

The investigation phase of the digital euro project is about to start

An interview with Ulrich Bindseil, Director General, DG Market Infrastructure and Payments, European Central Bank

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After analysis, experiments and input from citizens and professionals, the Governing Council of the European Central Bank (ECB) has decided to launch the investigation phase of the digital euro project. The Investigation phase will start in October 2021 and will last for two years.

We interviewed Ulrich Bindseil, Director General, DG Market Infrastructure and Payments, European Central Bank to find out more about the development and the potential implications of the digital euro project.

Could you please summarise the background to as well as the scope and timeline of the digital euro project announced by the ECB on 14 July 2021?

An accelerated trend towards new payment methods and means is being observed. Our goal is to support the digitalisation of the European economy while

still maintaining an efficient, safe and sound payment ecosystem and an independent European Union. In this vein we have launched the **Eurosystem retail payment strategy** and started a **two-year investigation phase** of a digital euro. The two are linked and should ultimately ensure that businesses and citizens in Europe are offered fully digital payment solutions and payment means which can be used anywhere and anytime like cash today.

The digital euro project's investigation phase aims at analysing and concluding on key issues regarding the scope, design and distribution of a digital euro. Our overall objective is that a digital euro should meet the needs of Europeans while at the same time help prevent illegal activities and avoid any undesirable impact on financial stability and monetary policy.

We will work closely with the financial industry and set up advisory and focus groups, develop prototypes and more conceptual work regarding a digital euro. Close collaboration will be established also with the **European Retail Payments Board ()** to ensure cohesion on the broader aspects of retail payments and ultimately ensure that Europeans are offered front-end payment solutions which can be used anywhere in Europe. The scope of the project will also include defining the necessary legislative framework for which we will continue to interact closely with other European institutions.

What were the key drivers for such a decision?

A number of reasons and scenarios have triggered the **ECB** decision to investigate a possible digital euro. Some of these are already reality today whereas other may materialise in the future. I would list six potential reasons/scenarios that could result in a decision to issue a digital euro: 1. to support the digitalisation of the European economy and the strategic independence of the European Union; 2. to respond to a significant decline in the role of cash as a means of payment, 3. to address the risk that foreign central bank digital currencies or crypto-assets would become widely used in the euro area as means of payments, 4. to mitigate risks to the normal provision of payment services, 5. to foster the international role of the euro, and 6. to support improvements in the overall costs and ecological footprint of the monetary and payment systems.

Whether or not the **ECB** will decide to issue a digital euro is still to be seen. In October 2023, after the end of the investigation phase, the ECB Governing Council would have to decide whether or not to launch the development phase of a digital euro project.

Are some features of a potential digital euro already predefined and if so what are they?

Generally speaking the features and scope of the digital euro will be assessed only over the coming two years. Nothing is therefore predefined.

However, some core guiding principles for the design of a digital euro will be based on the current Eurosystem policies. First, a digital euro would be another way to supply euro and therefore convertible at par with other forms of euro. Second, a digital euro would be a liability of the Eurosystem and thus risk-free central bank money. Third, the prospect of Central Bank issuing a digital euro should neither

discourage nor crowd out private solutions for efficient digital retail payments. Fourth, a digital euro must be trusted, just like any other form of the euro.

How will stakeholders including the payments industry be involved in this project?

We are setting-up a new market group and have called for stakeholders to voice their interest by 13 September should they wish to join. The **Digital Euro Market Advisory Group** (MAG) will be composed of about 20 market participants and advise the Eurosystem on issues surrounding the design and distribution of a potential digital euro. It will also explore how a digital euro could provide added value to those involved in the euro area's payments ecosystem.

In addition, we want to involve two senior payments industry experts as consultants on aspects related to the business model and the potential design and infrastructure of a digital euro.

Will the digital euro project have a link with the activities around the G20 roadmap to enhance cross-border payments and if so how?

Indeed, the Bank for International Settlement's Committee on Payments & Market Infrastructures (**BIS-CPMI**) (to which the ECB participates) has just published a report in which Central Bank Digital Currency (**CBDC**) is seen as an important future means to improve cross-border payments. Moreover, the improvement of cross-border retail payments is part of the Eurosystem retail payments strategy. Of course, a digital euro cannot solve all payment issues at once. Moreover, the rules of cross-border usage of any CBDC will have to be agreed internationally.

Let me also recall that CBDC is not the only way central banks can concretely support cross-border payments. As system operator, and in **collaboration with Sveriges Riksbank**, we are investigating if **TARGET Instant Payment Settlement (TIPS)** could process cross-currency instant payments between euro and Swedish kronor. A cross-currency instant payments settlement service in central bank

money could be an important contribution to the modernisation of cross-border European retail payments and benefit European consumers and businesses alike.
