offline digital euro would complement each other enabling the broadest range of features and use cases.

<table>
<thead>
<tr>
<th>Online</th>
<th>Offline</th>
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<tbody>
<tr>
<td>All use cases covered</td>
<td>Closer to cash</td>
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<td>Remote and proximity payments</td>
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<td>Third party validation</td>
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<tr>
<td>Privacy comparable to that of existing digital payment means</td>
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- Remote and proximity payments
- Third party validation
- Privacy comparable to that of existing digital payment means

- Proximity only, low value, P2P and POS payments
- Holdings stored in secure device
- No third-party validation
- Higher privacy level, subject to appropriate legislation
Distributing the digital euro to end users

**Eurosystem will issue/redeem and settle** transfers of its own liabilities

**Financial intermediaries will play a key role in distributing** the digital euro

The Eurosystem is considering a *payment scheme approach* → developing a common rules-based framework for participants to develop their products

- Facilitates a **homogenous end-user experience** across the euro area and interoperability via standardisation
- Best positioned to ensure **pan-euro area reach**
- Respects the **role of supervised intermediaries** and still offers room for **innovation**
Supervised intermediaries will play a key role in the distribution and making the digital euro as a public good accessible to citizens:

- Managing interaction with digital euro end users
- Funding and defunding of user’s digital euro holdings
- Initiating, processing and managing of digital euro transactions
- Potentially offering value added services to improve user experience
Legislative proposal by the European Commission

“The legislative proposal is key to ensuring that the digital euro brings value to the people, taking the appreciated features of cash into the digital sphere”

Fabio Panetta
Executive Board member

The proposal makes sure that a potential digital euro has:

- **Legal tender status across the euro area**
- **High degree of privacy**, while minimising money laundering and terrorist financing risks
- **Basic services free of charge** and appropriate economic incentives for intermediaries to distribute it
- **Online and offline functionalities**
- **Holding limits** maintaining a balance between bank deposits and central bank money
The digital euro project will evolve in parallel to the legislative process:

- The ECB’s decision-making bodies will decide whether to move to the next project phase in autumn 2023 to further develop and test possible digital euro technical solutions.
- Throughout the process, the ECB will make the appropriate adjustments in the digital euro design in line with legislative deliberations.

The decision to issue a digital euro will only be taken once the digital euro legislation is adopted.
In a nutshell

Evolution of money

Make life easier

Increase resilience
Thank you for your attention!