

## Implementation of a Digital Euro – An Assessment

Increasing digitisation has brought about lasting changes in many areas of life and the economy. Among other things, the digitalisation discourse focuses on challenges, opportunities, and further innovative development perspectives within the payment sector – e-commerce, mobile banking, contactless payments, and cryptocurrencies are just a few innovations in this area. A key challenge at the European level is the strong market power and thus dependence on US payment service providers, such as Mastercard and Visa. With the aim of introducing a stronger, more competitive and more independent European retail payments market, the European Central Bank (ECB) is working on the realisation and implementation of a digital euro. **The digital euro as a central bank digital currency (CBDC) is intended to complement euro banknotes and coins.**

### **With the digital euro towards a sovereign European retail payments market**

In order to reduce the fragmentation of the European retail payments market and to foster sovereignty as well as competitiveness in general, the EU Commission adopted a digital finance package in September 2020.<sup>1</sup> The package includes a digital finance strategy, a retail payments strategy, and legislative proposals for cryptocurrencies and for the stability of digital systems. The introduction of the digital euro is now expected to support the goal of the ongoing initiative to promote competition, efficiency, accessibility, and resilience in the payments market and to ensure innovation. **As a complement to euro cash, the digital euro is expected to be crucial for the full rollout of instant payments as well as the development of pan-European payment solutions.**<sup>2</sup>

Exclusive rights to issue the digital euro are to be held by the ECB. The decision of the ECB's Governing Council to launch a two-year investigation phase of the digital euro was already taken in July 2021, with the aim of analysing the design and distribution of the digital currency, examining possible changes to the EU legal framework, assessing potential impact of the digital euro on the market, and defining a business model for supervised intermediaries in the digital euro environment. The investigation phase is expected to be concluded in October 2023. The ECB will then make a final decision on the

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<sup>1</sup> 09/2020, EU Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on a Digital Finance Strategy for the EU (accessible online: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52020DC0591>).

<sup>2</sup> 06/2023, European Commission, Proposal for a Regulation of the European Parliament and of the Council on the establishment of the digital euro (accessible online: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52023PC0369>).

introduction of the digital euro. If this decision is positive, integrated services will be developed and tested in practice in a further project realisation phase.<sup>3</sup>

To substantiate the undertaking, the EU Commission published a legislative proposal on 28<sup>th</sup> June 2023, depicting how a potential legal framework for the digital currency could look like. The published document includes the following provisions regarding the design as well as implementation of the digital euro:

**1) Subject matter, establishment and issuance of the digital euro**

- The digital euro is available to natural and legal persons for the purpose of retail payments. The responsibility for authorising the issuance of the digital euro lies with the ECB.

**2) The digital euro as legal tender**

- The digital euro will be granted legal tender status. This means that banks and payment service providers are to provide the digital euro on a mandatory basis throughout the EU. The plan is for commercial banks to obtain the currency via accounts at the ECB – similar to obtaining cash.
- It is also to be mandatory to accept the digital euro throughout the euro area. Exceptions are to apply to smaller merchants: „This set of exceptions includes the right for a microenterprise not to accept the digital euro, unless it accepts comparable digital means of payment. Similarly, a natural person acting in the course of a purely personal activity is not obliged to accept the digital euro. The obligation to accept the digital euro fully respects the contractual freedom of parties, as a payee will furthermore not be required to accept digital euro payments if both the payee and the payer have expressly agreed on a different means of payment prior to the payment.“<sup>4</sup>

**3) Distribution of the digital euro**

- The digital euro should be available to private individuals free of charge.
- Individuals who do not hold a bank account should be able to obtain the digital euro from public institutions, such as regional authorities or post offices.

**4) Limits to the use of the digital euro as a store of value**

- The ECB is to set limits on the use of the digital euro as a store of value. Publicly, a possible cap of 3,000 euros is being discussed.<sup>5</sup>

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<sup>3</sup> 07/2021, EZB, Das Eurosystem startet Projekt zum digitalen Euro (accessible online: <https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210714~d99198ea23.de.html>).

<sup>4</sup> ibid.

<sup>5</sup> 08/2023, EZB, Occasional Paper Series, Know your (holding) limits: CBDC, financial stability and central bank reliance (accessible online: <https://app.policylead.eu/parliament-article/178085040/1/12389>).

#### **5) Fees on digital euro payment services**

- Merchant fees or fees between payment service providers may not be lower than the costs incurred by payment service providers, including reasonable profit margins and fees and charges for comparable means of payment.

#### **6) Access to and use of the digital euro outside the euro area**

- Access to the digital euro will also be possible for EU member states that are not part of the euro area, as well as for third countries, as long as international agreements are made to comply with the regulation requirements.

#### **7) Technical features of the digital euro**

- The digital euro is intended to be used by a broad public. It is intended to complement private digital means of payment, such as cards and apps, with the functions of a digital wallet that can be used as an app via smartphone, for example. However, the digital euro is to be available not only online but also offline. Accordingly, transactions can be made without an Internet connection to ensure privacy and data protection (see below).

#### **8) Modalities of distribution**

- Payments with the digital euro should be able to be made via the EUid wallet.
- The ECB should ensure that the digital euro is compatible with private digital payment solutions. This includes shareable infrastructures and terminals at the point of interaction. The user should have a choice between the available solutions - public or private.

#### **9) Privacy and data protection**

- Personal data shall be secured by state-of-the-art security and privacy measures, such as pseudonymisation or encryption. It shall be ensured that a user cannot be directly identified via their data.

#### **10) Anti-money laundering and counter-terrorist financing framework**

- To combat money laundering and terrorist financing, the proposal provides an adapted framework for offline payments, which ensure a higher level of data protection than digital payments. For example, the ECB, national central banks and payment service providers will not have access to personal data. However, they will be able to access top-up and withdrawal data, similar to cash.

Following the publication of the legislative proposal by the EU Commission, the EU Parliament and the Council of the EU are now called upon to state their positions. Experts expect a long democratic process

– especially ahead of the approaching European elections in the summer of 2024.<sup>6</sup> The EU Commission is still seeking feedback on the adopted legislation until 8<sup>th</sup> September 2023.<sup>7</sup> **Contrary to the ECB’s estimates that the digital euro could be introduced as early as 2026, the EU Commission assumes that it will be introduced in 2028 at the earliest.**<sup>8</sup>

### **Divided opinions at EU and German federal level**

**The digital euro is receiving strong support from the Liberal-led Federal Ministry of Finance (Bundesministerium der Finanzen, BMF).** “[The] introduction of a digital euro should be used for a major leap forward in innovation,” wrote Christian Lindner, Federal Minister of Finance, 2022 via Twitter (now x).<sup>9</sup> The BMF welcomes the establishment of a pan-European payment infrastructure to strengthen autonomy and resilience as well as economic efficiency in the euro area. Jens Zimmermann, digital policy spokesman for the SPD parliamentary group, agreed, adding that **the digital euro must also be an answer against cryptocurrency.**<sup>10</sup> A joint analysis by the BMF, the German Central Bank, and economic representatives concludes “that there is a demand in the economy for money that can be used in programmable applications, and that digital central bank money (in both retail and wholesale variants) could play a role in addressing this demand.”<sup>11</sup>

**The need for further development and specification with regard to the areas of privacy and data protection is largely called for in the EU Commission’s proposal.** The BMF emphasises that the protection of consumers’ financial privacy is central to the public’s trust in the digital euro and ultimately to its broad social acceptance. This was also emphasised by Matthias Hauer, chairman of the Conservative (CDU/CSU) parliamentary group in the Finance Committee and rapporteur for his group on this topic.<sup>12</sup> Markus Ferber, MEP (EPP; CSU), also sees the acceptance of the digital euro as a key

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<sup>6</sup> 06/2023, EU Commission, The Euro: Single Currency Package (accessible online: [https://finance.ec.europa.eu/system/files/2023-06/230628-digital-euro-factsheet\\_en\\_0.pdf](https://finance.ec.europa.eu/system/files/2023-06/230628-digital-euro-factsheet_en_0.pdf)).

<sup>7</sup> 06/2023, EU Commission, Ein digitaler Euro für die EU (accessible online: [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13392-Ein-digitaler-Euro-fur-die-EU\\_de](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13392-Ein-digitaler-Euro-fur-die-EU_de)).

<sup>8</sup> 06/2023, Handelsblatt, Die EU-Kommission treibt die virtuelle EU-Währung voran (accessible online: <https://www.handelsblatt.com/finanzen/geldpolitik/digitaler-euro-die-eu-kommission-treibt-die-virtuelle-eu-waehrung-voran/29230112.html>).

<sup>9</sup> 11/2022, Statement von Christian Lindner über x (accessible online: [https://twitter.com/c\\_lindner/status/1589582193139253248](https://twitter.com/c_lindner/status/1589582193139253248)).

<sup>10</sup> 07/2021, SPD, Der digitale Euro: eine stabile und sichere digitale Währung (accessible online: <https://www.spd-mi-lk.de/2021/07/14/der-digitale-euro-eine-stabile-und-sichere-digitale-waehrung/>).

<sup>11</sup> 04/2023, Bundesministerium der Finanzen, BMF-Monatsbericht (accessible online: <https://www.bundesfinanzministerium.de/Monatsberichte/2023/04/Inhalte/Kapitel-3-Analysen/3-1-digitales-zentralbankgeld-und-digitaler-euro.html>).

<sup>12</sup> 07/2023, Matthias Hauer, Digitaler Euro ist Thema im Finanzausschuss (accessible online: <https://www.matthias-hauer.de/digitaler-euro-ist-thema-im-finanzausschuss/>).

challenge and describes “the whole thing [as] insufficiently thought out”.<sup>13</sup> The EU Commissioner for Financial Services, Financial Stability and Capital Markets Union, **Mairead McGuinness**, counters that **the digital euro is not a “Big Brother project”** and that the level of data protection can keep pace with that of existing private digital means of payment: “For offline payments, data protection will be even higher, similar to withdrawing cash from an ATM”.<sup>14</sup>

**Furthermore, the BMF intends to involve the private sector in the design process of the digital euro.** This is because the digital euro would be issued by the ECB but should be distributed to the population via banks and payment service providers. In this context, the exchange with the private sector on experiences and innovation potential shall be promoted.<sup>15</sup>

### **Skepticism in the banking industry and among associations**

**As early as 2020, the digital association bitkom e.V. warned that Europe could be left behind in international comparison regarding the development of a digital currency** and called for increased speed in the development and implementation of the digital euro.<sup>16</sup> The association also emphasizes this point in its current position paper on the legislative proposal – but also stresses a need for further specification. In particular, the bitkom suggests improvements with regard to the status of the digital euro as legal tender (especially in terms of possible exceptions), the role of the ECB and the intermediaries, and the technical design of the digital euro.<sup>17</sup>

According to the German Banking Industry Committee (Deutsche Kreditwirtschaft, DK), **German banks welcome the introduction of the digital euro as an innovative means of payment in a digital economy in principle, but equally emphasise that risks to the European economy must be considered and discussed when designing it:** “Otherwise, there is a growing risk that the digital euro will have negative consequences for Europe's economy and citizens and fail due to a lack of acceptance in society.”<sup>18</sup> Further, Marija Kolak, President of the Association of German Cooperative Banks (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken, BVR) emphasised that “[...] the mandate of the

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<sup>13</sup> 06/2023, Tagesschau, Gesetzentwurf zum digitalen Euro vorgestellt (accessible online: <https://www.tagesschau.de/wirtschaft/finanzen/digitaler-euro-100.html>).

<sup>14</sup> 06/2023, Tagesschau, So soll der digitale Euro funktionieren (accessible online: <https://www.tagesschau.de/wirtschaft/verbraucher/digitaler-euro-kommission-vorschlag-100.html>).

<sup>15</sup> 04/2023, Bundesministerium der Finanzen, BMF-Monatsbericht (accessible online: <https://www.bundesfinanzministerium.de/Monatsberichte/2023/04/Inhalte/Kapitel-3-Analysen/3-1-digitales-zentralbankgeld-und-digitaler-euro.html>).

<sup>16</sup> 04/2020, bitkom e.V., Digitaler Euro auf der Blockchain (accessible online: [https://www.bitkom.org/sites/main/files/2020-04/200423\\_infopapier\\_digitaler-euro-auf-der-blockchain.pdf](https://www.bitkom.org/sites/main/files/2020-04/200423_infopapier_digitaler-euro-auf-der-blockchain.pdf)).

<sup>17</sup> 08/2023, bitkom e.V., Position Paper (accessible online: <https://www.bitkom.org/sites/main/files/2023-08/bitkom-positionpaper-digital-euro.pdf>).

<sup>18</sup> 08/2023, Die Deutsche Kreditwirtschaft, Erste Stellungnahme (accessible online: [https://die-dk.de/media/files/2023-08-11\\_DK-Stellungnahme\\_D\\_Final.pdf](https://die-dk.de/media/files/2023-08-11_DK-Stellungnahme_D_Final.pdf)).

European Central Bank and the concrete design of a digital euro must be transparent and democratically legitimised as well as legally anchored.”<sup>19</sup>

**In particular, the ECB’s competence should focus on the design of the digital euro as a means of payment and not as a comprehensive payment procedure.** Offers for the payment procedure should be developed by banks in order to make optimal use of the core competencies of both parties – public and private. The Association of German Public Banks (Bundesverband Öffentlicher Banken Deutschlands, VÖB) also agrees and advocates “a separation of tasks between central banks and commercial banks”.<sup>20</sup> Andreas Bley, head of the BVR's economics department, also criticizes “the fact that, according to the latest proposals, the ECB will become a direct competitor in payment transactions. **In an area where there is no market failure, the state should not intervene.**”<sup>21</sup>

In this context, Jens Weidmann, former president of the German Central Bank, warned against so-called “bank runs,” through transactions from the banking sector to the central bank.<sup>22</sup> **The DK also fears “an erosion of existing and future payment methods”<sup>23</sup> in terms of liquidity, lending options and stability,** among other things. Furthermore, according to the DK, the digital euro “**should in no way lead to the substitution of marketable, innovative payment solutions from the private sector**”.<sup>24</sup>

According to the DK, the aim of liberating from dependence on non-European providers can only be achieved if the digital euro is established as a cash-equivalent means of payment. This would enable the protection of privacy and anonymity through online and offline use and, as a consequence, increase the acceptance of the digital euro among the general public.<sup>25</sup>

The actual benefit for consumers remains an open question. According to a survey<sup>26</sup> commissioned by the Association of German Banks (Bundesverband deutscher Banken, BdB) with KANTAR, three quarters (76 percent) of the citizens surveyed are skeptical about the digital euro and do not believe it

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<sup>19</sup> 06/2023, Die Deutsche Kreditwirtschaft, Pressemitteilung (accessible online: <https://die-dk.de/themen/pressemitteilungen/deutsche-kreditwirtschaft-fordert-politische-leitplanken-fur-einen-digitalen-euro/>).

<sup>20</sup> 06/2023, VÖB, Digitaler Euro (accessible online: <https://www.voeb.de/unsere-positionen/digitaler-euro>).

<sup>21</sup> 08/2023, The Pioneer, Die Machtfantasie der EZB (accessible online: <https://www.thepioneer.de/originals/others/articles/die-machtfantasie-der-ezb>).

<sup>22</sup> 01/2020, Handelsblatt, Bundesbank-Präsident Weidmann warnt vor Einführung eines digitalen Euros (accessible online: [https://www.handelsblatt.com/finanzen/geldpolitik/geldpolitik-bundesbank-praesident-weidmann-warnt-vor-einfuehrung-eines-digitalen-euros/25362418.html?nlayer=Newsticker\\_1985586&ticket=ST-437604-ZzekTScbn7FrjcwupYxl-ap3](https://www.handelsblatt.com/finanzen/geldpolitik/geldpolitik-bundesbank-praesident-weidmann-warnt-vor-einfuehrung-eines-digitalen-euros/25362418.html?nlayer=Newsticker_1985586&ticket=ST-437604-ZzekTScbn7FrjcwupYxl-ap3)).

<sup>23</sup> 08/2023, Die Deutsche Kreditwirtschaft, Erste Stellungnahme (accessible online: [https://die-dk.de/media/files/2023-08-11\\_DK-Stellungnahme\\_D\\_Final.pdf](https://die-dk.de/media/files/2023-08-11_DK-Stellungnahme_D_Final.pdf)).

<sup>24</sup> 06/2023, Die Deutsche Kreditwirtschaft, Pressemitteilung (accessible online: <https://die-dk.de/themen/pressemitteilungen/deutsche-kreditwirtschaft-fordert-politische-leitplanken-fur-einen-digitalen-euro/>).

<sup>25</sup> Ibid.

<sup>26</sup> 08/2023, Bankenverband, Umfrage (accessible online: <https://bankenverband.de/digitaler-euro/der-digitale-buerger-euro-braucht-das-vertrauen-der-menschen/>).




is necessary to introduce it, as existing payment options are sufficient. More than one in two (58 percent) of those surveyed were “very” or “somewhat” critical of digital payments because they are not anonymous and therefore restrict privacy.

### Conclusion

The introduction of a digital euro is to be welcomed for the euro area insofar as it contributes to resilience and sovereignty in the European payment infrastructure. **However, some questions remain unanswered regarding the practical design of a digital central bank currency, which need to be clarified in the further process.** In particular, questions regarding costs and benefits should be examined in greater detail. Opportunities as well as risks should be discussed with the involvement of the general public. Consumers trust their respective banks and do not yet see any personal practical added value in the digital euro. Additionally, risks for the banking industry under the current design of the digital euro shall be noted. Since the ECB is currently dealing with the concrete design and configuration, it will be particularly relevant to observe the upcoming conclusion of the investigation phase in October.

For advice on how to position your organisation on these political challenges and developments, please do not hesitate to contact us.

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