Digital currencies around the world – what are the policy implications?

High-level panel on CBDC
Bank of Finland Institute for Emerging Economies (BOFIT)

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What do we mean by a digital euro and why consider introducing one?

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

- **Aim**: maintain public access and full usability of central bank money in a world where consumers and firms are turning increasingly towards electronic payments.
Monetary anchor for digital payments

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

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

Scope of investigation phase:

i. **Use cases** a digital euro should serve first: identify 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** would best handle the above issues: front and back-end

# Cooperation and interaction

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<tr>
<th>EU co-legislators</th>
<th>Citizens</th>
<th>Market stakeholders</th>
<th>International groups</th>
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<td>• Define required or supporting legislation</td>
<td>• Needs and preferences</td>
<td>• Add value for: - supervised intermediaries - merchants - consumers</td>
<td>• Cross-fertilisation</td>
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<td>• Rule of law</td>
<td>• Investigation via focus groups</td>
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<td>• Basis for potential cross-border/cross-currency possibilities in the future</td>
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<td>• Overall consensus</td>
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**Balancing out potential trade-offs**

e.g. citizens’ preference for high levels of privacy versus compliance with KYC/AML/CFT requirements.
Monetary policy considerations

As a monetary anchor, a digital euro would play a key role in maintaining a well-functioning payment system. This is a pre-condition for preserving the transmission of monetary policy, and hence for protecting the value of money.

A digital euro will need to be designed so that it does not interfere with the transmission of monetary policy. In particular, the potential implications for financial stability must be considered.
Financial stability considerations

Central bank digital currency (CBDC) poses challenges to the financial system...

• significant shifts from bank deposits into CBDC;
• abrupt change in the structure of the financial system;
• increased latent risk of bank runs.

... but also creates opportunities:

• introduction of innovative payment services;
• facilitation of international payments;
• diversification of financial services and service provider.
Safeguards and mitigation measures

• Analysis suggests that a large shift from bank deposits into CBDCs could have some impact on bank lending and intermediation.

• Incorporating safeguards in a CBDC framework could reduce financial stability risks, notably by permanently or temporarily limiting take-up.

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<th>CBDC design options to moderate take-up</th>
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<td><strong>Quantity measures/limits</strong></td>
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Thank you!

Questions?

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Given that a CBDC introduced by any major economy may have international spillovers, international cooperation and timely reflections on use by non-residents and ensuing consequences are needed.