Digital euro – for everyone, everywhere in the euro area

Kangaroo Group virtual debate

17 May 2023

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What is the digital euro?

The digital euro is central bank money for digital retail payments by citizens, businesses and governments in the entire euro area.
Why would we need a digital euro?

A payment option allowing everyone to pay digitally everywhere in the euro area

The evolution of cash in the digital age, protecting the role of public money as a monetary anchor for the financial system

A European platform for innovation, allowing intermediaries to build services for their customers that are instantly available across Europe

Increasing resilience of European payments
Key features of a digital euro

Complementing, not substituting, cash

Supervised intermediaries (banks and other providers of payment services) will be in charge of distributing a digital euro

A digital euro will never be programmable money
Focus on privacy

Privacy is a fundamental right

Digital euro public consultation highlighted privacy as a key concern of users

The ECB is liaising with the European Data Protection Supervisor to ensure that the digital euro will provide the highest possible privacy standards by design

→ The ECB will not see or store users’ personal data
→ Intermediaries will be responsible for customer onboarding and AML/CFT checks, as is the case for electronic payments today
Financial inclusion

A digital euro can support financial inclusion by being:

• Easily and widely **usable**
• **Accessible** throughout the euro area
• Usable via **app** and **physical payment card**
• **Free** for basic use
• **Private**
• Available **offline**
• Designed **mindful of the needs of people with disabilities and the less digital-savvy**

We are investigating ways to facilitate **onboarding possibilities for the unbanked** and offer **support to those vulnerable to digital financial exclusion**.
Financial stability considerations

Financial stability has been a core consideration from the beginning 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)

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)
2. A distribution model based on supervised intermediaries
3. The possibility for the central bank to steer liquidity conditions if necessary
Distributing the digital euro to end users

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

Financial intermediaries will be in charge of distributing the digital euro

The Eurosystem is considering a payment scheme approach → a common rules-based framework for participants to develop their products, which would:

- Guarantee a homogenous end-user experience across the euro area and interoperability via standardisation
- Help ensure pan-euro area reach
- Respect the role of supervised intermediaries, offering room for innovation
Core principles of a compensation model to incentivise distribution

1. Free basic use by private individuals
2. Network effects which generate economic incentives for acquirers and merchants
3. Economic incentives for distributing payment service providers
4. Eurosystem bears its own costs, as for the production and issuance of banknotes
Thank you

Find more information on the digital euro on the ECB website
Taking stock and the road ahead

Foundational design options

First set (Q3-2022)
- Online/offline
- Level of privacy
- Tools to avoid excessive use
- Transfer mechanism

Second set (Q4-2022)
- Role of intermediaries
- Funding and defunding
- Settlement model
- Distribution model

Third set (Q1-2023)
- Compensation model
- Delivery approach
- Advanced functionalities
- Core and value-added services

Use cases
- Person-to-person
- E-commerce
- Physical store
- Government payments

Research and experiments (Q2-2023)
- Focus group research
- Market research
- Prototyping exercise

High-level design of a digital euro and holistic review (Q2-2023)
## Interactions with European policymakers and stakeholders

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<th>Organization</th>
<th>Activities</th>
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<tr>
<td><strong>European Parliament</strong></td>
<td>• Close coordination with the Eurosystem on design and business model decisions. The European institutions and policymakers provide <strong>important input/feedback on the analysis of design decisions</strong>.</td>
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<td><strong>European Commission</strong></td>
<td>• The European Parliament and euro area finance ministers in the Eurogroup <strong>discuss major design issues and policy-relevant aspects of a digital euro on a regular basis</strong>.</td>
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<td><strong>Eurogroup</strong></td>
<td>• The Commission will present a <strong>legislative proposal to establish and govern essential aspects of a digital euro</strong> for adoption by the European Parliament and the Council of the EU.</td>
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<td><strong>Digital Euro Market Advisory Group (MAG)</strong></td>
<td>• <strong>Listening to the market stakeholders</strong> from both the demand and supply sides of the retail payments ecosystem – this includes consumers, merchants, payment institutions and banks.</td>
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<td><strong>Euro Retail Payments Board (ERPB)</strong></td>
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<td><strong>ECB Civil Society Seminars</strong></td>
<td>• Seminars where ECB experts <strong>present the ongoing work and exchange views</strong> with representatives from European civil society organisations.</td>
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