



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



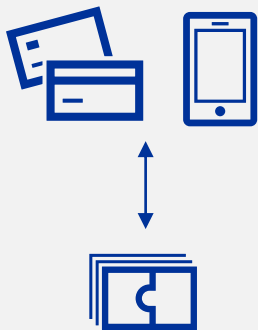
Tackling **sovereignty** concerns related to foreign CBDCs or private digital means of payment in the euro area



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...

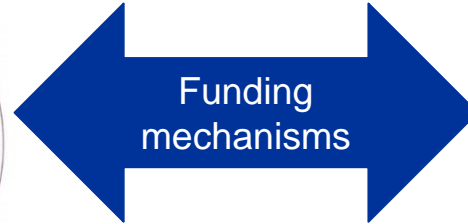
## Maximise usability as means of exchange:

... 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

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



## 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