



EUROPEAN CENTRAL BANK

EUROSYSTEM

Update on digital euro

Euro Retail Payments
Board

07 July 2022

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Agenda

- 1 Why issue a digital euro?
- 2 Timeline & interaction with the market
- 3 Design of a digital euro
- 4 Options for the distribution model of a digital euro

1

Why issue a digital
euro?

Why issue a digital euro?



The digital euro as **monetary anchor** would preserve public access to central bank money being **widely accessible to prospective users in all euro area countries**



A digital euro would defend the **strategic autonomy** by of the euro area by increasing the independence from non-European payment solutions and would increase **economic efficiency** as the (latent) competition from central bank money to private money providers can curb market-abusive behaviour.

2

Timeline & interaction with the market

Where do we stand?

Tentative - timing subject to change

July 2021
Governing Council
decision to launch
investigation phase

Use case prioritisation
Report on focus groups with
citizens and merchants



Design options to moderate take-up
Distribution model



Compensation model
Access to ecosystem
Value added services
Advanced functionalities

Prototyping results



Selection of service provider(s)
for possible project realization
phase

Decision making document
including advice on potential
issuance digital euro, its design
and implementation plan



Q4-2021

Q1-2022

Q2-2022

Q3-2022

Q4-2022

Q1-2023

Q2-2023

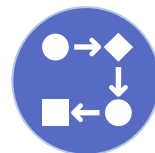
Q3-2023



Project team on-boarding
Governance set-up



On-line/off-line availability
Data privacy level
Transfer mechanism



Settlement model
Amount in circulation
Role of intermediaries
Integration and form factor
Prototype development



User requirements

Preparation for possible
project realisation phase
decision making

September 2023
Governing Council
decision to possibly launch
realisation phase

Broad stakeholder engagement

The Euro Retail Payments Board	<ul style="list-style-type: none">• The ERPB is the forum for institutional dialogue with the market on a digital euro.• Periodic updates in regular ERPB meetings• ~bi-monthly EPRB technical sessions on digital euro to discuss preliminary Eurosystem analysis of design and distribution options, followed by written feedback by stakeholder associations and dedicated exchanges with stakeholder associations by sector to discuss feedback and follow-up questions<ul style="list-style-type: none">• <i>May: Foundational design options for digital euro</i>• <i>July: Options for the distribution model for digital euro</i>• Next technical sessions in September and November
Digital Euro Market Advisory Group (MAG)	<ul style="list-style-type: none">• Market practitioner group with the aim to take account of the views of prospective distributors of a digital euro and tap market intelligence and professional expertise in the design stage• The MAG will provide input on a strategic level for the product design and distribution
European Commission, European Parliament, euro area Member States and other EU authorities	<ul style="list-style-type: none">• Close cooperation with European Commission on range of policy, legal and technical questions related to digital euro.• Regular exchanges with the European Parliament and euro area finance ministers on Eurosystem analysis of design and business model options.• European institutions will provide views on the design options and EU co-legislators will adopt legislation on digital euro based on proposal by European Commission.
ECB Civil Society Seminars	<ul style="list-style-type: none">• Seminars where ECB experts present the work and exchange views with representatives from European civil society organisations

3

Design of a digital euro

Proposed use cases

For the early releases of a digital euro (2025-2027)

Prioritisation proposed to be given to:

- **E-commerce**
- **Point-of-Sale and Person-2-Person**
- **G2X and X2G** (i.e. payments between government and other actors)



Three foundational set up options

OPTION 1

With peer-to-peer validation of offline transaction

- Peer-to-peer validation of offline transactions via secure hardware devices
- Privacy of low-value proximity payments within limits set by legislation



Closer to cash

Its technical feasibility and associated legislative framework need to be further assessed

OPTION 2

Available online and validated by a third-party

- Third-party validation of online transactions
- Transparency of transaction data to intermediaries for AML/CTF purposes



Closer to digital age

Solutions to increase its resilience to connectivity outages need to be further investigated

OPTION 3

With peer-to-peer validation of online payments

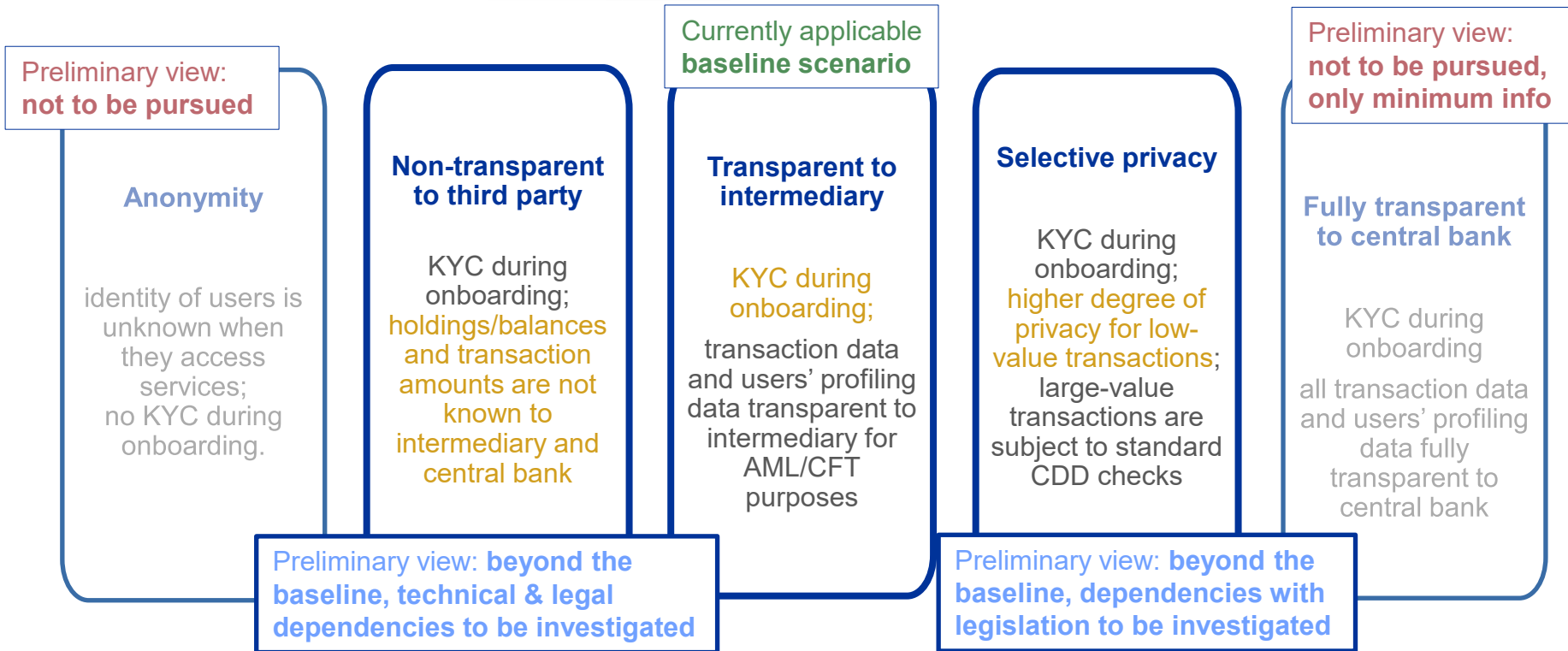
- Peer-to-peer validation of online transactions via secure devices
- Allows remote payments but transactions cannot be checked ex-ante



Experimental

Experimental solutions, unlikely to be ready for the first release. Thus, not further analysed in this phase

Privacy options (from user perspective)



Excessive use to be avoided *by design*

Price-based tools

(tiered) remuneration

Limit-based tools

Limits on individual holdings (with optional waterfall)

Limits on conversion into digital euro (in a defined short period of time)

Combination of tools

Design is likely to include a combination of tools, to be parameterized closer to digital euro issuance, even if not all necessarily active at the same time

Any **undesirable consequences** that may result from the issuance of digital euro for monetary policy, financial stability or the provision of services by financial intermediaries are **best mitigated by design**, pre-empting excessive uptake by means of quantity-and remuneration-based tools

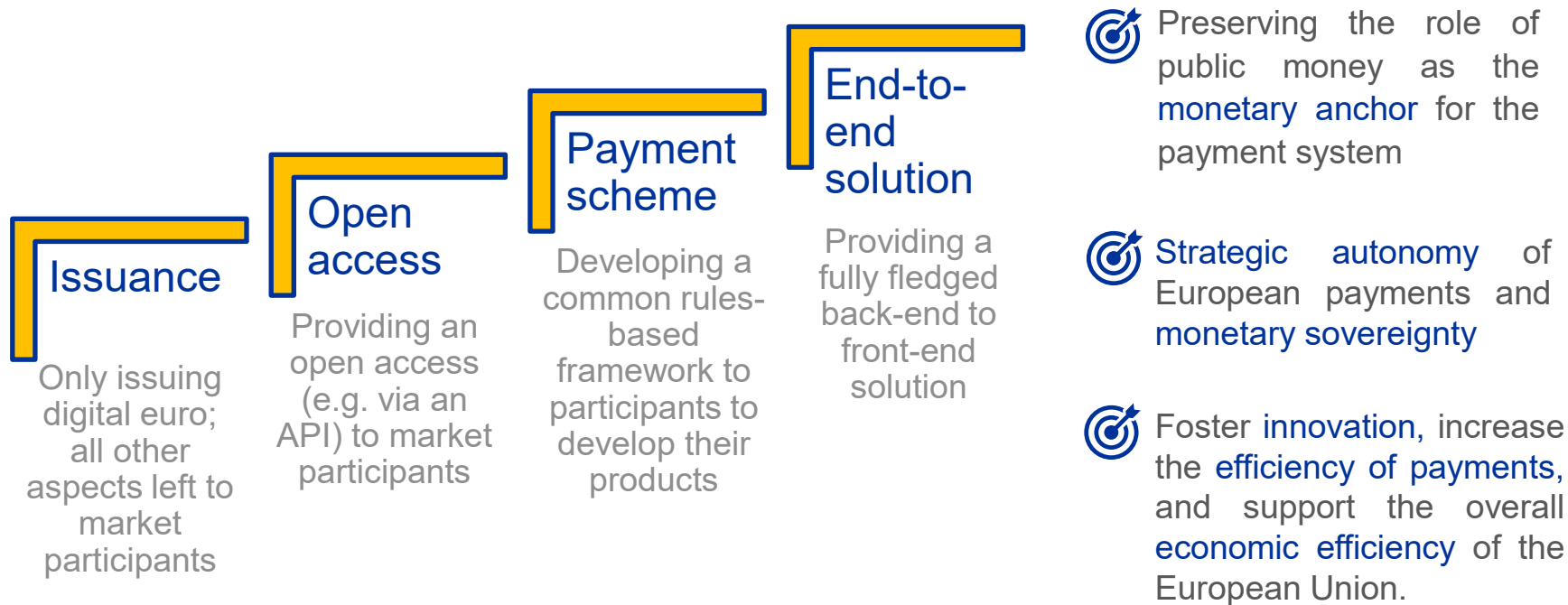
Feedback from ERPB technical sessions

- ERPB stakeholder associations supported a digital euro with **peer-to-peer validation of offline transaction** (option 1) while recognizing technical challenges.
- A digital euro with **online and validated by a third-party** (option 2) was strongly supported, with members expecting significant reliance on the existing intermediaries and infrastructures, seeing potential for the collaboration between the Eurosystem and the market, as well as opportunities for the intermediaries to develop value added services.
- A digital euro with **peer-to-peer validation of online payments** (option 3) was not seen as a viable option at this moment, in line with the Eurosystem position not to pursue this option now
- ERPB members expressed broad support for Eurosystem's **considerations on privacy options for digital euro payments**. Most members supported ruling out full anonymity and agreed with focusing on currently applicable baseline scenario; options allowing higher degree of privacy for low-value/low-risk payments should be explored while maintaining a level playing field with private solutions
- As regards **tools to limit excessive use for investment**, members supported **holding limits** to prevent structural disintermediation/digital bank runs in times of crisis, while views on **tiered remuneration** were more nuanced.

4

Options for the distribution model

Distribution options & digital euro key objectives



Distribution options prioritisation

Issuance

Open access

Payment scheme

End-to-end solution

- **End-user experience** might be hampered across the euro area by insufficient degree of interoperability.
- Difficulties for achieving **widespread distribution** and enhancing financial inclusion.
- Would give room to supervised intermediaries to foster **innovation**, but might introduce market fragmentation.

prioritised

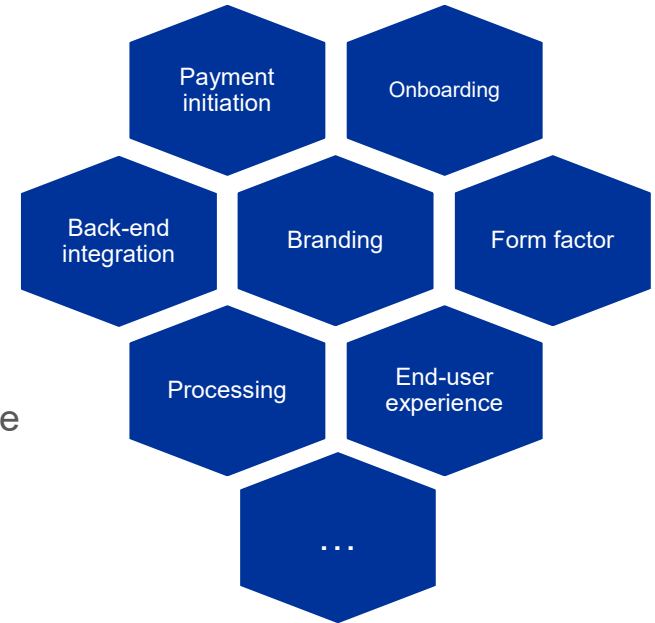
not prioritised

- Facilitates a **homogenous end-user experience** across the euro area and interoperability via standardisation.
- Best positioned to ensure **pan euro area reach**.
- Respects the **role of supervised intermediaries** and still offers room for **innovation**.

- Would contribute to achieving **homogenous end-user experience** and **widespread distribution**.
- But challenges on meeting **end-user demands** and keeping up with **innovation**.
- Reduces the **role of supervised intermediaries**.

A digital euro payment scheme

- ✓ Defines the **rules and requirements that supervised intermediaries would need to follow** to provide digital euro end-user products
- ✓ Is managed under a dedicated **governance** framework
- ✓ Facilitates **pan-euro area reach**, by containing a set of technical and/or commercial rules to ensure a harmonized user experience
- ✓ Can cover the **prioritised use cases**
- ✓ Ensures a **balance** between roles and responsibilities shared by the Eurosystem and the supervised intermediaries
- ✓ Can respond to **innovation** trends and to accommodate domestic specificities



Open questions:

How wide would the scope of the scheme management be?

How would the scheme governance work in practice and who would be part of it?

**Thank you for your
attention!**