



EUROPEAN CENTRAL BANK

EUROSYSTEM

Basic concepts and design choices of a digital euro

Euro Retail
Payments Board

25 November 2021

Digital euro project team



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

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



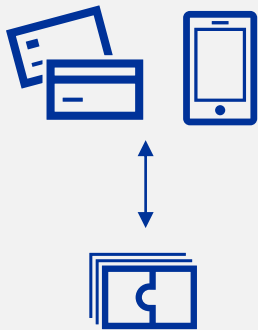
Tackling **sovereignty** concerns related to foreign CBDCs or private digital means of payment in the euro area



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
<https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp211105~08781cb638.en.html>

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



Minimum valuable
product



Broad scope

- Too limited scope may provide insufficient value to consumers & merchants & financial intermediaries



- 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

Cooperation and interaction

 EU Co-legislators	 Citizens	 Market stakeholders	 International groups
<ul style="list-style-type: none">• Define required or supporting legislation• Rule of law• Overall consensus	<ul style="list-style-type: none">• Preferences and needs• Investigation via focus groups	<ul style="list-style-type: none">• Add value for:<ul style="list-style-type: none">- supervised intermediaries- merchants- consumers	<ul style="list-style-type: none">• Cross-fertilisation• Basis for potential future cross-border/cross-currency possibilities



Balancing out potential trade-offs

e.g. citizens' preference for high privacy vis-a-vis compliance with KYC/AML/CFT requirements.

ERPB engagement



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