

Digital euro role and challenges in the EU payment landscape

1. Digital euro should enable easy and safe use of central bank money by citizens

The Chair detailed that the payments landscape in Europe is constantly changing. There is the growing importance of e-commerce and online platforms, an increasing shift to digital, new business models and innovative use cases. Central banks around the world are working to complement cash with central bank digital currencies (CBDC). The Eurosystem has been investigating the digital euro since October 2021, with the ambition of ensuring that central bank money remains easily accessible and usable.

An official noted that in an increasingly digitalised economy, the use of cash is falling. If public money has a distinctive role to play in the functioning of the monetary system, digitalising cash makes sense.

An industry representative suggested that the digital euro is a solution to a problem that is either unclear or does not yet exist. There should be consideration of the goals of financial stability and customer trust. The digital euro should be considered in the context of the triad of green, digital and social. Primacy should be given to customer security. The digital euro should have cash-like features. It must be anonymous. There must be unrestricted access offline. There must be high levels of security. Banks play an important role in terms of customer thinking. With all of that in focus, the digital euro can be discussed in terms of looking forward and innovating using the current solutions and systems to meet customers' needs, rather than as a problem in need of a solution.

An official agreed that the digital euro should not be seen not as a response to a current problem but with a forward-looking perspective. There will likely be a strong future for CBDCs and being in the lead is better than being at the back in that regard.

2. Essential features of the digital euro

2.1 Enabling people to pay with central bank money

A policy-maker emphasised that the environment is becoming increasingly digital. The idea of the digital euro is to remain at the forefront of technological relevance by providing a universally accepted digital means of payment that can be used by consumers throughout the euro area. The digital euro will not take away other means of payment. It should be a clear alternative for people who want to pay with central bank money in the digital age.

The European Commission's proposal provides a legal basis. Trust in the digital euro is vital therefore clear, enforceable legal rules are needed. There is a long list of issues to be addressed, such as how to distribute the digital euro and how to give it legal tender access rights. There is also a significant international dimension and issues around data protection and privacy. A democratic process of negotiation with the co-legislators is needed.

There is a common responsibility, both public and private, to explain the project and bust any myths. How online digital euro payments will work and what happens when using it offline have to be well communicated.

An official noted, regarding anonymity and anonymity risk management, replicating the qualities of cash means thinking about how smaller-scale transactions could have lower anti-money laundering (AML) and countering the financing of terrorism (CFT) requirements, and similar issues.

An industry representative added that cash is anonymous and has a significant level of privacy. That has to be the case with the digital euro. That presents a challenge from a money laundering perspective. There are several legislative proposals. For AML, there is the Markets in Crypto-assets Regulation (MiCA) and the Payment Services Regulation (PSR), so there will be tools to cope with the challenge of AML.

2.2 Gaining successful adoption by all the stakeholders

An official emphasised that for the digital euro to be successful it has to be widely used. That requires the legal tender proposal, but that is not sufficient. There have to be certain economic incentives for economic actors, consumers and merchants to use the digital euro. Then there is a need for effective communication and a narrative to explain to domestic policymakers and the general public.

From the consumer side, it is important for the digital euro to be widely adopted in all areas of economic life. There have to be as few exceptions as possible to ensure a network effect. The aim is to replicate the usability of physical cash. There should also be convenient adoptability and accessibility. The onboarding process has to be as smooth and straightforward as possible. There has to be consideration of the digital euro being accessible without having a commercial bank account. There is also the issue of pricing. The basic services for the consumer should be free. If offline functionality is properly explained to the public it could make a significant change compared to the existing solutions in the payment solutions market.

Some of the issues mentioned are equally important for businesses. There is also price competitiveness and the

price that merchants and businesses will have to pay for adopting and using the digital euro. A cost-competitive model compared to the alternatives in the market that does not push them out will also foster the adoption of the digital euro. More effective international payments would also be useful for some merchants. It is very important to have an effective narrative. It has to be explained to the population that the aim is not to get rid of cash. The value-add that will create compared to the existing solutions and apps also has to be explained.

An industry representative emphasised that the financial sector has to be on board, which means factoring in the business cases. One question is whether the digital euro can be used where eurozone banks have a presence outside of the eurozone. If so, that should be with the agreement of the different central banks.

3. The EU single market needs its own efficient means of payment

An official noted that public money being the anchor of the monetary system, the internal market and strategic autonomy are dimensions far removed from the day-to-day worries of most citizens. There is a need to build and convey a narrative that explains the value-add and the use cases of the digital euro.

An industry representative remarked that the EU payments ecosystem works relatively well and is quite competitive. The exchange fees are quite low compared to other geographies. One of the main challenges in the short term is cross-border payments. The EU has just launched its open strategic autonomy project and the question is whether the digital euro will play a role on that.

There are private initiatives, like cryptocurrencies, that bring some benefits but also raise some threats. The International Monetary Fund (IMF)'s Global Financial Stability Report indicates that an extended use of such assets may be a risk to the proper transmission of monetary policy and financial stability. The legislative process must guarantee a level playing field and there has to be consideration of interoperability.

4. Developing competition in wallets

An industry representative remarked that online commerce has changed significantly. Shopping online started as a clunky and was not necessarily safe and secure. With the growth of ecommerce we then entered a war of payment buttons. Everybody was paying to put something on websites. We then it was transitioned to using apps for our shopping. Now it is more and more about payment wallets. Intermediaries that did not exist in the past have inserted themselves into transactions.

Having a wallet is very important, but in the context of the Digital Euro, having multiple wallets is how we can enable competition. Only by allowing citizens to hold multiple Digital Euro wallets, can we prevent unintended consequences. With a one-wallet limit, there is a clear

risk that each citizen would by default open their wallet where they have their main bank account and this default would significantly stifle competition between banks and non-banks, ultimately limiting innovation and choice.

5. The digitalisation trend in the retail space

5.1 Public-private partnership

An official urged the private sector to see the digital euro as an opportunity. It is a project that will take time, but it is progressing. The way it will be put into practice will be based on public-private partnership. Central banks should not start opening accounts for people. The European Central Bank (ECB) will be providing backend services and infrastructure, but the frontend and user-facing services will be provided by private market players.

That should include both bank and non-bank players, because a level playing field is needed. In practice, that will open doors and create room for new business models, innovation and add-on solutions for the infrastructure provided by the ECB and the Eurosystem.

5.2 Addressing financial stability and monetary policy transmission issues

An official indicated that the hope is to get to a wholesale digital euro, which could materially increase the international role of the euro going forward, but first step might be retail. Given the way the digital euro is currently designed, it is meant to be a payment solution. It is not meant to be an investment instrument or a store of value. Holding limits are foreseen to avoid creating negative financial stability. The intention is not to challenge the monetary policy transmission model.

5.3 Preserving the current role of banks and the central bank

The Chair highlighted that there are more than 130 CBDC projects around the globe. Many other central banks or currency zones will likely introduce their own CBDCs. There has to be such a project and preparation for the eurozone.

An industry representative emphasised the need to get the discussion and the ECB's powers right. When attempts are made to change an entire system, and the ECB is given too much power and takes the main task away from banks, the system is being changed in a way that could lead to a significant risk.

The digital euro being too successful would mean that there is a crowding out of bank intermediation, which is a risk for the banking industry. If it is not successful enough there would be a waste of money and resources, and not enough acceptance by citizens, which would be a threat for the ECB.

A policy-maker remarked, regarding the question of whether the digital euro is destroying the existing ecosystem, that synergies between private payment solutions and the digital euro are ultimately sought.

There should be healthy competition.

To that point, what is created for the distribution process of the digital euro will also be supportive of private payment solutions. If standards are created, they should build, as far as possible, on what is already there. That would also minimise the cost. Any new standards that are developed should not only be used for the digital euro but also for private payment solutions. For financial stability, holding limits are needed and there should be no remuneration of digital euro holdings.

An industry representative remarked that it is absolutely key to guarantee financial stability. There must be readiness for the digital euro being too successful. The limit and caps are key. There should be prudence. It will always be possible to increase the caps, but it will be very difficult to decrease them.

6. Creating a context to trigger swift and effective adoption

An industry representative suggested that the biggest challenge for the digital euro is adoption. One of the challenges for adoption is the need to reach scale relatively quickly. Otherwise, there would be a loss of momentum in the process and investment. In general, if the market works there is no need to put a cap on prices. In the beginning a price cap could even be detrimental to the adoption of the Digital Euro, because changing consumers' habits is not easy. Therefore, something very attractive has to be put in front of them and this can only happen if Digital Euro wallet issuers have sufficient financial resources to develop innovative products.

While it might be very attractive from a merchant perspective to have price cap, we also need to consider the investment they will need to make to set up the acceptance of the Digital Euro. As pricing options are thought about, similarities with the four-party card schemes structures is perhaps not correct to begin with. An official agreed that to ensure adoption there have to be win-win spaces for all stakeholders. The project needs allies, and it is not clear it has any beyond the public sector. Unlike other pieces of legislation this will be voluntary. There has to be a value-add that all parties can see, which includes the business case and rationale for adopting and deploying the digital euro.

7. Pursuing a pragmatic digital euro solution and timetable

An official stated that with European elections coming up in mid-2024, there are only a few months left until part of the work has to be put on hold. After the publication of the European Commission proposal, it is time to have a deep debate on the co-legislators' side. Discussions have started at the Council working party level. The first meeting was in late July and the second will be in the following week. Meetings will continue monthly. There is no rush.

This has to be framed as a democratic process. All voices must be heard and taken into account. The appropriateness of launching a digital euro should continue to be reflected on. If it is agreed that it is needed and the regulation is approved, the Eurosystem will be in a position to decide on the actual issuance and rollout of this new form of the single currency.

Several speakers agreed that it will be possible to pay for something with a digital euro in 2027. Some speakers emphasised that the focus should not be on any specific date.

The Chair summarised that a broad discussion of this project is needed together with a very good communication strategy, which is already being prepared by the relevant stakeholders. A transparent process in the upcoming years is also necessary.