

# FIVE CHALLENGES FOR THE ISSUANCE OF A DIGITAL EURO

High-level position paper – Executive summary

July 2021

Since the publication of the Report on a digital euro in October 2020, ESBG and its members have been following closely and with great interest the developments made by the European Central Bank (ECB) in the project of a digital euro. In this context, ESBG has recently finalised a [high-level paper](#) that analyses some of the main challenges that a digital euro will face and suggests four possible use cases that could especially benefit from the issuance of a digital euro.

## BANKING FUNDING MODEL

The introduction of a digital euro could induce depositors to transform their commercial bank deposits into central bank liabilities. This would impact the funding costs of banks, which in turn could increase the rates on bank loans. This could also potentially curtail the volume of credit to the economy. We consider crucial to preserve financial stability and avoid a digital euro becomes an alternative to bank deposits - especially in situation of crisis where access to digital euro could accelerate bank runs.

## LIMITS TO INDIVIDUAL HOLDINGS

A digital euro must be designed as an instrument for retail payments only, thus avoiding any possible use of it as an investment tool. We consider individual limits to holdings as a critical tool to prevent an excessive build-up of liquidity, which could seriously impinge on the transmission of monetary policy through the credit channel as well as raise financial stability issues. Based on public data available, we suggest that said limit should amount to € 1500.

## IMPACT ON INTERMEDIATION AND COMPETITION

A digital euro offered directly by the ECB would lead to banking disintermediation, disrupt the efficient allocation of credit, and furnish the ECB with new de facto powers. This, in turn, would be detrimental to the efficient allocation of credit in the economy. Therefore, we argue that it is in the interest of central banks to keep the current intermediation role of commercial banks.

## USER PERSPECTIVE

A digital euro should be secure, easy to access and use, and adapted to the general public. To protect the privacy of European citizens, we argue that some restrictions or enhanced consent requirements may be necessary, especially to avoid the risk of misuse of data due to certain business models.

## CROSS-BORDER PAYMENTS

We consider that current solutions to deliver cross-border payments could be significantly improved: among the use cases that could benefit the most from cross-border payments enabled by CBDCs, retail remittances and trade finance services for SMEs are particularly relevant. All these services could significantly benefit from a CBDC that allows transactions to be performed instantly on a bilateral basis, 24/7/365.

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