EUROPEAN CENTRAL BANK

EUROSYSTEM

Digital euro – a work in progress

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What is the digital euro?

"The digital euro is a **central bank digital liability** for **retail payments** made by citizens and businesses in the **entire euro area**"

- **Complementing**, not replacing, cash and wholesale central bank deposits
- Supervised intermediaries (e.g. banks and payment service providers (PSPs)) will **facilitate the distribution** of a digital euro
- The central bank will **not access users' private data**
- A digital euro will **never** be **programmable money**

Why would we need a digital euro?

The evolution of money

To make your life easier

To increase resilience

What could a digital euro offer?

Intermediaries

- A broader **reach**
- **Revenues** from increased **e-commerce**
- **Keep** overall **costs under control**
- Provide a platform for **innovation**

Citizens

- A payment solution for any occasion at anytime
- Can go where cash and cards cannot
- Still has cash-like features
- Inclusive by design

Merchants

- More options
- Stronger negotiating conditions
- Higher conversion rates

Financial stability considerations

Financial stability has been a **core consideration** from the beginning

- *"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)

Other major central banks have in general adopted a **similar position**

In this context, a central bank has **three important tools** at its disposal:

1. CBDC **design features** to reduce excessive usage (**yes**)

2. A distribution model that ensures **intermediation** (**yes**)

3. Ability to **steer liquidity conditions** to the extent required (**already in its toolbox**)

Excessive use of digital euro as an investment best avoided through design

Any **undesirable consequences** that may result from the issuance of a digital euro for financial stability, monetary policy or the provision of services by financial intermediaries are **best mitigated through its design**

Potential design features

Tools to limit holdings

Limits on individual holdings (with "waterfall" function as an option)

Price-based tools

(tiered) remuneration

Parameterisation and activation

Parameterisation closer to digital euro issuance, preference for simplicity and effectiveness

A scheme is the best way of ensuring usability throughout the euro area, like banknotes today

*If a citizen is provided with a **digital euro payment instrument** by an intermediary in one country, they should be able to use that instrument freely to pay **at any merchant in the euro area, regardless of the intermediary and the country**.*

With broad market involvement, a **digital euro scheme** would establish a set of common rules, standards and procedures to:

- ensure **pan-euro area reach** and a **harmonised** end-user payment experience;
- retain **flexibility** to respond to user preferences and habits;
- provide the highest degree of **freedom** for the market to develop **innovative front-end solutions**;
- support market participants in **offering payment services on a European scale**.

Core principles of a compensation model to incentivise distribution

1. **Free of charge for consumers to meet their basic payments needs**
2. **Network effects which generate economic incentives for acquirers and merchants**
3. **Comparable economic incentives for issuers**
4. **Eurosystem bears its own costs, as for the production and issuance of banknotes**

Offers the benefits of digital payments combined with the properties of cash

Accepted everywhere by everyone

Reliable money, no matter what

A forceful tool to match changing user preferences and overcome the challenges of the global digital era

Thank you

Find more information on the digital euro on the ECB website

Appendix

Where do we currently stand?

Tentative - timeline is subject to change

Q4-2021

July 2021
Governing Council decision to launch investigation phase

- Project team onboarding
- Governance set-up

Q1-2022 – Q2-2022

- Use case prioritisation
- Report on focus groups

Q2-2022 – Q3-2022

- Online/offline availability
- Data privacy level
- Transfer mechanism

Q3-2022

- Design options to control take-up
- Distribution model

Q4-2022

- Settlement model
- Role of intermediaries
- Delivery approach and form factor
- Prototype development

Q1-2023

- Compensation model
- Access to ecosystem
- Value-added services
- Advanced functionalities

Q2-2023

- High-level design & holistic review
- Prototyping results
- Finalise user requirements
- Prepare for possible project realisation phase

Q3-2023

- Decision-making document including advice on potential issuance of the digital euro, its design and implementation

Autumn 2023
Governing Council decision to possibly launch next project phase

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
- Protoyping exercise

High-level design of a digital euro and holistic review (Q2-2023)