



EUROPEAN CENTRAL BANK

EUROSYSTEM

Potential impact of a digital euro on the financial system and the use of cash

Eurogroup

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Preserving the balance between public and private money

Upholding people's confidence in money is fundamental to protecting financial stability

To this end, **public money must maintain its role as a monetary anchor, including in the digital era**

Bringing central bank money into the digital era would:

- ✓ Maintain the **accessibility and usability of central bank money as a means of payment**, avoiding that people only have access to private forms of digital money
- ✓ Contribute to our **strategic autonomy and economic efficiency** by offering a European means of payment

A digital euro would complement cash, not replace it

The Eurosystem's Cash 2030 Strategy: **cash should remain widely available and accepted**

A digital euro should also be widely available and accepted

Some cash-like features could be replicated when designing the digital euro:



*offline
functionality*



*higher degree of privacy for
low-value/low-risk payments*



legal tender status

Protecting the stability of the financial system

For the digital euro to provide an anchor of stability, **we must carefully evaluate** its potential impact on:

- monetary policy
- financial stability
- allocation of credit to the real economy

This does not mean that the status quo should be maintained, but does imply that any potential **risks should be mitigated in both normal times and times of financial stress**

The counterfactual to a digital euro is not the status quo but a **financial system** in which private payment assets may dominate in future

Potential impact of a digital euro

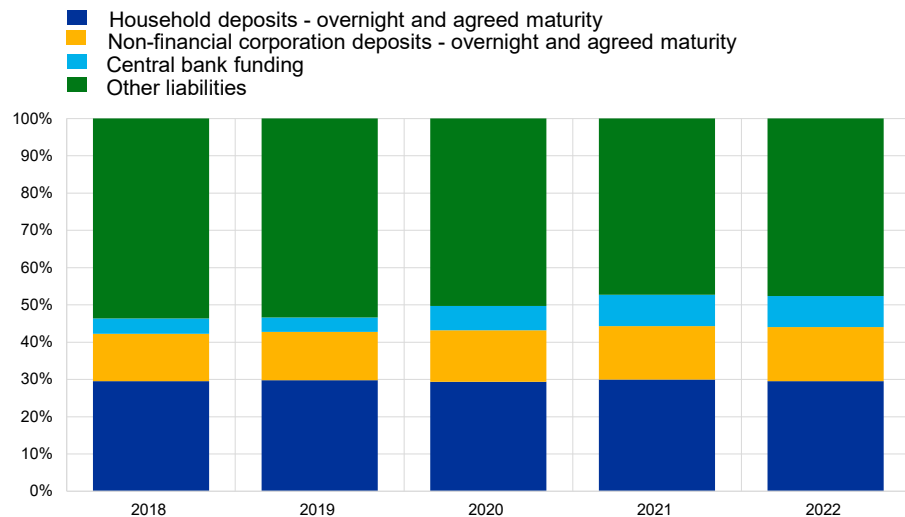
Deposits currently represent the main source of funding for euro area banks

A sizeable impact on the **demand for deposits** and services by banks should be mitigated to avoid knock-on **consequences for:**

- credit provision
- monetary policy transmission
- financial stability

Breakdown of euro area bank liabilities

(share of total liabilities expressed in percentages)



Source: FINREP database (Financial Reporting Framework).

Note: The figures represent the yearly average of the available quarterly data on euro area bank liabilities. The first observation is for the second quarter of 2018 and the last is for the first quarter of 2022.

Adverse effects best mitigated *through design*

Banks have several options (each with drawbacks!) for **reacting to deposit outflows**:

- Run down excess reserves, if any
- Increase central bank borrowing
- Increase wholesale funding
- Deleverage, e.g. reduce balance sheet length by reducing credit provision

Any **undesirable consequences** that may result from the issuance of a digital euro are **best mitigated through its design**

Overview of possible tools

We can design a digital euro with **effective tools to prevent it from being used as a form of investment**

Remuneration-based tools

(Tiered) remuneration

Limit-based tools

Limits on individual holdings (with optional waterfall functionality)
Limits on conversion into digital euro (in a defined short time period)
Limits on transactions

Combination of tools

The design is likely to include a combination of tools, even if not all necessarily active at the time of issuance

Limit and remuneration-based tools

- Including the **widest possible set of tools in the design of a digital euro** will enable the Eurosystem to deploy appropriate tools at the time of issuance and remain flexible in the future
- The parameters of the tools **only to be defined close to the possible introduction** of a digital euro to reflect the economic situation at that point in time
- **The aim is simplicity**, in terms of technical implementation and public understanding, to **avoid a negative user experience** or **public perception**. Potential frictions to be considered are:



- the inability to accept a payment that would result in exceeding the holding limit
- a one-size-fits-all quantitative limit could not be calibrated easily within or across user types

Way forward



Confirmation of Eurosystem views on **first set of design options** in **late summer of 2022**



Review of combined design decisions (**“Bringing it all together”**) in **second quarter of 2023**

THANK YOU!