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European Commission

CALL FOR EVIDENCE
FOR AN IMPACT ASSESSMENT

This document aims to inform the public and stakeholders the Commission's future legislative work so they can provide feedback on the Commission's understanding of the problem and possible solutions, and give us any relevant information that they may have, including on possible impacts of the different options.

TITLE OF THE INITIATIVE	A digital euro for the EU
LEAD DG (RESPONSIBLE UNIT)	DG Financial Stability, Financial Services and Capital Markets Union (B3, B5), and DG Economic and Financial Affairs (A2, C3, C5)
LIKELY TYPE OF INITIATIVE	Regulation
INDICATIVE TIMETABLE	Q1-2023
ADDITIONAL INFORMATION	Insert a **link** to a website (either the specific one for the initiative or a website covering the policy area (*if there is none, put: – in the field*).

This document is for information purposes only. It does not prejudge the final decision of the Commission on whether this initiative will be pursued or on its final content. All elements of the initiative described, including its timing, are subject to change.

A. Political context, problem definition and subsidiarity check

Political context

In March 2021, the Euro Summit called[1] for a stronger and more innovative digital finance sector and more efficient and resilient payment systems, and stated that exploratory work on a central bank digital currency, the digital euro, should be taken forward. A digital euro is a central bank liability offered in digital form for use by people and businesses, which would complement cash and private payment means.

The Council recommendation on the economic policy of the euro area for 2022 also stressed that depending on its design, a central bank digital currency could, among other things, offer a supply of public money in digital form, support the digitalisation of the European economy, actively encourage innovation in retail payments and contribute to strengthening the international role of the euro and Europe's open strategic autonomy.

The digital finance and retail payment strategies of the Commission[2] adopted in September 2020 supported the emergence of competitive pan-European payment solutions and the exploration of a digital euro as a possible complement to euro cash, which is legal tender by virtue of the treaties and the EU legislation. The ECB's retail payment strategy shares similar objectives[3].

The ECB issued its report on a digital euro in October 2020 and ran a public consultation on a digital euro between October 2020 and January 2021. In July 2021, the Governing Council of the ECB decided to start an investigation phase[4] on a digital euro project in October 2021.

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[1] https://www.consilium.europa.eu/media/48975/25-03-21-eurosummit-statement-en.pdf

[2] https://ec.europa.eu/info/publications/200924-digital-finance-proposals_en

[3] https://www.ecb.europa.eu/pub/pdf/other/ecb.eurosystemretailpaymentsstrategy~5a74eb9ac1.en.pdf

[4] https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210714~d99198ea23.en.html

A survey[5] by the Bank for International Settlements in 2021 found that 86% of central banks surveyed were actively researching the potential for central bank digital currencies (CBDCs), 60% were experimenting with the technology and 14% were deploying pilot projects.

Problem the initiative aims to tackle

The introduction of a digital euro aims to **preserve the role of public money in a digital economy** to tackle the following challenges and scenarios:

- **In the digitalising EU economy, citizens and businesses may significantly reduce their use of cash for daily payments to a point where it could weaken confidence in the euro as the single currency**. For now, cash remains the dominant means of payment in terms of number of retail transactions (about 70% in 2019[6]), while it accounts for less than 50% of retail transactions in value terms. It is currently the only payment means with legal tender status. The Commission is committed to maintaining EU citizens' access to euro cash. However, as the digital economy becomes more and more dominant, the role of digital payments will continue to grow while cash's availability, acceptance and use for payments may decline, which may erode confidence in both the currency and the financial system. Furthermore, an excessive decline in the availability and use of central bank money in favour of private means of payments such as commercial bank money poses risks to financial inclusion. In addition, a cyber-incident, natural disaster or other extreme event could hinder the provision of certain digital private payment services, which could cause large economic disruption in a digitalised economy if cash is marginal.
- **The digitalisation of the economy and evolving user expectations require digital and innovative state of the art means of payment that meet a wide array of end-users' needs**. EU businesses also increasingly require innovative payments to support their logistics, energy, internet of things, rental, streaming and other online services and businesses in the new Industry 4.0 era. While solutions offered by the private sector, including newly emerging business models such as stablecoins, could address some of those needs, innovative payment solutions in central bank money could support and complement private payment solutions, in particular with regard to the offering of pan-European, instant –based payment solutions.
- **Increasing challenges to the EU's open strategic autonomy and the need to strengthen the international role of the euro**. Benefiting from large barriers to entry due to network effects, international card schemes and other large technology companies have very strong positions in the EU's payment markets. Furthermore, over the medium to long term, new alternative payment means (crypto assets/stablecoins, foreign central bank digital currencies (CBDCs) might carve out a share in the EU's retail payment market. Both developments increase the risk of external disruption and may increase the volume of non-euro denominated payments. This would mean a challenge to the use of the euro as the single currency within the euro area and furthermore decrease the domestic and international role of the euro as an invoicing currency[7].

Basis for EU action (legal basis and subsidiarity check)

Under Article 3(1)(c) TFEU, the EU has exclusive competence in the area of monetary policy for the Member States whose currency is the euro. Issuing a digital euro and deciding on its technical features falls within the ECB remit but requires its prior creation by an EU Regulation setting out its essential elements. A new form of central bank money available to the general public, alongside the euro banknotes, issued by the Eurosystem, must be created and regulated in its essential aspects by an EU Regulation based on Article 133 of the TFEU. That article provides for the laying down of 'measures necessary to the use of the euro as the single currency'. This was emphasised by the Council recommendation of January 2022 on the economic policy of the euro area for 2022.

In the euro area, euro banknotes and coins are so far the only legal tender pursuant, respectively, to Article 128 TFEU and Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro. Legal tender status for the digital euro would be an essential characteristic to be included in the Regulation based on Article 133 of the TFEU.

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[5] https://www.bis.org/about/bisih/topics/cbdc.htm#:~:text=A%202021%20BIS%20survey%20of%20central%20banks%20found,digital%20currency%20%28CBDC%29%20would%20be%20a%20digital%20banknote.

[6] Source: SPACE survey by ECB. [Study on the payment attitudes of consumers in the euro area (SPACE) (europa.eu)]

[7] https://www.ecb.europa.eu/pub/ire/html/ecb.ire202106~a058f84c61.en.html

Moreover, additional amendments of the current EU legislative framework may be needed to adjust to the digital euro and digital currencies issued by central banks of non-euro area Member States.

Legal basis

Article 133 of the TFEU (ordinary legislative procedure with consultation of the ECB)

B. Objectives and policy options

A digital euro would be an electronic form of central bank money accessible for citizens and firms. A digital euro should support the following objectives:

First, it should ensure a continuous supply of central bank money, in digital form, given the declining use of cash as a means of payment. Preserving the accessibility and usability of central bank money in the digital era is key to protecting **monetary sovereignty** (i.e. the ability of public authorities to control the unit of account in their jurisdiction in order to manage the macroeconomy) and the well-tested two-layer monetary system based on convertibility of regulated/supervised forms of money into central bank money. Central bank digital money would thus complement cash in providing a **monetary anchor for the payments system** by ensuring that private money can always be converted into safe public money**.** It could also provide a monetary anchor in emerging payment segments where cash cannot easily perform its monetary anchor function. This would support confidence in the singleness of money and financial stability in the digital age.

It should also support financial inclusion offering a complement to cash in an ever more important digital sphere as well as in a physical world where people and business choose cash less often. The digital euro should not have undesirable effects on financial stability and financial intermediation: it should neither allow excessive conversion of banking deposits into digital euro, nor create an unlevel playing field with private payment service providers.

Second, it should support the digitalization of the European economy and the development of state of the art, safe, efficient pan-European payments in central bank money with a high level of privacy and data protection. The digital euro can play a role in further enhancing competition and innovation in the European retail payments market and reducing its fragmentation as well as supporting digital financial services. It should be in full synergy with the rollout of instant payments in the EU, and the emergence of pan-EU payment solutions. Overall, the design of the digital euro should ensure a high level of synergy with private initiatives e.g. when it comes to distribution, acceptance and use.

Third, it should support Europe's open strategic autonomy and strengthen the international role of the euro.

At this preliminary stage of reflection, the Commission will explore several possible policy options to achieve the general objectives pursued. A digital euro could be used in several payment situations including person to person, person to business (point of sale, e-commerce), person to government and machine to machine payments. The digital euro may also offer state of the art payment functions such as programmable payments.

The digital euro's design choices may include:

- account or bearer-based models (e.g. verification),
- access to digital euro and usability (e.g. obligation for intermediaries to ensure the access to and usability of digital euro for their clients),
- identifying appropriate identity solutions including the possibility of using the European digital identity wallet[8] offering the possibility of a common certified infrastructure including a secure and trustworthy solution for on-boarding and for online and offline payments,
- distribution (centralised, decentralised involving intermediaries),
- financial inclusion (easy onboarding and use),
- the payment solutions (online, offline, micro and programmable payments),
- the store of value functions (potential limits or disincentives to mitigate risks to financial stability and impact on the financial sector),
- business model (fee structure for intermediaries), and
- legal tender status (e.g. acceptance requirements for merchants providing digital payment services).

The digital euro should abide by anti-money laundering / counter terrorism financing rules and data protection requirements set out in Union law.

The Commission is considering whether granting legal tender status to the digital euro has implications for the legal tender of euro cash that would warrant the option of a binding EU legislative proposal defining the meaning of legal

[8] https://ec.europa.eu/commission/presscorner/detail/en/IP_21_2663

tender for euro cash, in line with CJEU case law, to ensure coherence and safeguard the role of euro cash as a complement to the digital euro. In the absence of EU action, the only definition of legal tender in EU secondary law would concern the digital euro, which could point to a corresponding need to define the meaning of legal tender of euro cash (banknotes and coins) in EU legislation. Thus far, the key principles of the legal tender of euro cash have only been laid out in a Commission Recommendation from 2010[9] and in a recent court ruling[10] of the European Court of Justice (CJEU).

C. Likely impacts

The digital euro would have an impact on

- **EU residents and businesses within the euro area**, who would be able to use central bank money both in physical and in digital form and be able to use a full range of payments (e.g. in e-commerce, remote peer-to-peer payments). In the case of digital forms of euro, there will be a substantive impact on the protection of personal data. The functioning of digital euro will require processing of personal data, including sensitive personal data, in full compliance with the GDPR framework. Specific designs (e.g. easy on-boarding and use, offline peer-to-peer payments) of the digital euro could help vulnerable segments of the EU's society and thus support financial inclusion in the digitalising economy.
- **Businesses**, which could benefit from a wider range of digital payment solutions for the acceptance of digital payments. Depending on the ultimate decisions on the design, the digital euro could offer a cost-competitive, instant and state-of-the-art complementary, central bank money based payment solution (e.g. compatibility with smart contracts).
- **Financial intermediaries (i.e. payment service providers, credit institutions)**, which could distribute the digital euro and be able to develop additional innovative services on top. However, if deposits are converted to digital euro at a larger scale, the intermediation role of some of these might be adversely impacted and could lead to higher funding costs for credit institutions and their increased reliance on Eurosystem funding. The design of the digital euro will thus seek to minimise the risk of large-scale conversion of deposits e.g. by introducing limits or disincentives to using the digital euro as a store of value instrument.
- **Private payment services and initiatives**, which would face competition in digital payments from the digital euro that could potentially offer cheaper, instant payments without credit risk. While competition is desired, a fair and viable business model for the digital euro may be needed to avoid squeezing-out and undesired impacts on private payment services and innovations and to incentivise payment service providers to offer the digital euro.
- **EU residents and businesses outside of the euro area** e.g. potential users in non-euro area EU Member States and neighbourhood countries, who could – under certain digital euro designs – benefit from credit-risk-free payments. The risk of (partial) currency substitutions and the impact on the monetary policy and financial stability of non-euro area Member States could be mitigated by limitations on the use of the digital euro outside the euro area.

D. Better regulation instruments

Impact assessment

An impact assessment will be prepared and submitted to the Regulatory Scrutiny Board. Given the close entanglement of the legislative initiative with the ECB project, material from the ECB's public consultation and impact studies should be used to avoid unnecessary duplication of tasks and make good use of public resources.

The impact assessment will feed into the Commission's proposal for a Regulation.

Consultation strategy

To support the impact assessment, a number of consultations will be used.

[9] Commission Recommendation 2010/191/EU of 22 March 2010 on the scope and effects of legal tender of euro banknotes and coins.

[10] Judgment of 26 January 2021 in joined cases Johannes Dietrich and Norbert Häring v Hessischer Rundfunk, (C-422/19 and C-423/19, ECLI:EU:C:2021:63).

Why we are consulting?
The targeted consultation will gather further evidence on the following issues: 1) Users' needs and expectations for a digital euro 2) The digital euro's role for the EU's payment systems and the digital economy 3) Granting legal tender status to the digital euro while continuing to safeguard the legal tender status of euro cash 4) The digital euro's impact on the financial sector and financial stability 5) Application of anti-money laundering and counter terrorist financing requirements 6) The data protection and privacy aspects of payments with a digital euro 7) Use of the digital euro outside the EU.
Target audience
The targeted consultation aims to collect information from industry specialists, credit institutions, payment service providers, payment infrastructure providers, developers of payment solutions, merchants, merchant associations, consumer associations, payment supervisors and other relevant authorities.

[11] https://www.ecb.europa.eu/paym/digital_euro/html/pubcon.en.html