



The Digital Euro

Proposal for a CEPS-ECMI-ECRI Round Table

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'In a more digital economy, we also need to ensure the strength and autonomy of European payment systems.'

Christine Lagarde - 'Jointly shaping Europe's tomorrow'
(21 September 2020)

1. Introduction

Issuing a retail central bank digital currency (CBDC) has emerged as a high priority for most of the central banks around the world. Through this new financial instrument, central banks would open access to their balance sheets to the broader public more than ever before. So far, [several countries](#) have fully launched a digital currency, a dozen are running their own small-scale trial rollouts and many more are in the process of exploring and developing such an instrument.

Alongside this global effort, in October 2021 the European Central Bank (ECB) launched a two-year investigation phase of the digital euro project. The aim is to address key issues related to its design and distribution. As it has been made clear by the ECB, a digital euro would not replace physical cash, but rather complement banknotes and coins as an electronic equivalent. It would be offered to the general public, e.g. individual users (subject to certain holding limits), business users and governments or other public authorities, for retail payments.

The state of preparation for the prospective launch of a digital euro is reflected in the two Progress Reports published by the ECB in [September 2022](#) and [December 2022](#). The end of the investigation phase has been scheduled for autumn 2023. Based on the outcome of this phase, the ECB Governing Council will decide on whether to launch a realisation phase. This will entail the development and testing of the technical solutions and business arrangements for a digital euro.

A critical aspect of a CBDC is its key design features, such as the level of access; its holding and/or use limits; remuneration schemes; its global accessibility; and multicurrency capability. Depending on these features a potential CBDC would presumably have profound macroeconomic implications particularly for the banking system, financial stability, and the implementation and transmission of monetary policy.

2. The Digital Euro project

From a geopolitical and central bank perspective the issuance of central bank digital euro (CBDE) is quickly becoming a matter of necessity.

The fast-growing fintech industry infringes upon traditional 'reserve territories' of central banks by offering new means of payment and, in some cases, new forms of money to the public. Changes in the technological environment and in consumer payment preferences, further accelerated by the Covid-19 pandemic, have encouraged new methods to emerge into the consumer payments landscape. This environment forces central banks to adopt innovative and more efficient approaches to providing their fundamental financial services to the public, and to retain their control over the monetary and financial systems. Nonetheless, the possible implications of a CBDC are so pervasive that its design and implementation require careful examination and planning. Equally important, there needs to be a thorough understanding of the potential consequences.

Financial stability

One of the most frequently raised concerns in the CBDC debate is the risk of bank disintermediation. A CBDC could represent a source of competition with bank deposits, particularly if remunerated. The privileged position of the central bank as a riskless entity, compared to banks, makes such competition somewhat unwarranted and potentially distorting. Shifting away from deposits to the digital euro could increase banks' funding costs, possibly causing them to deleverage and reduce the supply of credit to the real economy. A run on bank deposits could therefore lead to a systemic crisis. Moreover, a CBDC would reduce the demand for payment services from private financial entities crowding out the private payment solutions.

European sovereignty

Strengthening European financial and monetary autonomy is the primary motive behind adopting a digital euro. The adoption of full-fledged CBDCs by major central banks could increase the efficiency of international payments. For these purposes, the CBDC's management would need to be coordinated among central banks. However, there might be a risk to European sovereignty exacerbated by the possible future dominance of non-European digital payment solutions and technologies operated outside of the euro area. Similarly, digital assets such as crypto-assets and stablecoins, which use a blockchain-based payment system offered by BigTech companies, have been attracting substantial attention.

Interoperability

A core aspect of a potential CBDC should be interoperability which ensures the CBDC's integration into the broader payments landscape. Interoperability comprises a range of characteristics from accommodative technical infrastructure to common legal and regulatory frameworks, and messaging standardisation. A lack of this feature poses the risk of fragmentation and increases the costs for end-users (BIS, 2021). Interoperability with foreign CBDCs and between cross-border CBDC systems would bring about additional challenges and complexities which require even more thorough consideration.

3. Round Table

In this context, CEPS-ECMI-ECRI are proposing to launch a very focused Round Table with relevant stakeholders to discuss the current state of play regarding the digital euro project and to devise a limited series of key recommendations on how to move forward.

The composition of the group should reflect the variety of interests involved in the digital euro project, which we think is missing in the current debate. It would be composed of market operators and infrastructures, central bank representatives and academics.

4. The main questions to be addressed

Some of the questions that will be discussed include:

- How can the digital euro serve Europe's strategic autonomy and allow for the strengthening of the European financial sector's competitiveness?
- What will the digital euro's impact be on the over-reliance on international card schemes in the European payments space?

- How does the digital euro affect banks' business models and their financial intermediation role, including the possible structural and cyclical disintermediation?
- How can differences across the Member States be addressed when considering the potential undesirable consequences of issuing a digital euro?
- What could the possible future dominance of BigTech companies and private stablecoins in the digital payments sphere look like?
- To what extent does the digital euro leverage on existing payment infrastructures and solutions?
- How would the digital euro interoperate with existing payment solutions? What schemes should be developed to ensure such interoperability?
- How should the distributing intermediaries of digital euro to end users be compensated?
- What is missing from the digital euro project that is needed to achieve its ultimate goal of providing an anchor of stability for the euro?

5. Objectives and proposed methodology

The Round Table will focus on three main topics:

- Identify the key areas that the ECB should prioritise.
- Discuss the possible short- and long-term implications for the banking sector and overall financial stability.
- Discuss the technical, operational, legal and supervisory aspects related to the interoperability of a CBDC system.

The Round Table would then put forward a list of policy recommendations and actions that can contribute to a more innovative, competitive and resilient European payments system.

To accomplish the above-mentioned objectives, we propose to use a mix of literature review, data collection, round table discussions, and analysis. In particular, we will perform a targeted literature review of the most up-to-date policy and academic research, as well as a thorough collection of data available through various publicly available sources (e.g. BIS, ECB, etc.).

Should this proposal be accepted, the methodology would then be further refined and discussed with all members of the Round Table at the first meeting.

6. Organisation and governance

The **Chairperson** is an external expert appointed by CEPS-ECMI-ECRI. He/She will be invited by CEPS-ECMI-ECRI and will chair the meetings and moderate the discussions.

The **Rapporteurs** will organise and set the agenda for the meetings, follow-up on the discussions, conduct research independently and draft the final report, in close cooperation with the chair.

The **Round Table** members will steer the research agenda of the meetings and actively participate in the discussion and, together with the chairperson, review the final report and comment on the list of recommendations.

Rapporteurs



Karel Lannoo (Principal Expert) is Chief Executive of the CEPS and General Manager of ECMI. He is specialised in financial regulation, economic governance and single market issues and his recent publications cover EU healthcare sector policy, anti-money laundering and crypto-currency regulation. Karel is a regular speaker at hearings of EU, national and international institutions and in executive programmes, as well as a participant in studies for national, multilateral and private sector organisations. He regularly writes op-eds and appears in the media (FT, WSJ, Le Monde, Bloomberg, NRC, Financieel Dagblad, De Tijd, etc.). He is a member of company and foundation boards, and of advisory councils. Karel Lannoo holds a baccalaureate in philosophy (1984) and an MA in history (1985) from the University of Leuven, Belgium and obtained a postgraduate in European Studies (CEE) from the University of Nancy, France (1986). He is fluent in Dutch, English, French and Spanish, with a good knowledge of German.



Dr. Farzaneh Shamsfakhr (Senior Expert) is a Researcher in the Economic Policy Unit at CEPS. She has over ten years of professional experience in economic research and quantitative analysis. She has collaborated on several research projects in the field of macroeconomics and monetary policy. Since 2020, she has provided support to the work of the European Parliament's Committee on Economic and Monetary Affairs (ECON) in the context of the monetary dialogue of the European Parliament with the European Central Bank (ECB). She has also contributed to several research papers and briefings in the field of monetary economics. She has a solid background in quantitative macroeconomic modelling, developing and estimating Dynamic Stochastic General Equilibrium (DSGE) models, forecasting, Time Series and Panel Data Econometrics. She also has extensive experience in data analysis and evaluation. She completed her PhD at the University of Duisburg-Essen and received her MSc in Economics from Ruhr University Bochum (RUB).



Dr. Apostolos Thomadakis (Senior Expert) is Research Fellow in the Financial Markets and Institutions Unit at CEPS and the European Capital Markets Institute (ECMI). He has (co)-authored studies and coordinated projects on issues related to capital markets, CMU, access to capital and SMEs financing, derivatives and CCPs, financial instruments, and financial and securities regulation. Prior to joining CEPS he was a Visiting Scholar at the Bank of Lithuania and the Austrian National Bank, while he worked for the European Investment Bank (EIB) and the European Central Bank (ECB). Apostolos has held academic positions at the University of Warwick, London School of Economics, the University of Bath, and the University of Surrey, where he taught courses on derivatives, econometrics, and finance. He holds a PhD in Economics and an MSc in Business Economics and Finance from the University of Surrey and he obtained a BSc in Physics from the Aristotle University of Thessaloniki.

7. Deliverables and timeline

Based on the agenda outlined above there will be three/four Round Table meetings and a public webinar to launch the report. A detailed agenda will be distributed prior to each meeting. Meetings will take place in Zoom format and last approximately 90 minutes.

- A **first meeting** will be organised in April 2023. In this meeting the group will identify the major challenges and risks, as well as the opportunities of issuing a potential digital euro. Accordingly, the group will set the agenda and bring together the list of items to be discussed in the following meetings.
- A **second meeting** will be organised in May 2023. In this meeting the challenges, risks and opportunities identified during the first meeting will be discussed, and it will explore how best to address them.
- A **third meeting** will be organised in June 2023. In this meeting the group will propose a series of policy recommendations.
- A **fourth meeting** will be organised in July 2023. In this meeting the group will discuss and comment on the final draft.
- A **webinar** will be organised in September/October 2023 where the final report will be launched and presented. This will be followed by a moderated panel discussion which will see policymakers and market participants debate the topic and the recommendations put forward.

All deliverables will be drafted in accordance with the highest professional standards, observe the highest academic integrity, and contain clear findings and recommendations for decision makers, supported by essential data. All the materials will be submitted in English. The report will be proofread by a native English speaker and professional editor who is a member of the CEPS Editorial Team. Further details on quality control measures are provided below. The final report will be published and promoted by CEPS-ECMI-ECRI through their normal channels.

European Capital Markets Institute

ECMI conducts in-depth research aimed at informing the debate and policy-making process on a broad range of issues related to capital markets. Through its various activities, ECMI facilitates interaction among market participants, policymakers and academics. These exchanges are fuelled by the various outputs ECMI produces, such as regular commentaries, policy briefs, working papers, statistics, task forces, conferences, workshops and seminars. In addition, ECMI undertakes studies commissioned by the EU institutions and other organisations, and publishes contributions from high-profile external researchers.



Centre for European Policy Studies

CEPS is one of Europe's leading think tanks and forums for debate on EU affairs, with an exceptionally strong in-house research capacity and an extensive network of partner institutes throughout the world. As an organisation, CEPS is committed to carrying out state-of-the-art policy research that addresses the challenges facing Europe and maintaining high standards of academic excellence and unqualified independence and impartiality. It provides a forum for discussion among all stakeholders in the European policy process and works to build collaborative networks of researchers, policy-makers and business representatives across Europe.

