

SPEECH

Shaping Europe's digital future: the path towards a digital euro

Introductory statement by Fabio Panetta, Member of the Executive Board of the ECB, at the Committee on Economic and Monetary Affairs of the European Parliament

Brussels, 4 September 2023

It is a pleasure to be back here to speak before this Committee.

It has been an honour to steer the digital euro project and to discuss it with you every step of the way.

Our first hearing took place back in October 2020^[1] when the ECB published its very first report on a digital euro^[2], well before we decided to officially launch the digital euro investigation phase in October 2021.

We have made considerable progress since then, as can be seen in the many reports and studies we have shared with you. We have made those reports public, enabling citizens and interested stakeholders alike to keep up to date with our investigation.^[3] And during the eight hearings I have attended before this Committee, we have discussed 110 of your questions.^[4]

Your questions, comments and views – as well as your criticisms – have helped us make progress towards our shared objective: designing an inclusive, truly European digital means of payment that can meet people's needs and preferences. I would like to sincerely thank this Committee for your support and contributions so far.

But there is still a long journey ahead of us, and further close cooperation between European institutions will be needed in order to determine the optimal design of a digital euro.

We are now approaching a new phase in this project.

In June the European Commission published its single currency package, with legislative proposals on the digital euro and the legal tender status of cash.^[5] We welcome those proposals. They put Europe at the forefront of advanced economies when it comes to central bank money.

They create a new paradigm for preserving monetary sovereignty while guaranteeing people's freedoms in the digital age. The proposed measures would ensure that Europeans are free to choose how they make their everyday payments. A public option would always be available – in the form of both cash and digital euro – alongside private digital means of payment. At the same time, nobody would be required to hold or pay with digital euro, and users would always be able to decide what they use it for.

At the ECB, our investigation phase is now in its final stage, preparing the ground for the Governing Council to decide whether to move to the next phase of the project.

Without prejudice to the ECB opinion that we are going to issue on the proposal, I will start by discussing some key aspects of the legislative proposal. I will then update you on the status of the project and outline the next steps.

A digital euro that is available to everyone, everywhere, free of charge

The legislative proposals on the digital euro and the legal tender status of cash would ensure that, in an increasingly digital world, central bank money remains easily accessible and accepted throughout the euro area. Cash is here to stay. The proposals would enshrine this in legislation. But alongside cash, there would be a new form of central bank money: the digital euro.

The proposal on the legal tender status of cash is the most important European-level legislative initiative on cash since euro banknotes were first issued more than 20 years ago. It would strengthen the status of cash and the rights of those who wish to use it.

The publication of the proposals was a landmark first step. It will now be up to the European legislators to shape the proposals and ensure that a digital euro would replicate key characteristics of cash in the digital sphere. It would do so by offering a means of electronic payment that is available to everyone, everywhere, free of charge, while guaranteeing the highest level of privacy in digital payments. And it could also be used offline.

The democratic debate on these issues is crucial. The ECB stands ready to provide any technical input needed to support your work.

We are currently preparing the ECB opinions on the two proposals.^[6]

But let me highlight some key aspects of the digital euro proposal, which are pivotal to ensuring that public money is available to everybody in the digital age.^[7]

The first key aspect is legal tender status^[8], which would give people the right to have access to, and pay with, digital euro. The proposal would also ensure that users can access digital euro at their current bank, with no need to change banks. This would make the digital euro easily accessible^[9] and send a clear message: everybody would be able to use their digital euro whenever and wherever they want to, throughout the euro area.^[10]

This option is vital. Just like electricity or water, everyday payments are an essential service, for both individuals and the economy more broadly. We should not leave it to the private sector alone, including big techs, to provide such services. Private closed-loop solutions are becoming increasingly prevalent. Consider instant messaging services – if my family and friends all use the same application, I will increasingly feel the need and the convenience to use it too. We may see similar trends emerging in payments in the future.^[11]

The second key aspect is privacy. According to the draft legislation, a digital euro would be a new payment solution with enhanced privacy and data protection, while risks related to money laundering and terrorism financing would be minimised. In line with this, we have proposed that the Eurosystem would be unable to see the personal details of digital euro users or connect any payment information

to private individuals.^[12] Intermediaries would only see the user information needed for onboarding and compliance with existing regulation, such as anti-money laundering and countering the financing of terrorism rules. Furthermore, the possibility to pay offline would provide cash-like privacy, with neither the intermediary nor the central bank processing the payment.^[13]

Third, the Commission proposal achieves a good balance between the pricing objectives of both the public and private sectors. End users could use basic services of the digital euro free of charge^[14], while intermediaries would be compensated in a similar way as for comparable private digital means of payment.^[15] Merchants would be protected from any excessive fees that could result from the obligation to accept digital euro as legal tender.

Fourth, the proposal recognises the ECB's ability to develop and apply the tools needed to maintain the equilibrium between private money – like commercial bank deposits – and central bank money.^[16] Tools such as holding limits will, by design, pre-empt any undesirable consequences for monetary policy, financial stability and the allocation of credit to the real economy.^[17] Users wishing to pay more than the set limit will be able to do so by linking their digital euro wallet to their bank account.^[18]

We are confident that this equilibrium can be maintained. We have published detailed analyses showing that an appropriate calibration of holding limits avoids risks to the financial system.^[19]

Let me emphasise, once again, that the issuance of a digital euro represents an opportunity, not a risk, for the European financial sector. We are designing it as a safe payment tool in order to preserve the role of public money – that is, money backed by the state – while balancing innovation in payments with the stability of the financial sector and guaranteeing privacy.

Our response to the technological revolution in payments cannot be to stand still. The counterfactual to the digital euro is not a benign status quo. In the absence of a digital euro, the emergence of potentially dominant private actors in the digital payments market could have a strong impact on the financial sector.^[20]

This is a real possibility, as demonstrated by PayPal's recent decision to launch its own US dollar-denominated stablecoin for use in digital payments.^[21]

Private providers of payment services, including PayPal, have no incentive to limit the take-up of their stablecoins or the range of services they provide. Quite the opposite: their objective is to expand their customer base and gain market share.

They may have no incentive to make their payment solutions compatible with those used today. They could offer services at low cost, given the revenue they could generate by reinvesting the reserve assets in an environment with positive interest rates. And while the market entry of big techs or other large payment providers may initially promote innovation, competition could be severely hampered if they attain a monopolistic position, as we have seen in other digital sectors.

This would not be the case with a digital euro. A digital euro would be introduced by public authorities, under a European regulatory framework. It would pay due attention to orderly adjustments in the

financial sector while offering payment service providers a platform for innovations with pan-euro area reach.

Furthermore, unlike the stablecoins issued by big techs, the digital euro would be distributed by banks and other payment service providers, which would maintain their relationship with their customers. And the ECB is actively cooperating with European payment service providers and other stakeholders to ensure that the digital euro would be fully compatible with existing payment tools and attractive to all.

[22] In particular, as mentioned above, the proposed design of the digital euro would guarantee the highest level of privacy for digital payments.

The finishing line for the ECB investigation phase

This brings me to our own project work. We are nearing the end of our investigation phase.

Since our last hearing, we have been performing a holistic review [23] to ensure consistency between all the design options endorsed so far [24], and we have published the results of the prototype and market research exercises. [25]

In addition, we have made further progress with our work on a draft rulebook for a digital euro scheme. Here, too, we are closely collaborating with representatives from all sides of the market: consumers, merchants, banks, payment institutions and public sector professionals. [26]

Next month we will report on the findings of the investigation phase. On this basis, the Governing Council will decide whether to move to the next phase of the project. But again, let me be very clear: a possible decision by the Governing Council to issue a digital euro is not on the table now, and would only be taken after the legislation is adopted.

If we do move to the next phase, the ECB and the national central banks of all euro area countries will continue to analyse digital euro functionalities and eventually move towards developing and testing technical solutions and business arrangements to be ready to start issuing a digital euro, if and when warranted.

In this context, we will of course consider any adjustments that may become necessary because of the legislative deliberations.

We will also continue learning by interacting with all relevant stakeholders. The input we have received so far has been exceptionally valuable and has enhanced our understanding of the challenges that the digital euro must address.

I am sincerely grateful to you, the European Parliament, for our regular and ongoing dialogue and for all the support you have given us since the very beginning of the project. Therefore, should the Governing Council decide to proceed to the next phase, the ECB remains committed to continuing its regular hearings at the ECON Committee to engage with you and to support the democratic debate on the digital euro.

An ambitious path ahead

Let me conclude.

A digital euro will make our money fit for the digital age. It follows in the footsteps of the architects of the euro, who rightly believed that the currency union would only be complete with a tangible form of the euro, issued by the central bank. The digital euro takes their vision forward into a digitalised world. By providing an electronic form of cash, it will preserve people's freedom to choose between private and public forms of our single currency for their everyday payments.

The future of the digital euro is in your hands. Ultimately, it will only be as ambitious as you want it to be, in line with the legislative framework you adopt.

I personally believe Europe should not shy away from being ambitious in developing an instrument that serves the public interest by making Europe and the euro fit for the digital age. The digital euro will give us a digital means of payment that, like cash, unites us because it can be used by everyone, everywhere. It will strengthen our autonomy and resilience by relying on a European infrastructure and reducing our dependence on a handful of non-European providers.

It is also an opportunity for Europe to lead the international debate on central bank digital currency, with a strong focus on privacy and preserving monetary sovereignty in the digital age.

Most importantly, this will be a project that depends on and will benefit all of us.

And finally, let me express my personal thanks for the interactions we have had over the past few years, and those we will have today. While I will be leaving my position at the ECB, I will remain committed to this project in my new role.

I now look forward to your questions.

1.

Panetta, F. (2020), "[A digital euro for the digital era](#)", introductory statement at the Committee on Economic and Monetary Affairs of the European Parliament, Frankfurt am Main, 12 October.

2.

ECB (2020), [Report on a digital euro](#), October.

3.

We have published a series of reports summarising the progress made in the investigation phase. See ECB (2022), [Progress on the investigation phase of a digital euro](#), September; ECB (2022), [Progress on the investigation phase of a digital euro – second report](#), December; ECB (2023), [Progress on the investigation phase of a digital euro – third report](#), April; and ECB (2023), [Progress on the investigation phase of a digital euro – fourth report](#), July. The first report covers topics such as the transfer mechanism, privacy and tools to control the amount of digital euro in circulation. The second report focuses on the roles of intermediaries, a settlement model, funding and defunding and a distribution model for the digital euro. The third report covers the Eurosystem's views on accessing the digital euro, holdings, onboarding, distribution aspects, services and functionalities. The fourth report presents the Eurosystem's views on a compensation model, updates on ongoing work and the results of the prototyping exercise and market research. In addition, the ECB has commissioned focus group

research. See Kantar Public (2022), [Study on New Digital Payment Methods](#), March; and Kantar Public (2023), [Study on Digital Wallet Features](#), April. Additional reports have been published on prototyping and market research exercises. See ECB (2023), [Digital euro – Prototype summary and lessons learned](#), 26 May; and ECB (2023), [Market Research Outcome Report](#), 26 May. Moreover, all presentations on the design and distribution options – on which the ECB invited market stakeholders’ feedback in the context of the Euro Retail Payments Board (ERPB) technical sessions on digital euro as well as the Market Advisory Group (MAG) – are available on the [ECB’s website](#).

4.

In parallel, the ECB has closely interacted with other EU policymakers and with market participants, including consumers, merchants, banks and non-banks. More information on interactions with stakeholders is available on the [ECB’s website](#).

5.

[Proposal for a Regulation of the European Parliament and of the Council on the establishment of the digital euro](#), European Commission, COM(2023) 369 final, 28 June 2023; [Proposal for a Regulation of the European Parliament and of the Council on the legal tender of euro banknotes and coins](#), European Commission, COM(2023) 364 final, 28 June 2023; ECB (2023), “[ECB welcomes European Commission legislative proposals on digital euro and cash](#)”, 28 June.

6.

Article 127(4) and Article 282(5) of the Treaty on the Functioning of the European Union confer on the ECB an advisory function with regard to proposed EU acts and draft legislative provisions within its fields of competence.

7.

Panetta, F. (2023), “[A digital euro: widely available and easy to use](#)”, introductory statement at the Committee on Economic and Monetary Affairs of the European Parliament, Brussels, 24 April; Panetta, F. and Dombrovskis, V. (2023), “[Why Europe needs a digital euro](#)”, *The ECB Blog*, 28 June.

8.

The fact that euro banknotes and coins currently enjoy the status of legal tender means that they are a valid means of payment to settle a monetary debt unless the parties have agreed on another means of payment. The definition of legal tender relies on three main criteria: (i) mandatory acceptance; (ii) acceptance at full face value; and (iii) power to discharge from payment obligations.

9.

The draft legislation also foresees access to digital euro for people without bank accounts and in-person support for people in need when they start to use the digital euro. For more information, see ECB (2023), “[Digital financial inclusion](#)”, 8th ERPB technical session on digital euro, 12 May.

10.

Panetta, F. (2023), "[The digital euro: our money wherever, whenever we need it](#)", introductory statement at the Committee on Economic and Monetary Affairs of the European Parliament, Brussels, 23 January.

11.

Panetta, F. (2021), "[Stay safe at the intersection: the confluence of big techs and global stablecoins](#)", speech at the UK G7 Presidency Conference on "Safe Openness in Global Trade and Finance" hosted by the Bank of England, 8 October.

12.

Panetta, F. (2022), "[A digital euro that serves the needs of the public: striking the right balance](#)", introductory statement at the Committee on Economic and Monetary Affairs of the European Parliament, Brussels, 30 March.

13.

The Eurosystem is committed to delivering an offline functionality for the digital euro that has the following characteristics: (i) transactions are settled using secure hardware to prevent hacking and forging; (ii) transactions are settled immediately between devices to align with the legal tender status; (iii) payments received can be transferred to another device without first connecting to the internet; and (iv) the Eurosystem will not see users' personal details or their payment patterns.

14.

"Basic functions" could include the following services: (i) onboarding to digital euro and opening and holding a digital euro wallet, including know-your-customer checks and customer assistance; (ii) funding and defunding the digital euro wallet from the associated payment account; (iii) providing a basic instrument for paying with digital euro; (iv) making and receiving person-to-person payments; (v) making payments to merchants, businesses and governments; (vi) receiving payments from governments; and (vii) combinations of the above, such as waterfall (i.e. receiving a payment and defunding) and reverse waterfall (i.e. funding and making a payment).

15.

Panetta, F. (2023), "[A digital euro: widely available and easy to use](#)", introductory statement at the Committee on Economic and Monetary Affairs of the European Parliament, Brussels, 24 April; ECB (2023), "[Compensation model for the digital euro](#)", 6th ERPB technical session on digital euro, 22 February.

16.

Panetta, F. (2022), "[Building on our strengths: the role of the public and private sectors in the digital euro ecosystem](#)", introductory statement at the Committee on Economic and Monetary Affairs of the

European Parliament, Brussels, 29 September.

17.

The ECB intends to design and implement effective tools, including holding limits, to control the overall amount of digital euro in circulation and address possible risks to the transmission of monetary policy, financial stability and the provision of credit to the economy that could stem from an excessive outflow of bank deposits into digital euro. While the calibration of these tools should be performed closer to the possible future introduction of a digital euro, taking into account the economic and financial environment at that point in time, their design should prioritise simplifying the technical implementation and enhancing the user experience.

18.

We are investigating a waterfall functionality that would allow users to make or receive payments in digital euro above the holding limit by linking a digital euro account to a commercial bank account. When receiving a payment, this would allow automated conversion of retail central bank digital currency in excess of a holding threshold into a bank deposit held in a linked commercial bank account chosen by the end user. Similarly, a reverse waterfall would ensure that end users can make a payment even if the amount exceeds their current digital euro funds. Additional liquidity would be pulled from the linked commercial bank account and the transaction would be completed in digital euro at its full value.

19.

Adalid, R. et al. (2022), "[Central bank digital currency and bank intermediation: Exploring different approaches for assessing the effects of a digital euro on euro area banks](#)", *Occasional Paper Series*, No 293, ECB, May; Meller, B. and Soons, O. (2023), "[Know your \(holding\) limits: CBDC, financial stability and central bank reliance](#)", *Occasional Paper Series*, No 326, ECB, August; Bindseil, U., Panetta, F. and Terol, I. (2021), "[Central Bank Digital Currency: functional scope, pricing and controls](#)", *Occasional Paper Series*, No 286, ECB, December.

20.

Panetta, F. (2021), "[Stay safe at the intersection: the confluence of big techs and global stablecoins](#)", speech at the UK G7 Presidency Conference on "Safe Openness in Global Trade and Finance" hosted by the Bank of England, 8 October.

21.

At present, PayPal USD (or PYUSD) will be offered solely to US customers with PayPal Balance accounts. It will not be accessible to EU clients and PayPal has no public plan to roll out a similar stablecoin in Europe. For further information, see PayPal (2023), "[PayPal Launches U.S. Dollar Stablecoin](#)", 7 August.

22.

There is regular dialogue on the topic of a digital euro with market stakeholders through the Euro Retail Payments Board (ERPB), so that all sides of the market, including banks, payment service providers, consumers and merchants, can offer their views. Furthermore, market practitioners in the Digital Euro Market Advisory Group have been providing advice on the design and potential rollout of a digital euro, and the Rulebook Development Group, which is made up of representatives from all sides of the market, has been set up to work on a draft rulebook for a digital euro scheme. Further information on stakeholder engagement is available on the [ECB's website](#).

23.

In particular, additional work has been conducted on: (i) porting services, i.e. transferring digital euro holdings from an individual's personal wallet held with one intermediary to a wallet held with another intermediary; (ii) fraud detection and prevention; (iii) digital financial inclusion; and (iv) how to successfully roll out different digital euro use cases. For more information, see ECB (2023), [Progress on the investigation phase of a digital euro – fourth report](#), July.

24.

ECB (2023), "[High Level Product Description](#)", 8th ERPB technical session on digital euro, 12 May.

25.

For more information, see ECB (2023), [Digital euro – Prototype summary and lessons learned](#), 26 May; ECB (2023), [Market Research Outcome Report](#), 26 May; the letter from Fabio Panetta to Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs of the European Parliament, on the "[Results of the digital euro prototyping exercise and market research](#)" of 26 May 2023; and ECB (2023), "[Market research and prototyping exercise confirm feasibility of technical solutions and user interfaces for a digital euro](#)", *MIP News*, 26 May.

26.

The work is conducted through the Rulebook Development Group. See ECB (2023), "[Rulebook development](#)", 6th ERPB technical session on digital euro, 22 February; ECB (2023), [Mandate of the digital euro scheme Rulebook Development Group](#), 12 January; and ECB (2023), [Update on the work of the digital euro scheme's Rulebook Development Group](#), 7 June. For more information on the digital euro scheme, see Section 2 in ECB (2022), [Progress on the investigation phase of a digital euro – second report](#); and Section 2.1 in ECB (2023), [Progress on the investigation phase of a digital euro – third report](#).

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