



## **Why Europe needs a digital euro: Contribution by Fabio Panetta, Member of the Executive Board of the ECB, and Valdis Dombrovskis, Executive Vice-President of the European Commission**

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Our world is changing. Digitalisation has transformed society in ways that would have been difficult to imagine only ten years ago. It is also changing how we make payments: people increasingly want to pay digitally. The COVID-19 pandemic has accelerated this shift.

Central banks around the world are now working on complementing the public money they currently make available – cash – with a digital version of it: a central bank digital currency.

In the euro area, the digital euro would offer a digital payment solution that is available to everyone, everywhere, for free.

Cash remains important: it is still the preferred means of making small in-store payments and person-to-person transactions. Most people in the euro area want to keep the option to pay with banknotes and coins.

This is why the European Commission and the European Central Bank (ECB) are fully committed to making sure that cash remains fully accepted and available across all 20 countries in the euro area.

But the fact is, using cash for payments is declining in many parts of the world, including Europe. As we move towards a true digital economy, adapting cash to reflect the digital age is the logical next step.

Having both options – a cash euro and a digital euro – would mean that everyone can choose how to pay and no one is left behind in the digitalisation of payments.

Crucially, it would offer Europeans the option to pay digitally throughout the euro area, from Dublin to Nicosia and from Lisbon to Helsinki.

For consumers, the digital euro would bring many practical advantages. It would be simple to use and cost-free. No matter where they were in the euro area, people could pay anyone for free with their digital euro, for instance using a digital wallet on their phones. They would not even have to make payments online: they could also pay offline.

Protecting privacy is a vital feature of the digital euro. The ECB would not see users' personal details or their payment patterns. The offline functionality would also bring a higher degree of data privacy than any other digital payment methods currently available.

A digital euro would also reduce payment-related fees for consumers by spurring competition in Europe. At present, two-thirds of Europe's digital retail payments are processed by a handful of global companies. Thanks to greater competition, customers and merchants would benefit from cheaper services.

For banks and other payment service providers, the digital euro would act as a springboard for the development of new pan-European payment and financial services, stimulating innovation and making it easier to compete with large, non-European financial and technology firms. It would include safeguards, such as limits on the amount that people could hold, to avoid any substantial outflow of deposits from banks. But users wishing to pay more than the set limit would be able to do so by linking their digital wallet to their bank account.

There are also major strategic advantages to having a digital euro.

As the world's largest single market, Europe cannot afford to remain passive while other jurisdictions move ahead. If other central bank digital currencies were allowed to be used more widely for cross-border payments, we would risk diminishing the attractiveness of the euro – currently the world's second most-important currency after the US dollar.

And the euro could become more exposed to competition from alternatives such as global

stablecoins.

Ultimately, this could endanger our monetary sovereignty and the stability of the European financial sector.

A digital euro would also enhance the integrity and safety of the European payment system at a time when growing geopolitical tensions make us more vulnerable to attacks to our critical infrastructure. By relying on European infrastructure, the system would be better equipped to withstand disruptions, including cyberattacks and power outages.

We are still only at the start of this exciting new project.

The European Commission presents its legal proposal today. This autumn, the ECB will complete its investigation phase on the digital euro's design and distribution. It will then decide whether to initiate a preparation phase to look at developing and testing the new digital currency.

Central bank money underpins our trust in all forms of money as well as the stability and resilience of our payment system. It is the anchor for Europe's financial system and monetary union.

A digital euro would preserve the role of central bank money, because whatever form it takes – cash or digital – a euro will remain a euro.

Our monetary system, with our common currency at its core, needs to keep up with digital advances.

We are committed to ensuring that it does.

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