



EUROPEAN CENTRAL BANK

EUROSYSTEM

Digital euro and some considerations on CBDC attractiveness

SUERF-Bocconi
webinar on CBDC

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ECB-RESTRICTED



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Overview

- 1 The ECB's report on digital euro and next steps
- 2 “No business case” vs. “crowding out private sector” (own thoughts)

What is a “digital euro”?

*Digital euro would be **central bank money** made available in **digital form** for **retail use in payments** by citizens and firms*



Digital equivalent of legal tender euro banknotes



Complementing, not replacing, cash



Costless access for citizens' basic payment needs to a **simple, risk-free and trusted** digital means of payment

Digital euro: why?



Key scenarios:

- Digitalization of society and economy => central bank money accessible to all naturally should also be digitalized to preserve its contribution to society
- Usage of cash declining; trend may continue even if official sector supports cash usability
- Payments is network industry; market power; European monetary sovereignty issues

Digital euro: a complement to private initiatives



Key arguments to support this view:

- Co-existence of several means of payments is desirable
- Private sector will remain more innovative
- Central banks do not have ambition
 - to take-up the front-end or
 - to take away deposits from banks' balance sheets.
- Digital euro would be offered preferably through supervised service providers

Way forward



Currently

- **Public consultation (ending 12 January)**
- **Experimentation**
- **Further conceptual work** (*e.g. monetary policy, financial stability, interaction with private solutions, international repercussions*)

Way forward



Towards mid-2021 the Eurosystem will consider whether to launch a digital euro project

- **Start with an investigation phase**

... to obtain answers to open questions raised in the report

... to develop a minimum viable product that would be able to meet Eurosystem requirements and the needs of prospective users



The objective is to ensure that the Eurosystem will be prepared to issue a digital euro if it decides to do so in the future.

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The thickest Swiss army knife, or a minimum viable solution?

A digital euro has been asked (by different parties) to

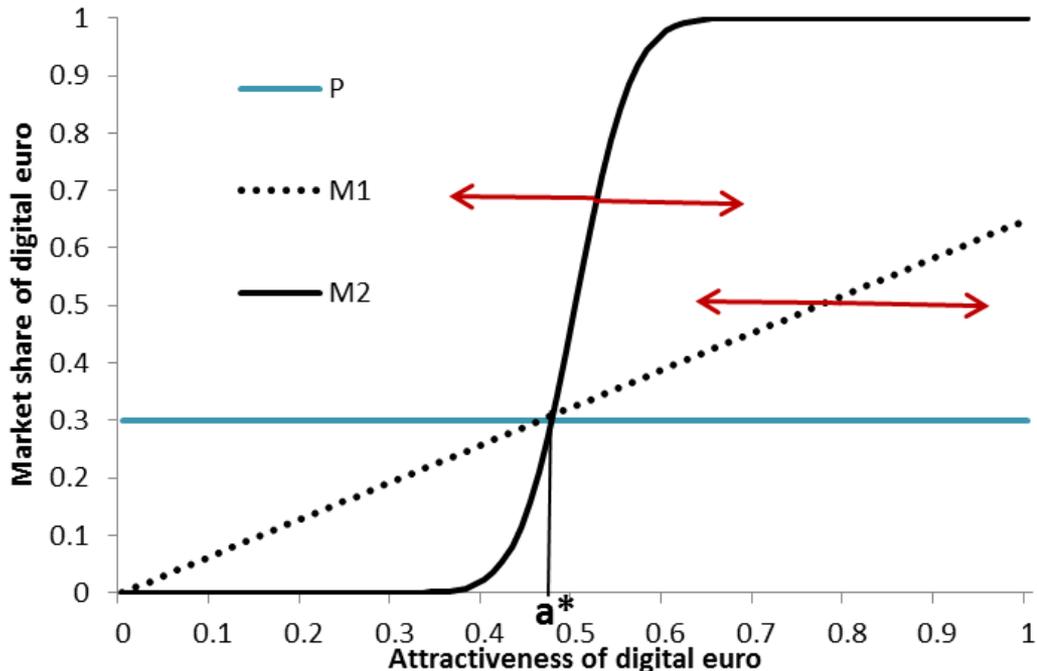
- (i) allow for fully anonymous payments to protect privacy;
- (ii) allow for offline payments;
- (iii) allow for instant credit transfers and direct debits,
- (iv) be programmable and allow for “smart contracts” for advanced use cases in industry and commerce;
- (v) ensure financial inclusion (meaning potentially to be also usable for the non-banked and those without mobile phones);
- (vi) be as convenient to use as existing private sector solutions;
- (vii) include card, mobile, and internet/desktop access.

The thickest Swiss army knife, or a minimum viable solution?

- A new technology is a great occasion to get it right... and comprehensive
- But project risks and delivery time grow (exponentially) with complexity
- Also, comprehensiveness is a key (although not the only) parameter in determining the right degree of attractiveness of a digital euro, such as to be successful and have value for citizens, but not to crowd out unduly the private sector
- Another interesting dimension in this context is pricing. The ECB's digital euro report suggests that basic payment functionality will be free, like for banknotes. In the past, banknote issuance was anyway highly profitable because of seigniorage, and in this sense cost recovery was not an issue. But today? And with CBDCs, central banks get directly into the habitat of private digital payment solutions.

Getting attractiveness right to broadly preserve current role of central bank money in retail payments

- M1 and M2 possible “demand” curves.
- X-axis: “attractiveness” = composite variable including breadth of functionality
- Y-axis: “market share” of CBDC in electronic retail payments
- P: a certain “reasonable” (?) market share of CBDC in digital payments
- Uncertainty on demand curve, not only shape (M1, M2), but also position. (red arrows)
- Built-in stabilizers of market share?
Tiered remuneration, etc.



Link to digital euro pages

[Executive summary page](#)



[Full report](#)

