Basic concepts and design choices of a digital euro

Euro Retail Payments Board

25 November 2021
What do we mean by “digital euro” and why consider it?

*See [ECB’s Digital Euro Hub, Report on Digital Euro](https://www.ecb.europa.eu/trad/other/other-choice/oecb/)

**Digital euro** would be a **central bank liability** made available in **digital form** for use in **retail payments**

**Possible advantages** in a range of **scenarios**, particularly:

- **Against** declining use of cash as a means of payment
- **Tackling** **sovereignty** concerns related to foreign CBDCs or private digital means of payment in the euro area
- **Supporting** **digitalisation** in the European economy

**Objective:** To maintain public **access** and full **usability** of **central bank money** in a world in which consumers and firms turn more and more to electronic payments.
Monetary anchor for digital payments

Today: confidence in private money is underpinned by its convertibility on a one-to-one basis with the monetary anchor (cash)

Central banks can commit to supply cash, but…

what if demand for it declines due to insufficient usability as a means of payment?

How can convertibility be maintained in the long term if there is insufficient demand for the monetary anchor?

Sovereign money needs to evolve and adapt to the changing needs of commerce …

… while maintaining the equilibrium with private monies
Maintaining the equilibrium commercial bank monies / central bank money

• Aim to offering CBDC through supervised intermediaries
  • Central banks do not have any ambition to offer front-end payment services. This does not exclude the possibility to provide a digital euro app.
  • Central banks do not have any ambition to take away deposits from banks’ balance sheets.

• The opportunity to distribute the safest/most liquid asset in an economy has great value for any payment initiator

See speech by F. Panetta: Central bank digital currencies: a monetary anchor for digital innovation
The success in functions of money paradox

**Not a form of investment:**
On digital euro accounts/wallets with limited balances…

**Maximise usability as means of exchange:**
… the vast majority of daily payments should be possible, without the user being too much concerned about funding the account/wallet

**Important for:**
- Financial stability
- Incentives for credit institutions

**Important for:**
- User convenience
Scope vs Time: the Swiss army knife dilemma

- **Minimum viable product**
  - Too limited scope may provide insufficient value to consumers & merchants & financial intermediaries

- **Optimum**

- **Minimum valuable product**

- **Optimum**

- **Broad scope**
  - Time, costs and project risks may increase over-proportionally with certain scope elements

- **?**

- A digital euro cannot be a “Swiss army knife” from day one…

- … while retaining sufficient flexibility to add on top in future releases
Digital euro project: investigation phase started

Digital euro would be a central bank liability made available in digital form for use in retail payments

Scope of Investigation phase:

i. Use cases a digital euro should serve first: identification of payment segments

ii. Interaction with the European retail payments market: complementarity, equilibrium

iii. Business model for intermediaries: fees, charges, costs

iv. Features and functionalities: design choices

v. Legal questions: possibility of legal tender status

vi. What technical solutions may best handle the above issues: front and back-end

See ECB’s Digital Euro Hub, Report on Digital Euro, ECB Press Release
## Cooperation and interaction

<table>
<thead>
<tr>
<th>EU Co-legislators</th>
<th>Citizens</th>
<th>Market stakeholders</th>
<th>International groups</th>
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| • Define required or supporting legislation | • Preferences and needs | • Add value for:  
- supervised intermediaries  
- merchants  
- consumers | • Cross-fertilisation  
• Basis for potential future cross-border/cross-currency possibilities |
| • Rule of law | • Investigation via focus groups | |
| • Overall consensus | |

### Balancing out potential trade-offs

- e.g. citizens’ preference for high privacy vis-a-vis compliance with KYC/AML/CFT requirements.
Inform members of investigation phase in **regular ERPB meetings**;
- additional ad hoc interactions if warranted

Gather **ERPB feedback on specific outputs in written procedure**
- Envisage separate feedback from different sectors given specific perspectives
- possibly preceded by ad hoc technical sessions