

Summary of inputs on the methodology for calibrating holding limits

12th ERPB technical session on digital euro



ERPB members' feedback*: overview

ERPB members were invited to share their views on the <u>factors</u> underlying the calibration of the digital euro holding limit

- ERPB members overall agreed on the **comprehensiveness of the factors** considered for the calibration, suggesting few additions which have been carefully assessed
- ERPB members generally welcomed the attention given in the calibration to **user experience**, **monetary policy implications**, **and financial stability**, as per draft regulation
- Member(s) of the consumers sector welcomed the focus on user experience, in particular the ability
 to pre-fund, while highlighting that deposit outflows scenarios should consider deposit
 competition (i.e., ability of banks to raise rates to retain deposits) and adoption scenarios
- Member(s) of the banking sector supported the focus on financial stability, e.g., potential tensions
 in liquidity and lending, while argued against covering all use cases for usability
- Member(s) of the merchant sector also welcomed the factors and stressed that deposit competition should be considered and highlighted that digital wallets already exist that may affect outflows

1. Usability and ecosystem

ERPB members detailed comments regarding the <u>usability</u> factors

Member(s) of the consumers sector suggested that

- The holding limit should facilitate usability. A holding limit of (or close to) zero would prevent adoption for users not willing to activate reverse waterfall
- A holding limit should be set so that the digital euro can be a fully functional payment account, regardless of the reverse waterfall. Key factors would be users' preference for pre-funding versus preference for the reverse waterfall
- Other factors suggested for the calibration were, e.g., the average monthly salary or PSPs' distribution capacity and merchants' acceptance

Member(s) of the banking sector argued that

- A holding limit should be aligned with user needs like monthly spending for cash payments and cash holdings
- Reverse waterfall could allow a "low" holding limit, while low speed would not justify a high holding limit (rather E2E flows should in this case be improved)
- ATM withdrawals could be a relevant factor to understand adoption

Envisaged follow-up in the methodology

User needs and preferences to be captured through i) user research; ii) quantitative analysis of individuals' monthly cycles

Merchants' acceptance
addressed in legislative draft
and to be factored in the setting
of user research

Monthly spending (incl. cash, but not only) and preference for reverse waterfall to be captured through user research

2. Monetary policy and its implementation

ERPB members detailed comments regarding the monetary policy factors

Envisaged follow-up in the methodology

Member(s) of the banking sector highlighted that

- Credit supply is a key part of monetary policy transmission via banks
- Second-round effects on financial markets should be considered, including a possible dryup of the interbank market in a stress scenario, with the potential need of ECB intervention
- Flexibility of collateral frameworks is important to obtain liquidity, and, in addition, the heterogeneity in collateral frameworks should be considered

Captured in models and/or through possible scenarios

Collateral availability and its implications captured in models

Member(s) of the consumers and merchants sector highlighted that

- Competition with cash should be in focus, too, as individuals may draw from cash holdings rather than deposit holdings
- Digital payment wallets already exist that allow users to convert commercial bank money into e-money

Analysis to capture possible impact of the digitalisation on the demand for banknotes

Captured in models, including through possible scenarios

3. Financial stability and banking supervision (I)

ERPB members detailed comments regarding the <u>financial stability and banking supervision</u> factors

Envisaged follow-up in the methodology

Member(s) of the merchants and consumers sector highlighted that

- Ability of banks to raise rates is an important factor, as banks could prevent outflows towards digital euro by offering attractive interest rates
- It is important to conduct user research under the first pillar, as it could clarify potential adoption and the maximum deposit outflows
- It is important to consider the (uneven) **wealth distribution and heterogeneity across households**

Captured in models

and/or through possible scenarios

 User needs to be captured in user research

Captured through available data, user research and the SSM's targeted data collection exercise

3. Financial stability and banking supervision (II)

ERPB members detailed comments regarding the <u>financial stability and banking supervision</u> factors

Envisaged follow-up in the methodology

Member(s) of the banking sector stressed that

- Choice between pre-funding and usage of reverse waterfall can have different liquidity impacts for banks
- Outflows have consequences for liquidity buffers and metrics like the LCR and NSFR, through
 e.g., "unwinding" (HQLA reduction), the inability of some institutions to raise capital market funding,
 the overall counterbalancing capacity, and the distribution of excess liquidity
- The effect on profitability is also important, as banks' funding costs could be affected, impacting net interest income
- Heterogeneity of banks, e.g., by geography, by business model, by collateral framework or by size is important, as well as a distinction of normal vs. crisis times.

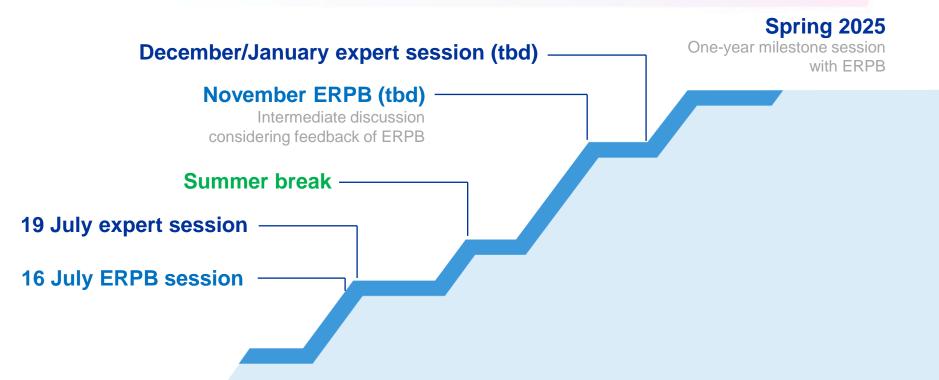
Captured through available data

Captured in models and/or through possible scenarios

Captured in models and/or through possible scenarios / Captured through available data or the SSM's targeted data collection

Engaging with the market over the next year

One-year outlook



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