

DIGITAL EURO KEY SUCCESS FACTORS



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Unleashing potential with a digital euro

According to a recent Eurobarometer survey, 69% of Eurozone residents believe that the euro is a 'good thing' for their country. A key factor in this positive view is likely to be that many people find it easier to make payments than in the past. In everyday life, it is above all the possibility of paying abroad using the same currency that adds noticeable convenience. In the past, this mainly applied when visiting other euro area countries and paying at a point-of-sale. But in recent years, European cross-border online retail trade, like online retail trade as a whole, has also increased significantly.

Paying cash, as the only existing form of central bank money, is not an option for cross-border online retail trade. Due to its physical form, cash's uses in online retail trade are inherently limited. For digital payments, the buyer is very often forced to use globally operating networks such as PayPal, Visa or Mastercard. However, no retailer can be blamed for not integrating dozens of solutions that are widely used at a national level, such as the girocard or the carte bancaire. According to the European Commission, the potential of cross-border online trade has not been fully exploited. One reason could lie in the potential mismatch between checkout options and the preference to use trusted and well-known domestic payment services. In any case, however, it renders payers and payees in the eurozone increasingly dependent on the few available globally operating payment networks.

The example of cross-border online retail trade shows what a digital euro could achieve: it can create noticeable added value for citizens, reduce barriers to trade and create a common European payments infrastructure. Building a European infrastructure is one of the key tasks associated with the digital euro. This must be done in a series of steps. The now-completed investigation phase laid down core principles for the infrastructure. The Eurosystem has recently decided to continue its project by conducting further preparatory work. During this phase, the Eurosystem will continue to refine the technical concept and specify components to be developed internally or procured externally. In addition, a rulebook is being drafted for the digital euro scheme, which will serve to establish a comprehensive and harmonised system around the core infrastructure of the digital euro. This rulebook is being drafted by a specially created group, the Rulebook Development Group (RDG), whose members represent all relevant stakeholder groups. The scheme offers the opportunity to create the necessary standardisation at checkout counters in the

eurozone. One example would be a uniform frontend standard that creates consistency for merchants in terms of integration and usage and for consumers in terms of recognisability. For financial intermediaries, the RDG process should ensure that a digital euro fits as well as possible into the existing ecosystem, thereby allowing merchants and intermediaries to reap synergies. An initial version of the rulebook was issued for consultation among RDG members and their organisations in December 2023. The rulebook is due to be completed in 2024.

Building a European payment infrastructure is one of the key tasks associated with the digital euro.

Once the groundwork has been completed with the legal framework, the rulebook and the provider selection, the ECB's Governing Council will decide whether to move on to the second phase of preparations and thus pave the way for the issuance of the digital euro. A key factor for such a decision will be political agreement on the applicable legal framework. The actual launch would then take place in stages. A phased approach has clear advantages: it provides more flexibility and minimises risks. As a first step, possibly in three to four years, an initial version that supports person-to-person and online payments could be introduced. As a second step, the functionality could then be expanded to payments at physical checkout counters. As physical stores use payment acceptance hardware, adding digital euro functionalities needs to be well coordinated with the usual renewal cycles. This would give merchants more time to adapt their systems and ensure a smooth implementation.

Once the decision has been made following completion of the legal framework, the job will not yet be finished. Actual introduction would be a challenge in its own right. One must bear in mind that this is a project for roughly 350 million citizens and many millions of firms.

The digital euro in its final form would have great potential to make the euro an even better thing for people and businesses. The future should not just be an extension of the present, and the euro is no exception.



EVELIEN WITLOX

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The digital euro: a digital form of cash with European reach

The euro stands as one of the most tangible symbols of European integration. The latest Eurobarometer survey highlights that a large majority of respondents sees the euro as beneficial for both the European Union (79%) and their countries (69%).

This steadfast support endures despite the massive changes in the appearance of the euro and the way we pay. Twenty-five years ago, when the euro was first introduced, people almost entirely used banknotes and coins for their daily payments. In today's increasingly digitalised economy, people's payment behaviour is different and continues shifting at an unprecedented speed: in the last three years alone, cash payments in the euro area have dropped from 72 to 59%, with digital payments becoming more popular.

However, a crucial gap persists. While European citizens can use central bank money in physical transactions thanks to cash, they cannot for digital payments in shops or online purchases. A digital euro would fill in this gap by complementing cash and other electronic payment methods, offering citizens with central bank money for their day-to-day digital transactions.

A digital euro would futureproof our currency by also providing something that currently does not exist yet: a digital payment solution that is exclusively European and seamlessly usable throughout the entire euro area, like banknotes are today. In that way, a digital euro would be a complement to cash – not a replacement – that would also contribute to minimising Europe's dependence on non-European payment providers, which remains high.

Our financial system – with supervised intermediaries at its centre – is stable and it is part of the ECB's mandate to safeguard this stability. This is why the Eurosystem is designing a digital euro in a way that preserves banks' key role in ensuring the efficient provision of credit to the real economy.

To minimise any potential risks a digital euro may pose to the financial system, the Eurosystem will establish a digital euro holding limit to prevent excessive outflows from commercial bank deposits into digital euro. This limit would be defined closer to issuance, considering the economic conditions of the time.

In any case, such holding limit would not pre-empt users' transactions. The digital euro is currently being developed with a waterfall functionality that will enable users to link their commercial bank accounts and make digital euro payments beyond the holding threshold if desired.

Making digital euro available would require collaboration between the public and private sectors in order to maximise their respective advantages.

Payment Service Providers (PSPs) would be in charge of the distribution of the digital euro throughout the euro area, becoming the direct counterparts for digital euro users. This distribution model would ensure the digital euro's true pan-European reach, while bringing added value to European acquirers. A digital euro would lay the foundations for private providers to further innovate and develop new value-added financial services for their customers beyond their national borders. A single set of rules, practices and standards defined in the digital euro scheme would also ensure that euro area residents would be able to pay and be paid in digital euro, irrespective of the PSP with which they open their digital euro account or the countries in which they make payments.

The Eurosystem has consistently collaborated on all these aspects with a diverse range of stakeholders since the inception of the digital euro project in October 2021. This inclusive approach involved also active engagement with private market participants to ensure that digital euro could add value for all players in the euro area's diverse payments ecosystem.

This engagement effort with market participants, civil society, other EU institutions and policymakers will continue and intensify throughout the digital euro preparation phase, which started in November 2023. In the next two years, the project team will continue developing a digital euro by finalising its scheme and starting with the selection of external providers to support the development of a possible digital euro infrastructure. Moreover, the Eurosystem will also dive deeper into key digital euro issues, such as its offline functionality.

A digital euro would fill this gap providing central bank money for day-to-day digital transactions.

But the digital euro is not just a payment solution. It is a truly European initiative geared towards preparing the single currency for the digital age. This is why all actors have to play their part in making the digital euro a success.

The European Commission initiated the legislative process for a digital euro with the publication of a legislative proposal in June 2023 and the European Parliament and the Council are currently working on such proposal. The draft legislation is consistent with the rationale for a digital euro, and the Eurosystem remains committed to continuing working together with other EU institutions towards introducing a digital euro to ensure our currency is fit for the digital age.



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The Digital Euro – Between being a success and being dead on arrival

The year 2024 could prove decisive for the fate of the digital euro. While the European Central Bank and the European Commission are pressing ahead with the realisation of the digital euro, other actors including Member States' governments, important parts of the financial sector and the general public seem to put on the brakes. If these other actors cannot be convinced to jump on the digital euro bandwagon, the digital euro might be dead on arrival.

In order to avoid such a scenario, I will take a closer look at three issues which notably influence the support for the digital euro and express my thoughts on how to progress on them. These issues are: (1) the degree of clarity about the functions of the digital euro, (2) the limits to the discretion which is given to the ECB to shape the digital euro and (3) the persuasiveness of the political narrative of the digital euro. I will argue that more clarity, greater Member States' participation and improved persuasiveness are key for the success of the digital euro.

Clarity about the Digital Euro and limits to the ECB's discretion

In mid-2023, the Commission published its legislative proposal on the digital euro. There was hope that this proposal would provide clarity about the functions of the digital euro. Moreover, it was anticipated that the ECB's discretion in shaping the digital euro would be limited by allowing other actors to participate in decision-making processes regarding the digital euro. Although the Commission managed to shed light on some matters, many fundamental questions were left unanswered and the ECB's discretion remained extensive.

An important example for insufficient clarity about the digital euro is the application of instruments to limit the use of the digital euro as a store of value. If the digital euro can be used to store and accrue value like a bank deposit in an unlimited way, its attractiveness for users could increase significantly. However, a digital euro with such capabilities would also have the potential of triggering a massive outflow of bank deposits from commercial banks to the ECB.

As a result, commercial banks, which are still key in providing debt finance to the real economies of EU Member States, would be impaired in their ability to provide credit to businesses. This could have serious repercussions for financial stability and economic growth within EU Member States. Instruments that limit the use of the digital euro as a store of value can prevent such consequences.

The Commission's legislative proposal on the digital euro addresses these instruments and other vital functions of the digital euro with a broadly formulated and in part even ambiguous text. With regard to the relevant instruments, it avoids defining

them and instead gives the ECB unrestricted discretion to do so. From a regulatory and a central banker's perspective, the broad wording of the proposal and the ECB's discretion to shape the digital euro seem sensible. The digital euro is in its infancy and there should be enough room for economic and technological changes in the future. Moreover, the ECB wants to be in a position where it can accelerate and use the brakes with regard to the take-up of the digital euro at the same time.

However, it is also clear that Member States' governments and the financial sector are not thrilled about the lack of clarity and the idea of issuing a blank check to the ECB to decide on key functions of the digital euro. They want to participate in the process of controlling the effects of the digital euro on their economies and business models.

Therefore, Member States' governments and the financial sector understandably demand amendments to the legislative proposal on the digital euro to increase clarity about the functions of the digital euro and better participation in shaping the digital euro. The willingness of the ECB and the Commission to let this happen could markedly increase the support for the digital euro.

Political narrative

Various ideas have so far been brought up to explain the need for the digital euro to the people. Nonetheless, the public and financial sector sentiment towards the digital euro has not been overwhelmingly positive.

More clarity, greater Member States' participation and improved persuasiveness are key.

Many EU-citizens are confronted with the challenge of understanding what the digital euro really is. People also fear that the digital euro will be used to monitor them and soon replace cash. Thus, a better job needs to be done in explaining the added value of the digital euro, the mechanisms to ensure privacy and the safeguards which aim to guarantee the use of cash.

The financial sector must be reassured that it will be able to recoup its investments for distributing the digital euro. In addition, businesses must be given a better perspective on the benefits of the digital euro for their own business models. This could be done for example by providing more and better cost-benefit analyses of different digital euro scenarios.



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The digital Euro: a project guided by the times

The issuance of a digital euro would signal the Eurosystem's unwavering commitment to ensuring - as it has always done over the past 25 years - that money is aligned with the ever-changing needs of society. The advent of the metaverse and artificial intelligence heralds a transformative shift to the digital realm, to which our common currency must adapt. To achieve this goal, it is imperative that the digital euro seamlessly integrate into the digital realm the most appreciated features of cash, such as confidentiality, offline usability, generalised acceptance, and a distinctive European brand identity.

But the digital euro is more than just a response to technological trends; it is a strategic move to position our currency at the forefront of the digital age, effectively strengthening Europe's autonomy and resilience in the digital financial landscape. Accordingly, the digital euro is intended to be a technologically diverse payment method, developed under pan-European governance and applicable to all retail scenarios, including person-to-person transactions, in-shop purchases, e-commerce, and payments to and from public authorities. In essence, it would be the virtual equivalent of cash, reducing the fragmentation of the European cross-border payments market and the uncertainty surrounding the acceptance of electronic means of payment by merchants.

The financial sector as a partner

The commitment to future-proofing does not exclude the use of established distribution channels. It would indeed be a mistake to overlook the expertise in front-end activities acquired by the financial sector, in particular banks, over the last few decades. The financial sector is therefore recognised as a key partner, with distribution of the digital euro to be handled by payment service providers (PSPs) through their legacy applications. This will require PSPs to engage in user management (onboarding, payment instrument management, etc.), transaction management (transaction initiation, authentication, etc.) and liquidity management (funding and defunding of the digital euro account) in relation to the daily use of a digital euro account or wallet, located on the European Central Bank's balance sheet.

Moreover, excessive deposit outflows and related consequences for PSP liquidity could be prevented by means of a holding limit, while proposed "waterfall" and "reverse waterfall" functionalities - whereby any excess/shortfall would be automatically credited to or debited from the user's regular bank account - would prevent that holding limit from becoming a transaction limit.

The path described above, as well as the various functionalities already endorsed by the Eurosystem (see the ECB's stocktake on the digital euro for more information), is intended to

facilitate, insofar as possible, the integration of the digital euro into user habits, while ensuring that confidentiality is not neglected. Aside from offering best-in-class privacy for online transactions, the digital euro could be used to carry out untraceable offline transactions, as is the case today with cash.

The road ahead

The National Bank of Belgium, in collaboration with its Eurosystem counterparts, is currently focused on the preparation phase, as the investigation phase, dealing with key issues relating to the design and distribution of the digital euro, ended on 18 October 2023. This new phase aims first to finalise the rules necessary for its issuance. It is also intended to allow more in-depth analysis of the various components of the platform that will need to be set up for tendered services, as well as of the private and public entities responsible for providing these services.

The commitment to future-proofing does not exclude the use of established distribution channels.

Moreover, European lawmakers took a decisive step with the publication of the European Commission's Single Currency Package in June 2023. This proposal is currently being examined by the European Parliament and the Council. Importantly, the Commission included in its legislative proposal a provision on the legal tender status of cash, to preserve and protect its role in our society. The Commission's objective, which is aligned with that of the ECB, is clear: the digital euro is not intended to replace physical cash but rather to serve as an additional payment option for consumers and merchants.

In conclusion, the abovementioned partnership with the financial sector, as well as the ongoing dialogue with lawmakers, showcases a collective effort to shape a digital euro that prioritises the needs and aspirations of European citizens. When embarking on this progressive journey, ensuring clear and accurate communication will be crucial to improving public understanding and building trust in the project.



JORN LAMBERT

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A digital euro that puts the European consumer at the centre

As the payments ecosystem continues to rapidly evolve, European policymakers are preparing to act on two fronts. On one hand, the declining use of cash and emergence of potentially disruptive payment solutions like stablecoins has led many policymakers to identify a need to reinforce the role of central bank money as an anchor to the stability of the monetary system. At the same time, an increasingly challenging geopolitical landscape has amplified policymakers' desire to have a pan-European payment network that sits within the EU.

For many, the digital euro project is considered the perfect way to address both these issues simultaneously. Growing interest in central bank digital currencies (CBDCs) around the world have provided a receptive backdrop to embark on a payment project of unprecedented scale in European context.

Properly executed, such a project will deliver a range of benefits, including providing consumers with new payment options and supporting the resilience of the broader European payment system. Improperly implemented, the digital euro could stifle competition, undermine the security, resilience, and diversity of payments, and hinder future investment into new payment innovations in Europe.

The digital euro project is more likely to be successful if policymakers, beyond replicating what already exists, provide a compelling use case that includes tangible, easily understandable benefits to both people and businesses. These benefits will only be possible if there are substantial competitive elements, and that requires fair and equal competition. Ultimately, this can lead to positive effects on innovation, choice, and resilience for the entire European payments landscape.

Introducing an element of choice

Regardless of what is purchased or how it is paid for, a core set of facts are true about how people think about payments: They want to choose the method that is best suited for each particular transaction, they want it to be convenient to use, and they want to feel confident that the transaction is safe and secure. To deliver that choice and flexibility customers need – and increasingly expect – the market needs to offer a wider range of payment solutions that are specifically tailored to consumer preferences. This element of choice will also be critical for a digital euro.

By leveraging existing technologies and networks (an “open acceptance model”), the Eurosystem could enable a wide range of payment networks to distribute the digital euro across a variety of payment rails, promoting it as another choice available to consumers in support the singleness of

the currency. Consumers would then be able to use whatever payment solution they feel most comfortable with, while also allowing the Eurosystem to remain the operator of the settlement infrastructure in central bank money. This could be done without waiting for, or relying solely on, the development of a new pan-European payment network. That's not to say that a new payment system under European governance can be pursued in parallel, but it is by its nature a longer-term endeavour.

Allowing for fair and equal competition

There are also concerns about the potential effects on competition – and the risks that a publicly subsidised pan-European payment network could pose to existing structures. To ensure a level playing field between all types of digital payments, a new network must comply with all applicable legislation, including anti-trust laws, and apply a compensation model that both recuperate costs incurred, and allow intermediaries to charge for the value they bring to consumers, businesses and governments. Importantly, the digital euro project should consider the power of public-private partnership to deliver central bank money, given the connectivity that open infrastructure built by existing rails provides in addition to value-added services that are unlocked by private companies.

Improperly implemented, the digital euro could stifle competition.

Implementing and operating a pan-European payment network would also be an expansion of the ECB's current operations, beyond simply issuing a digital version of cash and providing the necessary regulatory framework for that instrument. The ECB would instead act as both operator and the supervisor of a consumer-facing scheme that is competing directly with supervised private payment infrastructures. It will thus be essential to introduce a clear separation and independence between ECB's dual roles.

The digital euro project marks an important step in making the Euro fit for an increasingly digital world. By carefully considering the circumstances under which a digital euro can be implemented in an already well-functioning European payments landscape, the envisioned stability and security objectives of the project can be achieved alongside increased competition and greater consumer choice. All Europeans would benefit from such development.



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The digital euro would be a milestone for innovation and digital transformation, but only if well-designed

Money and payments are fundamental infrastructures for the functioning of the real and the financial economy. History shows that monetary systems have evolved in parallel to the developments and needs of economies and societies. Innovation and geopolitical dependencies have given cause to review the status of the euro.

With regards to innovation, the ECB initiatives on new digital forms of the euro focus on a digital euro for retail payments, as well as on new technology for wholesale payment infrastructures. They are logical next steps in the context of the strategic digital transformation of the EU and go hand-in-hand with the objectives of EU legislators to enable innovative technologies for new forms of money and digital assets.

At the same time, the constant focus on innovation of payment solutions and products by the private sector in the past 2 decades catapulted payments to the heart of digitalisation in financial services.

Commercial banks continue to improve money and payments through the use of new technologies. For example, for corporate payments, they are exploring the opportunities to tokenise commercial bank money for Distributed Ledger Technology (DLT)-based value chains, such as international supply chain management or trade finance solutions. The ECB work on new technology for wholesale payments is an important component to that future ecosystem. Introducing a digital euro for retail purposes however has fundamentally different practical implications for the wider public and the economy. The development of this new infrastructure requires a careful calibration of multiple policy objectives amongst EU institutions and Member States.

A key decision to be taken is around the ECB mandate: can the ECB introduce a digital form of cash as a new form of digital money on the basis of the EU Treaties? Can it become a payment service provider governing a payment scheme? The latter would require building a payment platform, directly competing with private sector payment solutions and payment schemes.

Whilst the issuance of a digital euro as a new form of central bank money is in scope of the competencies of the ECB, the proposals from the ECB to act as a full payment scheme manager are not.

Having the ECB acting as payment scheme manager has the potential to significantly disrupt the well-functioning European payments landscape without adding value for citizens and businesses. The expected legal obligation for merchants to accept the digital euro and for banks to offer the ECB-built user frontend as a default will undermine market competition.

When looking at geopolitical considerations, a key policy objective for the ECB for the digital euro is to maintain the sovereignty of the European payment landscape. That is because daily payments in the 27 EU Member States, and in particular inter-EU cross-border payments, are dominated by non-EU payment service providers. This leads to a geopolitical vulnerability.

In the past 5 years, the EU private sector launched a number of initiatives to address this gap: the European Payments Initiative (EPI) as well as the envisaged cooperation between the Spanish Bizum network with Bancomat in Italy and SIBS in Portugal are reflective of how the private sector addresses this political objective.

A key advantage of these solutions is that they will be established well before the launch of the digital euro. Payment users will be able to easily tap into this EU-wide network which can in future facilitate access to the digital euro. The EPI banks, for example, when fully launched in 2025, will cover initially 60% of the EU wide digital payment transactions and service 120 million users.

Another positive aspect is that these payment solutions are capable of processing payments in all EU currencies and for multiple types of digital money. EU citizens will benefit from convenient one-stop shop solutions and businesses can be cost-efficient by leveraging existing technical infrastructure.

There is a true merit in issuing a digital form of the euro...

This is why co-legislators should thoroughly review the scope of the ECB mandate for the digital euro in the legal framework. The overarching political objective for the ECB mandate should be retaining sovereignty of our common currency whilst contributing to making the eurozone competitive in the digital age.

There is a true merit in issuing a digital form of the euro, especially from a wholesale perspective. If it is integrated efficiently in the EU payment landscape, a digital euro will enrich the EU payment landscape and, together with the innovations in the private sector, will bring the Eurozone to the forefront of digital payments.



MARCO SIRACUSANO

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The Digital Euro: abalancing risks, opportunities and expectations

The digital revolution is having a deep impact on payment behaviors: over the past three years, cash payments in the euro area have dropped from 72% to 59%, substituted by digital payments. Therefore, the launch of a digital euro as CBDC seems to address this growing preference for electronic payments. It seems unavoidable that a Euro CBDC will have to complement with cash payments, offering to all Europeans access to means of payment as a form of universal service: free of charge, easily accessible and easy to use, supporting financial inclusion. The digital euro is expected to complement not only cash, but also other electronic payment means. This is critical to safeguard our monetary sovereignty while strengthening Europe's strategic autonomy, allowing adaptation of the global payment infrastructure to the new CBDCs.

The European economic system would benefit by a digital Euro, alongside the existing range of choices for retail payments, supporting the growth of e-commerce across all the UE. The key aspect of a digital euro should be its accessibility. It would provide costless access to a simple, risk-free and trusted digital means of payment, accepted throughout the euro area. In the digital era, it would preserve the public good that the euro provides to European citizens. If we consider the Digital Euro as a new European public good-universal service, we could expect it to have a series of characteristics: it could be used for payments anywhere, by anyone and at any time – just like cash in the physical world; it should be easy to understand, easy to use and easy to transfer; it would increase privacy in digital payments thanks to the involvement of the central bank, which – unlike private suppliers of payment services – has no commercial interests.

The digital euro has a great potential as catalyst for the global role of the Euro – also considering that the ECB is ahead of the game if compared to other Central Banks - generating much needed efficiency benefits in cross-border payments, providing interoperability with other international digital currencies.

This digital euro also powers innovation, with benefits for the European payment infrastructure. This is a crucial network for the entire economy, as e-commerce is becoming an engine of growth and efficiency.

Commercial financial intermediaries will anyway maintain a big role on distributing the Digital Euro. The size of the payment ecosystem is expected to grow and transform into a series of connected platforms. The creation of a digital euro as platform currency will generate new business models and opportunities, where commercial intermediaries will have a key role to play, adapting new payment solutions to the transforming economy, with innovation at its center.

Still, a Digital Euro solution brings some uncertainties and it requires careful risk assessment: its main strengths – security and liquidity – can affect monetary and financial stability on three fronts, if not adequately designed:

- Consumer unpredictability- With a new financial crisis, account holders could massively convert their assets in commercial banks into risk-free digital euros. Banks will have much less capacity to introduce capital controls than with ATMs and branches.
- Cybersecurity- Central banks are not immune to cyber-attacks, so criminal hackers or hostile nations could disrupt the digital infrastructure by targeting a central bank issuing it or commercial intermediaries.
- Distribution issues- Even if the digital euro were available to everybody, would they use it? Many people do not understand what the digital euro is and cannot see the benefits, also fearing they may lose privacy.

There are mitigations for any of the risks aligned here, but the introduction of a Central Bank currency will have to deal with concepts of trust, reliability and practicability, this without compromising the stability of the existing infrastructure. As the investigation phase of the Digital Euro is nearing an end, it will be important the financial community feel their considerations and concerns are addressed and that the Digital Euro is designed as an engine of innovative solutions, new services and renewed trust pact between the financial industry and the European citizens.

It seems unavoidable that a Euro CBDC will have to complement with cash payments.

Furthermore, to find a balanced market position between digital Euro and the existing digital payments, all the stakeholders (Legislators, Financial Institutions and Business Community) should work together to identify the use cases where Digital Euro can effectively add value by offering new services and simplifying the payment processes, such as:

- promoting the usage of “off-line” micropayments in digital Euro;
- allow the direct or indirect programmability of the Digital Euro to enable payments embedded to the execution of contracts;
- identify rules and procedures to manage disputes in case of e-commerce and other “deferred” payments transactions (when the payments and the good or service are delivered in a different time).



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Chief Executive Officer & Chief Retail Officer -
Erste Bank Österreich

Let's not put the cart before the horse

More than 100 jurisdictions around the globe are currently experimenting with their very own Central Bank Digital Currency (CBDC). While some governments believe that they are the future of payments, others have already expressed significant doubts. Likewise, views seem to diverge within the EU over the question if introducing a digital currency is the right way forward. Should Europe, which has the ambition of playing a greater global role in digitalization and innovation, thus take a step back and call off its Digital Euro project, as some critics call for?

While there are certainly legitimate reasons to criticize the Digital Euro, I believe that completely hitting the breaks on the project would go too far at this stage. What is instead needed is a serious and thorough discussion about its chances and risks, so that we can make sure that the economic costs of the project do not exceed its benefits. The problem is that preparatory work on the technical has already been pushed to a perceived point of no return. Additionally – and very importantly – citizens, who will be most affected by the project, have never sufficiently been put in the center of attention.

A recent survey in Austria, conducted by the Austrian Society for European Politics (Österreichische Gesellschaft für Europapolitik), bears witness to this as more than a third of the 1000 participating citizens didn't have any basic understanding of what the Digital Euro is, and roughly half reject the project altogether.

This is a rather concerning finding since the Digital Euro is not only a niche project for the few who believe in the potential of digital currencies, but one that might have a great impact on all of us. This is not mainly due to the reason that it will provide customers with new payment options - so far there seems to be no use case that is not already solved by existing payment options - but because of its (unintended) potential side effects.

In order to make to project work for European citizens it will thus be important to address a number of key aspects:

- First, we need to identify new use cases for citizens: The Digital Euro should only be introduced if it addresses an existing market failure instead of creating duplicities.
- Second, under any circumstance, it needs to safeguard the privacy of citizens: Central banks must be bound by the highest data protection standards and as little personal data as necessary should be made available to them.
- Third, financial stability needs to be ensured: Citizens certainly do not have an interest in scenarios in which the financial stability of banks is being played with. The only remedy to this problem is holding limits, which will need to be carefully set at a sufficiently low level, in line with daily payment needs of citizens.

- Fourth, avoiding a negative impact on the economy can also be mitigated with the help of a reasonably low holding limit, as any money held in the form of the Digital Euro, instead of conventional bank deposits, cannot be deployed for the purpose of lending activities.
- Fifth, and perhaps most significantly, it will be essential to explain the rationale behind the project as well as its implications in a transparent and consistent manner to the European public. EU institutions should thus set up a shared communication strategy to provide clarity and avoid unnecessary misunderstandings.

As Europe is about to get ready for the next EU elections, and legislative processes will come to a halt, it is the right time to take a step back and get ready for a broader discussion that involves all relevant stakeholders and in particular citizens.

A concrete proposal to this end:

- The ECB and Members of the European Parliament, who represent citizens at EU level, could hold a monthly exchange to publicly debate the biggest concerns from the various constituencies across the continent and ensure democratic accountability.

A broader and more in-depth political discussion, together with citizens, is urgently needed.

- Dialogues with citizens at local level, should take place in all corners of Member States (carried out e.g. by representatives of the national central banks), to explain the ambitions, opportunities and risks of the Digital Euro directly, thus fostering a better understanding of those most concerned and impacted.
- Finally, additional impact assessments are required by both the Commission and the ECB in order to fully understand the effects and costs of the Digital Euro.

Let's not put the cart before the horse but have a thorough political discussion first. The Digital Euro is too important for such a mistake.