Summary of inputs on the methodology for calibrating holding limits

12th ERPB technical session on digital euro

16 July 2024
ERPB members’ feedback*: overview

ERPB members were invited to share their views on the factors underlying the calibration of the digital euro holding limit

- ERPB members overall agreed on the comprehensiveness of the factors considered for the calibration, suggesting few additions which have been carefully assessed.
- ERPB members generally welcomed the attention given in the calibration to user experience, monetary policy implications, and financial stability, as per draft regulation.
- Member(s) of the consumers sector welcomed the focus on user experience, in particular the ability to pre-fund, while highlighting that deposit outflows scenarios should consider deposit competition (i.e., ability of banks to raise rates to retain deposits) and adoption scenarios.
- Member(s) of the banking sector supported the focus on financial stability, e.g., potential tensions in liquidity and lending, while argued against covering all use cases for usability.
- Member(s) of the merchant sector also welcomed the factors and stressed that deposit competition should be considered and highlighted that digital wallets already exist that may affect outflows.

*All feedback published on the ECB website.
1. Usability and ecosystem

**ERPB members detailed comments regarding the usability factors**

Member(s) of the consumers sector suggested that

- **The holding limit should facilitate usability.** A holding limit of (or close to) zero would prevent adoption for **users not willing to activate reverse waterfall**
- A holding limit should be set so that the digital euro can be a **fully functional payment account, regardless of the reverse waterfall.** Key factors would be users’ preference for pre-funding versus preference for the reverse waterfall
- Other factors suggested for the calibration were, e.g., the average **monthly salary** or **PSPs’ distribution capacity** and **merchants’ acceptance**

Member(s) of the banking sector argued that

- A holding limit should be aligned with user needs like **monthly spending** for **cash payments** and **cash holdings**
- **Reverse waterfall could allow a “low” holding limit, while low speed would not justify a high holding limit** (rather E2E flows should in this case be improved)
- **ATM withdrawals** could be a relevant factor to understand adoption

**Envisaged follow-up in the methodology**

- User needs and preferences to be captured through i) user research; ii) quantitative analysis of individuals’ monthly cycles
- **Merchants’ acceptance** addressed in legislative draft and to be factored in the setting of user research
- Monthly spending (incl. cash, but not only) and preference for reverse waterfall to be captured through user research
2. Monetary policy and its implementation

**ERPB members detailed comments regarding the monetary policy factors**

Member(s) of the banking sector highlighted that

- **Credit supply** is a key part of monetary policy transmission via banks
- **Second-round effects on financial markets** should be considered, including a possible dry-up of the interbank market in a stress scenario, with the potential need of ECB intervention
- **Flexibility of collateral frameworks** is important to obtain liquidity, and, in addition, the heterogeneity in collateral frameworks should be considered

Member(s) of the consumers and merchants sector highlighted that

- **Competition with cash** should be in focus, too, as individuals may draw from cash holdings rather than deposit holdings
- **Digital payment wallets already exist** that allow users to convert commercial bank money into e-money

**Envisaged follow-up in the methodology**

- Captured in models and/or through possible scenarios
- Collateral availability and its implications captured in models
- Analysis to capture possible impact of the digitalisation on the demand for banknotes
- Captured in models, including through possible scenarios
3. Financial stability and banking supervision (I)

Member(s) of the merchants and consumers sector highlighted that

- **Ability of banks to raise rates** is an important factor, as banks could prevent outflows towards digital euro by offering attractive interest rates.
- It is important to conduct user research under the first pillar, as it could **clarify potential adoption and the maximum deposit outflows**.
- It is important to consider the (uneven) **wealth distribution and heterogeneity across households**.

**Envisaged follow-up in the methodology**

- Captured in models and/or through possible scenarios
- User needs to be captured in user research
- Captured through available data, user research and the SSM’s targeted data collection exercise
3. Financial stability and banking supervision (II)

**ERPB members detailed comments regarding the financial stability and banking supervision factors**

Member(s) of the banking sector stressed that

- **Choice between pre-funding and usage of reverse waterfall can have different liquidity impacts** for banks.
- Outflows have consequences for **liquidity buffers and metrics like the LCR and NSFR**, through e.g., "unwinding" (HQLA reduction), the inability of some institutions to raise capital market funding, the overall counterbalancing capacity, and the distribution of excess liquidity.
- The effect on **profitability** is also important, as **banks’ funding costs** could be affected, impacting **net interest income**.
- **Heterogeneity of banks**, e.g., by geography, by business model, by collateral framework or by size is important, as well as a distinction of **normal vs. crisis times**.

**Envisaged follow-up in the methodology**

- Captured through available data
- Captured in models and/or through possible scenarios
- Captured in models and/or through possible scenarios / Captured through available data or the SSM’s targeted data collection
Engaging with the market over the next year

One-year outlook

- 16 July ERPB session
- 19 July expert session
- June Summer break
- November ERPB (tbd) Intermediate discussion considering feedback of ERPB
- December/January expert session (tbd)

Spring 2025 One-year milestone session with ERPB