

SPEECH

Designing a digital euro for the retail payments landscape of tomorrow

Introductory remarks by Fabio Panetta, Member of the Executive Board of the ECB, at the ECON Committee of the European Parliament

Brussels, 18 November 2021

Madam Chair, honourable members of the Committee on Economic and Monetary Affairs,

Thank you for inviting me to report on the investigation phase of the digital euro project, which we started in October. I am happy to finally meet at least some of you in person, once again. Our interactions started a year ago when we published the Eurosystem report on a digital euro.^[1] I am pleased that these exchanges of views continue, and I am committed to having regular topical hearings with you during the investigation phase of the project.^[2]

In my remarks today I will focus on why we would issue a digital euro. I will then outline how we will structure our work in the investigation phase to ensure that we design a digital means of payment that is attractive to consumers.

Maintaining the role of central bank money in the digital age

When we decided to launch the investigation phase of the digital euro project in July^[3], we did so knowing that we had the support of the European Parliament and other EU institutions, which all recognised the importance of this project.^[4]

Let me recall why such a project is necessary.^[5]

Issuing a digital euro for use in retail payments may appear superfluous to some, given that Europeans already have access to a wide range of private digital means of payment. These include bank deposits, credit cards and mobile applications.

But even if private money and central bank money are used interchangeably by the public, we should not forget why this is possible. We take certain things for granted, and they are often the things that could create the biggest problems if they didn't exist.

Central bank money is by definition the safest form of money, because it is backed by the strength, the credibility and the authority of the State.

Private forms of money are liabilities of private issuers. They rely on the soundness of the issuer and, ultimately, on the promise of convertibility into central bank money. But this promise could prove to be ephemeral, for instance if the issuer manages its liquidity or solvency imprudently.

In practice, many people are unaware of these differences. This is what economists call "rational inattention". We don't think twice about storing and using our money via private intermediaries because we can regularly go to the cash machine and withdraw banknotes from our deposits without any problems. This provides tangible proof that our money in the bank is safe. It reassures us that we will always be able to get cash if we ask for it and that, when private forms of money cannot be used, we will still be able to make payments in cash. Runs on private money usually only start when the confidence in convertibility disappears.

Convertibility with central bank money on a one-to-one basis anchors people's confidence in private money, supporting its wide acceptance.^[6] This is not to say that other safeguards like banking regulation and supervision, deposit insurance and the monitoring function of capital markets are not

also important and effective. But they need to be complemented by the convertibility anchor as a basis for maintaining a well-functioning payments system and financial stability. And this is a pre-condition for preserving the transmission of monetary policy, and thus for protecting the value of money and trust in the currency.

Today, people have easy access to central bank money in the form of cash. But we know that they increasingly prefer to pay digitally and shop online.^[7] In an increasingly digital economy, cash could become marginalised because it would no longer serve people's payment needs. And people would have little incentive to hold cash if they were unable to use it as a means of exchange.

Let me be clear: the ECB intends to ensure that people continue to have access to cash. But at the same time, we need to ensure that central bank money remains fully usable and can provide an effective anchor at a time when payment behaviours are changing. And this is where our work on a digital euro comes in: it would enable people to continue using central bank money as a means of exchange in the digital era.

But the decline in the use of cash is not the only factor that could alter the payments landscape in the years to come.

Non-European payment providers already handle around 70% of European card payment transactions^[8] and if the footprint of these providers continues to grow, it would raise serious questions for Europe's autonomy in payments, with potential implications for users. Let me give you an example: today, many Europeans can use their debit cards – such as the German EC-Karte or the Italian Bancomat – abroad, thanks to an existing agreement between their banks and international credit card companies. But for some debit card schemes, this use in cross-border settings could be curtailed in the future as it depends on the continued willingness of the international card schemes to provide such services.^[9]

Moreover, although the take-up of digital assets such as crypto-assets and stablecoins – as well as their reach in payments – has remained limited so far, they are growing rapidly: the market capitalisation of stablecoins has increased from USD 5 billion to USD 120 billion since early 2020.^[10] In parallel, big tech companies have entered the world of financial services. If these two trends meet, the functioning of global financial markets could be altered and traditional payment services could be crowded out.^[11]

These developments mean there is reason to redefine the regulatory and supervisory landscape, but this may not be enough.^[12] The presence of a digital euro could reduce the risk that the functioning of – and competition in – European payments could be altered by the dominance of digital means of payment managed by foreign-based entities and big techs with scale and information advantages. If we want to preserve an open, level playing field in payments and monetary sovereignty, we should start taking action today.

Designing a retail central bank digital currency

While individuals may currently only have access to central bank money in physical form, this is not the only form of central bank money that exists.

Banks have been able to access central bank digital currency via the so-called TARGET services^[13] for a long time, and the Eurosystem is currently working on a new consolidated TARGET platform to offer the market enhanced and modernised services.^[14] In July 2021, the ECB's Governing Council decided to launch a new Eurosystem work stream in order to explore possible technological improvements in the wholesale infrastructure.^[15]

By comparison, the digital euro project is about ensuring that *everyone* can use central bank money in digital form for their daily transactions. It would also allow users to benefit from high standards of privacy. With the digitalisation of payments, each individual transaction contains a large amount of personal data, which are often used by private companies for a variety of purposes. Regulation does its best to avoid these data being abused, but it often struggles to keep pace with technological innovation. Crucially, however, the ECB has no commercial interest in monetising user data, so a

digital euro would improve citizens' welfare by giving them the option to use a form of digital money that protects their privacy.^[16]

Finally, a digital euro would provide new business opportunities and act as a catalyst for technological progress and innovation in the private sector. It would create a level playing field for financial intermediaries and strengthen their competitiveness. And it would offer them the opportunity not only to distribute central bank money, but also to develop new services with "digital euro inside".

Over the next two years we will investigate the key issues related to the design and distribution of a digital euro.^[17] We will have to strike the right balance between different priorities.

For example, the digital euro will be designed to be an efficient means of payment, but also to preserve financial stability. We will be careful to ensure the financial sector can adjust in an orderly manner. To prevent excessive and abrupt shifts from commercial to central bank money, we will need to strike a balance between maximising its appeal as a means of exchange and limiting its use as a form of investment.

Different design options and decisions all have a bearing on one another, so making a coherent set of choices will be key. We have a clear timeline that takes these interlinkages into account and will ensure a coherent product. The Eurosystem High-Level Task Force on Central Bank Digital Currency ^[18] that I chair is working to identify use cases and design options. After this phase we will move on to examining technological solutions. We expect to narrow down the design-related decisions by the beginning of 2023 and develop a prototype in the following months.

I must stress that the digital euro will not be able to be everything everyone wants it to be on day one. We will need to strike a balance to design a digital euro that is immediately valuable to users but can be developed in a reasonable time frame.

This brings me to my last point: finding out what potential users of a digital euro would want from this new means of payment.

Making the digital euro attractive to consumers

As already mentioned, the digital euro would be available for daily transactions to all potential users. However, the vast majority of transactions will likely involve consumers' daily purchases at the "point of interaction" (in other words, payments at physical shops, from person to person and online).

Consumers will only use a digital euro if it is widely accepted for payments, and merchants will want to be reassured that enough consumers want to use it. In practice, while we often mention the financial stability risk that would emerge if a digital euro were too successful^[19], we equally need to address the opposite risk – the risk of it not being successful enough. To be successful, a digital euro must be attractive to users by providing a low-cost, efficient means of payment that is available everywhere.

To find out what users want, we will engage extensively with the public, merchants and other stakeholders during the investigation phase.^[20]

Focus groups in all euro area countries will help us gain in-depth insights into the preferences of the public and small merchants, including people who do not currently have access to the internet or banking services.^[21]

Given the need to make the digital euro fully interoperable with existing payment services, we have also appointed 30 senior business professionals to provide expertise from an industry perspective.^[22] Consumers, retailers, small and medium-sized enterprises and market representatives will have further opportunities to share their views through the Euro Retail Payments Board. In addition, technical workshops with experts will help us explore technological options for the design of a digital euro.^[23]

At the same time, the success of a digital euro will heavily depend on European authorities and institutions being closely aligned. We are therefore engaging closely with the European Parliament, the European Commission and the Eurogroup on major design issues and the aspects of a digital euro that are relevant for EU policy more broadly.

Our discussion today is part of this endeavour. As representatives of European citizens, you have an important role to play in making sure that we design a digital euro that would meet their needs in the retail payments landscape of tomorrow.

We are committed to holding regular exchanges like this one so that your views can inform the Eurosystem's technical discussions before any endorsement by the ECB's Governing Council, and so we can debrief you on any decisions taken thereafter.^[24]

As co-legislators you will play a key role in any changes to the EU legislative framework that may be necessary to introduce a digital euro. The ECB and the European Commission services are already jointly reviewing a broad range of legal questions at the technical level, taking into account their respective mandates and independence as provided for in the Treaties.^[25]

Conclusion

Let me conclude.

Effective policymaking requires forward thinking. Central banks must innovate in the face of changing payment habits and global developments. When designing a digital euro, we need to consider not only the payments landscape of today, but also the landscape of tomorrow, which may be characterised by new actors, new digital assets and new payment solutions.

The stakes here are high and we are in uncharted waters. We want to move fast, but we must not rush. We need to take the time to get it right and consider all aspects so that central bank money continues to play its role as an anchor of stability at the heart of the payment and financial system.

I now look forward to your questions.

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1. ECB (2020), [Report on a digital euro](#), October.
 2. See the [letter](#) from Fabio Panetta to Irene Tinagli, MEP, on the decision by the ECB's Governing Council to launch the investigation phase of a digital euro project.
 3. ECB (2021), "[Eurosystem launches digital euro project](#)", press release, 14 July.
 4. See the [Statement](#) by the Members of the Euro Summit of 25 March 2021, the [Summing-up letter](#) of the Eurogroup meeting of 21 May 2021, the EU Council [conclusions](#) on the Commission Communication on a "Retail Payments Strategy for the European Union" of 8 March 2021, the European Parliament [resolution](#) of 10 February 2021 on the ECB Annual Report 2020 and the European Commission's [communication](#) of 19 January 2021 on "The European economic and financial system: fostering openness, strength and resilience".
 5. See also Panetta, F. (2021), "[The ECB's case for central bank digital currencies](#)", Op-ed, Financial Times, published online on 18 November.
 6. One-to-one convertibility with the common monetary anchor is what makes different regulated forms of money convertible with each other at par and is why they are perceived to be interchangeable when making payments. See Panetta, F. (2021), "[Central bank digital currencies: a monetary anchor for digital innovation](#)", speech at the Elcano Royal Institute, Madrid, 5 November.
 7. ECB (2020), "[Study on the payment attitudes of consumers in the euro area \(SPACE\)](#)", December.
 8. ECB (2019), [Card payments in Europe](#), April.
 9. Market Research Telecast (2021), "[Payment systems: Maestro cards in Europe before the end](#)", 20 October.

10. ECB (2021), "[The expanding functions and uses of stablecoins](#)", *Financial Stability Review*, November.
11. Panetta, F. (2021), "[Stay safe at the intersection: the confluence of big techs and global stablecoins](#)", speech at the panel on "Cross-border dimensions of non-bank financial intermediation: what are the priorities for building resilience globally?" as part of the UK G7 Presidency Conference on "Safe Openness in Global Trade and Finance" hosted by the Bank of England, 8 October.
12. The EU is taking a leading role with the European Commission's [proposal for a regulation on Markets in Crypto-Assets](#) (MiCA). The Eurosystem has proposed an update of its oversight framework for electronic payment instruments, schemes and arrangements ("PISA framework") in order to include digital payment tokens such as stablecoins.
13. The Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) services are developed and managed by the Eurosystem. They ensure the free flow of cash, securities and collateral across Europe. All these transactions are settled – finally and irrevocably – in central bank money. The TARGET services comprise TARGET2 (the real-time gross settlement system), TARGET2-Securities (the securities settlement platform) and TIPS (the instant payment settlement service).
14. The Eurosystem has launched a project to consolidate [TARGET2](#) and [T2S](#), in terms of both technical and functional aspects. The objective is to meet changing market demands by replacing TARGET2 with a new real-time gross settlement system called T2 and optimising liquidity management across all TARGET Services. The new consolidated platform will be launched in November 2022. See the ECB's [website](#) for more details.
15. This exploration builds on the work conducted by the Eurosystem in recent years. See Annex 3 of the [Report on a digital euro](#) for more information on the wholesale application of a distributed infrastructure.
16. See Panetta, F. (2021), "[A digital euro to meet the expectations of Europeans](#)", introductory remarks at the ECON Committee of the European Parliament, and the related [appendix](#).
17. The investigation phase will examine the use cases for a digital euro and its desired features and functionalities. It will also look at how the digital euro would interact with the European retail payments market and at the business models of public and private participants in the digital euro ecosystem. Finally, it will explore the technical solutions that could best handle these issues.
18. The High-Level Task Force on Central Bank Digital Currency (HLTF-CBDC), which is composed of representatives from the ECB and the national central banks of the euro area, is the body in charge of steering the digital euro project. It reports to the ECB's Governing Council. The European Commission is invited to attend meetings of the HLTF-CBDC as an observer. At the operational level, the digital euro project is coordinated by the programme manager, to whom the product manager and project manager report. The ECB and the European Commission services are [jointly reviewing at technical level](#) a broad range of policy, legal and technical questions emerging from the possible introduction of

a digital euro, taking into account their respective mandates and independence provided for in the Treaties. Regular discussions on major design issues and policy-relevant aspects of a digital euro also take place in the Eurogroup, prepared by the Eurogroup Working Group. At the international level, the ECB and the European Commission have participated in a working group of G7 finance ministries and central banks, together with Sveriges Riksbank and the Swiss National Bank, to explore the different aspects of retail CBDCs (see the recently published [G7 Public Policy Principles for Retail CBDC](#)). The ECB also participates in another international group of seven central banks (Bank of Canada, Bank of England, Bank of Japan, ECB, Federal Reserve System, Sveriges Riksbank and Swiss National Bank), which is working together with the Bank for International Settlements to explore CBDCs for the public (see recent [reports](#)). In the context of the Financial Stability Board's [roadmap for enhancing cross-border payments](#), the Committee on Payments and Market Infrastructures is assessing arrangements and possible standards for the cross-border use of different CBDCs.

19. Panetta, F. (2021), "[Evolution or revolution? The impact of a digital euro on the financial system](#)", speech at a Bruegel online seminar, 10 February.

20. The ECB's [report](#) on the public consultation that ran between 12 October 2020 and 12 January 2021 already provided early insights into the preferences of the public and professionals.

21. Focus group research will take place in late 2021 in all euro area countries. In each country, there will be dedicated focus groups with members of the general public, with technology-savvy members of the public, with members of the public who do not currently have access to the internet or banking services, and with micro and small merchants.

22. ECB (2021), "[ECB announces members of Digital Euro Market Advisory Group](#)", press release, 25 October.

23. ECB (2021), "[Experts invited to join technical talks on digital euro](#)", *MIP News*, 15 October.

24. Exchanges could take place at points in the investigation phase when the Eurosystem has formed a staff position, but before the Eurosystem High-Level Taskforce has come to its final assessment and prior to the Governing Council's decisions on design options. See the [letter](#) referenced in footnote 2 for further details.

25. ECB (2021), "[ECB intensifies technical work on digital euro with the European Commission](#)", *MIP News*, 19 January.

CONTACT

European Central Bank

Directorate General Communications

> Sonnemannstrasse 20

- > 60314 Frankfurt am Main, Germany
- > [+49 69 1344 7455](tel:+496913447455)
- > media@ecb.europa.eu

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Media contacts