



EUROPEAN CENTRAL BANK

EUROSYSTEM

Digital euro – a work in progress

*European Banking Federation
Executive Committee Meeting
Frankfurt*

10 March 2023

Fabio Panetta

Member of the Executive Board



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**”



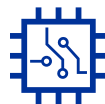
Complementing, not replacing, cash and wholesale central bank deposits



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

- Use case prioritisation
- Report on focus groups

- Design options to control take-up
- Distribution model

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

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

July 2021

Governing Council decision to launch investigation phase



Q4-2021

Q1-2022

Q2-2022

Q3-2022

Q4-2022

Q1-2023

Q2-2023

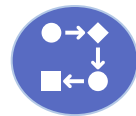
Q3-2023



- Project team onboarding
- Governance set-up



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



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



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

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

Prototyping exercise

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