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The case for a digital euro: key objectives and design considerations

Amid the widespread use of digital and mobile technologies, retail payments are also undergoing a disruptive transformation. As people increasingly shift towards digital payments, it is imperative to ensure that they continue to have access to central bank money, the fundamental underpinning of our currency, the euro. This is also key to strengthening the strategic autonomy of the euro area and important for the efficiency of payments.

Preserving the role of public money as the monetary anchor for the payment system

Today central bank money is available to the public only in the form of banknotes. Thus, in a digital world it could become marginalised as a means of payment.

A digital euro would offer an electronic means of payment issued by the central bank that would be accessible to everyone throughout the euro area. It would complement cash, not replace it.

This would preserve the role of central bank money as a stabilising force of the payments system.

Experience over a long time has shown that a hybrid model for payments has served society well: the central bank provides the monetary base, i.e. central bank deposits for banks and cash for the people, while the private sector has provided customers with payment solutions (such as credit cards) based on commercial bank money (such as deposits).

A critical element of this hybrid model is that citizens can convert private (commercial bank) money to public (central bank) money one-to-one at any time - and they can use that central bank money for payments. This guaranteed convertibility creates and maintains trust in both private and public money. And it protects the currency's function as a single unit of account. Public money thus provides an anchor that maintains a well-functioning payment system, preserving financial stability and trust in the currency.

The availability and convenience of public money for purchases throughout the euro area increases the efficiency of the whole payment system. It reduces the risk of market-abusive behaviour that may occur in a market dominated by one or a few private providers.

Declining use of cash for payments…

This robust and efficient hybrid model for payments is put to the test by the widespread adoption of digital payments.

The Eurosystem will continue to offer banknotes and support their usability as long as people demand them. Still, cash is being used less and less for payments. It is already the case that cash cannot be used in e-commerce, and many bricks and mortar shops also prefer cashless payments. During the pandemic, online and contactless payments surged. If this trend continues, cash could ultimately lose its central role for payments.

Currently the widespread availability and acceptance of cash protects the strategic autonomy of European payments and monetary sovereignty. Cash would still be a fall-back solution in the event of geopolitical tensions or if sanctions were imposed against Europe. On the contrary, most electronic payments solutions are at present run by companies with headquarters outside the European Union.

… and disruptive digital change

In the absence of public digital money acting as an anchor for digital innovation, recent trends are creating confusion about what is digital money and what is not. Take, for example, the case of crypto-assets, which lack convertibility at par with central bank money, constitute an inefficient means of payment (in the case of unbacked crypto-assets) and are vulnerable to runs (in the case of stablecoins). This exposes the financial system to instability.

Furthermore, BigTechs could use their large existing customer base to introduce global stablecoins that could expand quickly. This could reinforce the risk of our payments market being dominated by non-European solutions and technologies.

In the absence of a digital euro, the emergence of other central bank digital currencies (CBDCs) in large economies and their cross-border use could undermine the international role of the euro. This is because CBDCs offer benefits in terms of efficiency, scalability, liquidity and safety and could be used to facilitate cross-border payments. CBDCs can thus enhance the attractiveness of a currency and its use as a global payment unit.

A digital euro would be a public good and foster innovation

A digital euro issued by the Eurosystem would provide a monetary anchor in the digital age, serving as a public good. It could foster innovation, increase the efficiency of payments, and support the overall economic efficiency of the European Union. It would accompany the ongoing digital transition by leveraging synergies with the private sector. For instance, by allowing intermediaries to offer innovative services based on the digital euro, it would make it easier for payment solutions to be quickly scaled up to cover the entire euro area and for smaller firms to offer more technologically advanced services at competitive prices.

Design matters: how a digital euro might function

The digital euro can only be successful if it is used in daily life by Europeans. The design of the digital euro is therefore of the utmost importance and must add value relative to existing solutions.

While it still will take some time until details of the final design of the digital euro are decided, some necessary considerations are already emerging:

- To be accepted, a digital euro must provide a benefit to users. Research has shown that what customers value most is broad acceptance, ease of use, low cost, high speed, security and consumer protection, while merchants are looking for low cost, ease of use and integration with existing systems.
- Privacy protection must be of the highest standard, and users should be able to choose how much information they want to disclose – but always in compliance with the applicable law.
- Widespread distribution should also benefit those parts of the population that have previously had no or insufficient access to financial services to make and receive payments, thereby enhancing financial inclusion.

There are, however, risks associated with an excessive use of a digital euro for investment purposes, beyond its intended role as a means of payment. Safeguards need to be put in place to avoid excessive migration of bank deposits to the central bank, which could otherwise disrupt efficient lending by banks to consumers and companies or destabilise the banking system during times of financial stress. While the take-up of a digital euro is likely to be gradual, such safeguards should be provided from the outset.

It is the responsibility of the public sector and in particular the central banks to preserve the integrity of the monetary and payment system in the interest of citizens. If carefully designed and introduced, a digital euro could play a decisive and beneficial role in this endeavour and serve as a truly public good that would benefit the economy and society as a whole.