THE ECB BLOG

Key objectives of the digital euro

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The way we pay is becoming increasingly digital. To ensure financial stability in this digital age, it is crucial that we all still have easy access to central bank money, which is the foundation of our currency. The digital euro can achieve that.

For many decades, we have had a successful model for payments. Central banks have provided the monetary base: cash for individuals and central bank deposits for banks – often referred to as “public money”. And the private sector has offered its own payment solutions – for instance giro payments or cards – that are based on commercial bank money, such as deposits. This is often called “private money”.

The stability of this hybrid model rests on private money being backed by public money. Money offered by private intermediaries can be converted to public money on a one-to-one basis at any time. In this way, public money serves as an anchor for the whole payment system.

Payments are undergoing a disruptive change

But payments are now undergoing a potentially disruptive transformation. People are increasingly paying digitally instead of with cash. Cash cannot be used in e-commerce, and many physical stores also prefer cashless payments. During the pandemic, online and contactless payments surged.

This trend towards digital money is convenient for many of us and creates a wealth of opportunities for financial innovation and inclusion. But it also poses at least three risks.

First, if cash is used less and less, public money could ultimately lose its role as the monetary anchor in Europe. People’s trust that private money can always be converted into central bank money could be jeopardised, eventually damaging trust in the euro itself. And globally, the international role of the euro could be undermined, especially if other large economies introduce central bank digital currencies that can be used across borders.

A digital payment ecosystem without a strong monetary anchor would create confusion

Second, in such an environment, people’s demand for secure and riskless digital payments would have to be met by the private sector instead – but private providers cannot truly replicate the role of central bank money. A digital payments ecosystem without a strong monetary anchor would create confusion about what qualifies as money. Take crypto-assets, for example. They cannot guarantee one-to-one convertibility with central bank money. They are not an efficient means of payment, especially if their value is not backed by any asset. And, in the case of stablecoins, they are vulnerable to runs.

Third, digital private sector solutions tend to be dominated by a handful of providers that benefit from network effects, where the solutions they offer become more useful the more people use them. This dominance could be magnified by the ability of big tech companies to use their large existing customer bases to expand quickly, increasing the risk of market-abusive behaviour. And, as most of these companies are headquartered outside the European Union, it could exacerbate the risk of our European payments market being dominated by non-European solutions and technologies.

All this means that, if we are to preserve a stable and reliable payment system in Europe, we need to preserve the role of central bank money in the digital age.

Central bank money for the digital age

That is why, one year ago, the ECB launched the digital euro project. A digital euro would be an electronic means of payment, issued by the central bank and accessible to everyone in the euro area.

A digital euro would complement cash – not replace it – by allowing central bank money to also be used in digital form. This would expand the availability of digital central bank money beyond its current use – for transactions between banks – to also include everyone's daily payments.

Introducing a digital euro would ensure that citizens can continue to trust in the monetary anchor behind their digital payments. It would protect the strategic autonomy of European payments and monetary sovereignty, providing a fall-back solution if geopolitical tensions intensify.

A digital euro would also help to avoid market dominance, improve the efficiency of the payment system and foster innovation in the private sector. We could, for instance, allow intermediaries to offer innovative services based on the digital euro. This would make it easier to quickly roll out payment solutions across the entire euro area, and for smaller firms to offer more advanced services at competitive prices.

Only a widely accepted digital euro can make a difference

But the digital euro can only be successful if it becomes part of the everyday lives of Europeans. It must add value compared with existing solutions. What will that take? It is too early to decide on the details of the design. We expect to complete the investigation phase of our digital euro project in the autumn of 2023. But some key principles are already clear.

First, a digital euro must respond to the needs of its users. Research has shown that what users value most is wide acceptance, ease of use, low costs, high speed, security and consumer protection. Meanwhile, merchants, who also seek low costs and ease of use, want the digital euro to be integrated with existing systems.

Second, a digital euro should also benefit people who so far have limited access to digital payments and thereby support financial inclusion.

Third, the protection of privacy must be of the highest standard. People should be able to choose how much information they want to disclose – so long as they comply with prevailing laws.

There are also pitfalls to be aware of. The digital euro is intended as a means of payment, not as a form of investment. Otherwise too many commercial bank deposits could be moved to the central bank – a scenario which would make it more difficult for banks to lend to consumers and companies, and which could even generate tensions in the banking system during times of financial stress. Even though the take-up of a digital euro is likely to be gradual, safeguards should be provided from the outset.

The public sector, and central banks in particular, are responsible for preserving the integrity of the monetary and payment systems in the interests of citizens. A digital euro, if carefully designed and introduced, could play a decisive and beneficial role in this endeavour, serving as a public good for the transition of our society and economy into the digital age.
