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EACB position paper

DIGITAL EURO

The **European Association of Co-operative Banks** (EACB) is the voice of the cooperative banks in Europe. It represents, promotes and defends the common interests of its 26 member institutions and of cooperative banks in general. Cooperative banks form decentralised networks which are subject to banking as well as cooperative legislation. Democracy, transparency and proximity are the three key characteristics of the cooperative banks' business model. With 2,700 locally operating banks and 40,000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 227 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 89 million members and 720,000 employees and have a total average market share of about 20%.

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1. Summary

The EACB understands the need to discuss, reflect and research the topic of a digital euro for Europe. Indeed, we acknowledge a digital euro is being considered as response to the emergence of private stable coin initiatives around the globe, multiple Central Bank Digital Currency projects by foreign central banks (like in China and the US), as well as market dominance by non-EU payment service providers, which might undermine financial stability and monetary sovereignty of the EU.

The EACB is also actively participating in the stakeholder processes that have been put in place by the ECB. Having observed the direction in which the discussions on the digital euro are evolving, a number of concerns have developed within the EACB membership on which it would like to see a more intensive debate.

EACB members are concerned with the potential negative impact of a digital euro on the EU financial system, the availability and cost of credit, and competition in the payments market.

The EACB would call upon the European Commission, the Council and the Parliament to take into consideration the recommendations that have been formulated by its members in the context of the upcoming legislative proposal on digital euro, as follows:

- *Maintain the division of roles between central banks and commercial banks:* The well-proven division of tasks between central banks (monetary and currency policy) and commercial banks (respond to user needs such as provision of cash, payment solutions, granting loans) should be continued to ensure stability of the financial system.
- *Set low holding and transaction limits:* Holding limits should be low and there should be a limit per citizen (maximum EUR 500). In addition, transaction limits should be set by putting restrictions on the reverse waterfall mechanism. These mechanisms are necessary to minimize the risk of deposit outflows affecting the capacity to lend (disintermediation) and of crowding out private payment solutions.
- *Focus on bearer-based digital euro first, rather than an account*-based one: a bearer-based solution can more easily mimic some of the advantages of cash (more privacy by design) than an account based version while at the same time still fulfilling many use case requirements; it would add to the current payment offering rather than compete with it.
- *Do not allow remuneration of digital euro holdings:* The digital euro should under no circumstances be interest bearing, otherwise it would become a means to store value (and not a means of payment), and could become a driver of potential liquidity outflows from commercial banks.
- *Ensure the right balance between privacy and traceability*: the design of the digital euro should strike the right balance between privacy for digital euro users versus traceability for AML/CFT purposes, at least on the same level as existing card or electronic fund transfer regulations to avoid regulatory arbitrage.
- *Foresee distribution by regulated intermediaries*: The distribution of digital euro should only be performed by regulated intermediaries, and should be limited to intermediaries that are allowed to serve accounts and hold funds under the Payment Services Directive and have an account at the ECB or at a national Central Bank. Intermediaries should have the choice of whether or not to distribute the digital euro.
- *Allow for a sustainable business model:* The costs to regulated intermediaries stemming from introducing the digital euro and the implementation of the infrastructure required to support it, should be compensated. Because of the network based nature of payments, such compensation should be established by market mechanisms such as interchange that

can transfer the business case at the acceptance side in part to the issuing side. If basic digital euro services are free of charge for private individuals, which is not even the case for cash services (withdrawal and account fees) today, there is no balanced business model for the issuer and acquirer in case of P2P payments. Finally a compensation for onboarding and other necessary client services including mandatory KYC and CFT activities, should be implemented.

More generally, EACB members consider it necessary to take sufficient time to ensure that the consequences of the introduction of a retail digital euro are fully understood before deciding on its launch. In this context a comprehensive scientific analysis should be undertaken.

The EACB welcomes and strongly encourages a broad political and public debate on a digital euro. As provided in a recent Eurogroup statement *"… the introduction of a digital euro as well as its main features and design choices requires political decisions that should be discussed and taken at the political level"*[1]. We are keen to contribute to that discussion from the position of EU's cooperative banking sector.

[1] Eurogroup statement on the digital euro project, 16 January 2023: https://www.consilium.europa.eu/fr/press/press-releases/2023/01/16/eurogroup-statement-on-the-digital-euro-project-16-january-2023/#:~:text=A%20digital%20euro%20should%20be,of%20the%20digital%20euro%20design.

2. Introduction

On October 1, 2021, the Eurosystem launched the 2-year investigation phase of a digital euro project with the aim to address key issues regarding its design and distribution and assess the possible impact of a digital euro on the market, identifying the design options to ensure privacy and avoid risks for euro area citizens, intermediaries, and the overall economy.

The ECB is pressing ahead with deliberations on the introduction of a digital euro. According to various statements by the ECB, the digital euro could be in circulation as a means of payment as early as 2026-2027[2]. Its design is to be defined as early as autumn 2023[3].

Private and state forms of money have complemented each other since the emergence of state central banks. In addition to the cash issued by the central banks and the money created by commercial banks (deposits with banks), banks have accounts with the central bank. These are mainly used for interbank transfers, e.g. in capital market transactions and payment transactions. The coexistence of private and state forms of money with different and delineated roles in the monetary system represents a cornerstone of our social market economy.

Today's monetary system should be further developed for the digital age. However, a digital euro that combines the core properties of different existing forms of money would entail considerable risk for the financial system, and thus also for the economy. If, for example, the digital euro can be used on a large scale for investment purposes, and thus does not include a narrow holding limit for citizens, there could be a shift from bank deposits to central bank money resulting in the risk of a massive intermingling of today's forms of money. Banks would then no longer be able to rely on deposits to refinance their lending business. They would have to refinance themselves on the money or capital markets, yet not all banks – especially the small and regional ones – have sufficient access to or experience of capital markets to do so.

An outflow of funds into the digital euro would reduce the supply of funds, and could lead to a restricted lending and/or lending at higher interest rates. In either case, there would be important consequences for the economy. It follows that creating innovative forms of money - while worthwhile investigating - must be assessed in terms of its overall impact on Europe. An ECB digital euro must deliver clear social and economic added value whilst underpinning the foundations of our monetary system.

In the below chapters, we elaborate in more detail on the concerns of cooperative banks with the retail digital euro project as it is envisaged at the moment and the recommendations they would formulate.

3. EACB concerns with the digital euro project

Prior to making design choices, the goals of the digital euro should be clear. According to the ECB, the main rationale behind the project is:

- Bringing central bank money into the digital era is a logical step as payments become increasingly digitalised.
- A digital euro would preserve the role of public money as the anchor of the monetary system in the digital age.

[2] https://www.centralbanking.com/central-banks/financial-market-infrastructure/7947766/digital-euro-could-be-reality-by-2026-ecbs-panetta
[3] https://www.ecb.europa.eu/paym/digital_euro/shared/pdf/Digital_euro_project_timeline.en.pdf

- A digital euro would contribute to Europe's strategic autonomy and economic efficiency by offering a European means of payment that could be used for any digital payment, would meet Europe's societal objectives and would be based on a European infrastructure.

While many of the stated concerns that policymakers have are understandable, we would like to see a more cautious approach and careful consideration of all pros and cons before introducing a retail digital euro. In addition, the different policy goals strongly influence the design choices of the digital euro. In our view, therefore, the why question should be answered first, before making design choices.

a. *Flexibility of credit supply will be impaired*

If the ECB were to make the retail digital euro an attractive and safe investment, this could trigger a significant transfer of funds from conventional bank deposits to the digital euro. A shift of funds from bank deposits into retail digital euro could also become attractive in periods of market turmoil or reduced consumer confidence. Customers could withdraw their funds from bank accounts at short notice and convert them into digital central bank money.

A massive shift in bank deposits (current accounts, term deposits) would primarily impact the lending capacity of those banks whose focus is on the deposit and lending business for the economy, many of which are cooperative banks. At the same time, the digital euro in this form would exacerbate any market turmoil as the ability to lend would be significantly impaired for the entire financial sector – precisely when it is needed most. One has to keep in mind that banks play a central role in financing the European economy[4]. It must be ensured that banks can continue to have a stable deposit base. This is essential if they are to provide a stabilising supply of credit in the economic cycle, working countercyclical, like over the last few years with COVID-19 and Russian war against Ukraine had shown.

The outflow of deposits from institutions would have an impact on the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Recently the EACB conducted a modelling of the impact of the digital euro on some EACB members' deposit base and prudential parameters such as LCR and NSFR[5]. The results of the modelling exercise indicate that a digital euro holding of EUR 3000 could lead to significant deposit outflow (16.6% and more), a dramatic reduction in LCR (e.g.-73.8% and more) and important reductions in NSFR (e.g. -12.3%). Without sufficient liquidity banks' capacity to finance the economy would be severely restricted. What the EACB modelling exercise also revealed is that it is crucial to look at the impact of the holding limit at the level of individual banks (different impact of a potential digital euro on bigger vs. smaller banks, banks with different customer base e.g. many small retail clients vs. corporate customers), and not the average impact on the banking sector. Differences in national markets should also be taken into consideration.

The above risks are particularly high for small and regionally active deposit-financed banks that do not obtain their liquidity either through the ECB credit lines or via the capital markets. The potential consequences for banks would be:

- deleveraging, if the choice is made not to substitute this resource (which could in particular impact the purchase of sovereign securities by banks).

[4] Bank loans accounted for around 45% of total non-financial corporation debt financing in the euro area in 2018 https://www.eca.europa.eu/lists/ecadocuments/sr20_25/sr_cmu_en.pdf
[5] The data for the modelling exercise was derived from five EACB members, which are different in size and from different markets across the EU.

- a material impact on the repricing of new assets, if the choice is made for market refinancing with comparable stability characteristics (provided that this is possible because some banks will reach caps in terms of market footprint).
- a significant impact on the scarcity of eligible collateral if refinancing is offered by the ECB (regardless of the impact on the price of the assets in function if this refinancing was not at 0%, etc.). A question in this context is whether banks would be compensated for lost outflows of funds, for example, through the use of free ECB refinancing envelopes without collateral?

We note that the ECB's scenario analyses on the impact of the retail digital euro on the financial sector are not complete[6]. The ECB only considers one part of the impact, namely in relation to the supply of liquidity to banks. There will also be an impact on ALM (asset/liability management) and product profitability (interest- and fee-related), which may additionally worsen regulatory ratios and thus also long-term lending possibilities.

If the possibilities for credit and money creation by the banking industry were to be restricted, the financing options of the economy and private households would reduce significantly. If the supply of credit were to tighten, there would be a tendency for interest rates to rise, which in turn would lead to a decline in investments. The digital euro could thus unintentionally become a brake on investment and economic growth. That would be an undesired consequence, especially in view of the urgently needed investments in climate protection and digitalisation.

b. *Increased dependency on the ECB*

In the event of massive transfers of funds from bank deposits to the digital euro, banks would lack a granular basis for refinancing that is stable over time. The interbank market is also likely to dry up, as the decline in deposits is likely to extend across all banking groups. To enable banks to refinance nevertheless, the ECB would have to offer long-term refinancing facilities on a massive scale. Banks would then be directly dependent on the central bank and the conditions set there. The result would be an enormous concentration of power at the ECB and a fundamental change in its role in the monetary and financial system. Monetary policy decisions would have a much more direct impact on the banking industry and the financing conditions of the economy and thus on the economy as a whole. The step towards a form of ECB economic government would not be far off. The legitimacy of the ECB’s independence – an important basis for ensuring price stability – would be questioned if the ECB's mandate were to be extended significantly.

c. *Cannibalisation of existing payment solutions*

The commercial payments market is dynamic and will be further incentivised by the Commission’s recent proposals to make instant payments the new normal. There is a risk that the digital euro will drive volumes away from this market and decrease revenues from payment transactions. This would run counter to the existing and pending legislation and all earlier investments in the European economy, such as SEPA, instant payments, PSD2 APIs and the Retail Payments Strategy of the European Commission.

If the ECB were to design the digital euro not only as a means of payment, but also as its own payment scheme, the risk of disintermediation and cannibalisation of private sector’s payment solutions would further increase.

[6] Central bank digital currency and bank intermediation, ECB Occasional Paper Series, May 2022: https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op293~652cf2b1aa.en.pdf?985167870ac2551e31097f06382d01d9
CBDC and financial stability, ECB Working Paper Series, February 2023:
https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2783~0af3ad7576.en.pdf

With an account-based digital euro that supports all payment types, there is a risk that digital euro would crowd out private current accounts and payment solutions. It also raises the question of the borderline between the role of the public and private sector in the area of payments No matter how well their intentions, the private sector cannot compete with initiatives that can benefit from public funding and regulation to support their implementation. As a result, private investment in the further development and operation of alternative solutions by European players would decrease massively. The choice for consumers would deteriorate and the experience that banks and financial service providers have in dealing with customers and risks, in their intermediary role, would not be drawn on. As a result, the payment transactions sector would be hampered in terms of both investment and innovation.

d. Digital euro may unintentionally strengthen the role of BigTechs in payments

Another objective of the digital euro is to protect Europe's sovereignty and overcome the threat coming from non-EU actors and BigTech companies, among others. This put pressure in the past on the monetary autonomy of the Eurosystem, but this threat is already largely addressed with the introduction of the European Markets in Crypto-Assets Regulation (MiCA).

However, BigTech players and non-EU actors in payments no longer need to issue their own private stablecoin to secure their power, if they get access to the digital euro. In fact, the introduction of the digital euro would potentially play right into the hands of large (non-European) companies. BigTechs using their market dominance will easily be able to add the digital euro wallet to existing services and further strengthen their position in the payments market. The combination with European digital identity wallets could even lead them to further tighten their grip.

e. Public money like cash still remains as a strong trust anchor for monetary policy

According to the Eurosystem, access to euro cash is necessary for confidence in the money system, for financial stability and parity of commercial bank money. The Eurosystem thus puts the public monetary anchor of cash at the heart of the design of a digital euro.

However, as the Eurosystem itself concludes, cash will not disappear. Although the use of cash in the Eurozone is declining, its total volume is increasing[7]. A digital euro is therefore, in our opinion, not necessary to maintain confidence in the money system. The high level of trust in our money system - besides access to cash - mostly stems from the supervision of credit institutions, the deposit guarantee schemes and reserves held.

f. Added value for users?

In the opinion of EACB members, the added value in the currently envisaged account based design of a retail digital euro from a pure consumer perspective is limited. Today's commercial banks' payment and account offer meets almost all needs already. With the implementation of Instant Payments and upcoming features like Request-to-Pay the speed and convenience of SEPA payments have increased drastically, and different private initiatives like European Payments Initiative[8] (EPI) and others from other market players have started to develop European-wide payment solutions. In addition, to increase financial inclusion the Basic Bank Account was introduced some years ago with a price limitation to allow customers with very low income to

[7] The paradox of banknotes: understanding the demand for cash beyond transactional use, ECB Economic Bulletin, Issue 2/2021:https://www.ecb.europa.eu/pub/economic-bulletin/articles/2021/html/ecb.ebart202102_03~58cc4e1b97.en.html#:~:text=This%20growth%20in%20circulation%20has,in%202019%20(Chart%201).
[8] https://www.epicompany.eu/

open an account. The bottom line is that the digital euro as envisaged by the ECB would duplicate existing payments solutions, which are becoming more and more interoperable at EU level. However, the ECB should also not expand its use cases unnecessarily. For instance, use cases such as machine-initiated payments should be left to the private sector, which is already actively addressing this use case.

4. EACB recommendations on design and distribution of a digital euro

The EACB calls upon the European Commission, the Council and the Parliament to take into account the recommendations below in the context of the upcoming legislative proposal on digital euro expected in the coming months.

1. *Don't rush, take time and ensure democratic debate*

Since the potential impacts of a digital euro on EU payments market and the financial system could be far-reaching, we believe that all decisions on key aspects of this project must be subject to a democratic process, where the co-legislators must assess, debate and decide on important features and their potential impacts (design, distribution, impact on bank liquidity, availability and cost of credit, financial stability).

Besides, if we look at the activities that are being undertaken by other jurisdictions around the world as regards CBDC, it can be observed that not many market economies which have characteristics similar to the EU, have rushed or are about to introduce a retail CBDC. Many of them (US, Canada, Japan) are still considering the approach to take, looking at the pros and cons of both extending capabilities to use CBDC in the wholesale domain and of the introduction of retail CBDC. We believe it is worthwhile for Europe to monitor the development in those economies and share experiences and observations before final decisions as to the launch of a retail CBDC are taken. Not only because of the need to ensure a certain level of interoperability between CBDC use between jurisdictions but also because of first mover risk, especially when the design is rushed and not sufficiently aligned with major stakeholders. The investments involved and the possible consequences of the retail CBDC as it is presently being considered by the ECB are too important.

2. *Maintain the division of roles between central banks and commercial banks in our social economy*

The well-proven division of tasks between central banks (monetary and currency policy) and commercial banks (respond to user needs such as cash supply, payment transactions, granting loans) should be continued to ensure governance balance and stability of the financial system. This basic division of tasks and responsibilities must not be discarded. Furthermore, this division of tasks is a fundamental baseline of our social-ecological economy, which should not be changed by an ECB decision. The ECB has no mandate to enter into competition with banks and their financial services. The ECB should concentrate on money supply (issue the digital euro), and private sector should define the payments scheme and could build payment solutions based on that.

In order to further decrease the risk of disintermediation and cannibalisation of market solutions, we propose that the ECB focus on designing the digital euro only as a means of payment, but not as its own payment scheme. Instead we propose a market-led scheme governed by a private body e.g. EPC, in which the ECB could concentrate on their role of issuing an innovative form of money.

3. *Focus on a bearer-based digital euro, rather than an account-based one*

The digital euro could be issued by the ECB as digital cash in the form of a bearer instrument, based on tokens (not blockchain). The banking industry could obtain these like cash and issue them to citizens in wallets – analogous to the dispensation of cash at ATMs. The digital euro as a token could enable largely privacy-friendly payments. In principle, it would be the equivalent of cash in the virtual arena and would ideally also be usable offline, making the use much more resilient. The digital nature of the retail digital euro allows it to be equipped with features such as a limit (maximum holding amount, analogous to a full wallet) and properly balanced traceability, so that money laundering and terrorist financing and other disadvantages of cash can be effectively countered.

The ECB is considering to circulate the digital euro via accounts. The balances would be held either directly in private ECB accounts or held in trust, as off-balance sheet items, in accounts at private banks. In this form, the retail digital euro is a copy of today's bank accounts under the label of the ECB. It would rank alongside the services currently offered competitively by commercial banks, without creating any benefits in terms of economic efficiency. Furthermore, it would be in direct competition with the money currently held in current accounts and other deposits by companies and households at banks. Yet these deposits are the basic prerequisite for supply of credit to the economy, i.e. to consumers and companies.

In the current debate there are increasing indications that the ECB is leaning strongly towards an "account version" in its deliberations. This could lead to a fundamental restructuring of the monetary system.

In the opinion of the EACB members, the digital euro should be introduced as a bearer instrument in the first place (as a token). As a bearer instrument the digital euro could become a valuable complement to already existing payment solutions and transfer the benefits of cash into the digital space. Furthermore, a bearer digital euro would be a "raw material" that could be integrated into existing private solutions making private market solutions cheaper and more efficient. As a bearer instrument, the direct hand over (transfer) of money would be an interoperability layer without the need for expensive back-end infrastructure for clearing and settlement. This could strengthen the European economy and lead to more competition.

4. *Set low holding and transaction limits*

The digital euro should include an upper limit in terms of holding amount (along the lines of a full wallet) for each consumer. A clear and low cap of a maximum EUR 500 would support two important public goals at the same time: First, it would prevent a strong outflow of bank deposits into the digital euro which would negatively impact banks' lending capabilities. Sudden shifts from bank deposits to digital euros would jeopardise financial stability. Second, it would contribute to the fight against money-laundering and terrorist financing. Finally, with a reverse waterfall functionality[9] there is no reason or justification for a high holding limit.

The maximum level of the holding limit should be established by law taking into account the impact on financial stability and the economy as a whole, consistency with the prudential

[9] According to the ECB's digital euro glossary, reverse waterfall approach is a method for facilitating the use of a digital euro whereby private money from a linked liquidity source chosen by an end user (e.g. a commercial bank account) is automatically converted into digital euro when the end user's digital euro holdings are not sufficient to make a payment.

framework, AML/CFT, aspects of cybersecurity as well as digitalisation and payment trends. The level could be reviewed from time to time to evolve with market developments. At the same time, enshrining the maximum limit by law would have the advantage that it could not be changed without parliamentary approval, which would increase its democratic legitimacy.

Transaction limits based on restriction of the reverse waterfall mechanism are also important to avoid that the digital euro, which could be seen as a public sector product, crowds out private sector payment solutions.

5. *Do not allow remuneration of digital euro holdings*

The digital euro should under no circumstances be remunerated. Otherwise, the digital euro would transform our 2-tier money system into a direct money system and at the end concentrate all power and responsibility with the central bank. In that case the digital euro would be a means to store value (and not a means of payment). It could become a driver of potential liquidity outflows from commercial banks as described above.

6. *Strike the right balance between privacy and traceability*

The design of the digital euro should support users' rights to privacy. In this context, a balance is needed between privacy for digital euro users versus traceability for AML/CFT purposes. Specific privacy features (e.g. anonymity under certain thresholds / low holding limit) would significantly hinder compliance with AML/CFT requirements, including predicate offenses, sanction and embargo requirements. Transaction data and users' profiling data would need to be transparent to intermediaries for security and operational reasons and to protect citizens from fraud. Besides, data on individual digital euro users and payment transactions should not be accessible to the ECB but accessible to intermediaries on at least the same level as card and other electronic payments to avoid regulatory arbitrage.

Therefore, the clear need/goal for the financial sector to maintain transactions traceability is to have the same level of information available to perform AML/CTF including predicate offenses (such as fraud, etc.) and sanction and embargo checks and on the other side adhere to banking secrecy and data protection regulation.

7. *Foresee distribution of digital euro by supervised intermediaries*

First, the distribution of digital euro should only be performed by regulated intermediaries. The main reason is that central banks - unlike private intermediaries - are not equipped to interact with large volumes of transactions and a wide variety of customers. Nor does it make sense for a central bank to enter into direct competition with institutions under its supervision. Distribution of money and payment methods to end users is complex, large-scale, and highly regulated. This is the area of expertise of licensed payment service providers, such as banks.

Second, the possibility to distribute digital euro should be limited to those payment service providers that are allowed to serve accounts and hold funds under the Payment Services Directive (PSD2), have an account at the ECB or at a national Central Bank so as to allow enabling of funding/defunding digital euro holdings.

Third, supervised intermediaries should not be forced to distribute the digital euro, i.e. distribution of digital euro by supervised intermediaries should be voluntary, not binding.

Last but not least, we point out that the ECB's idea of issuing a stand-alone digital euro app goes too far as it interferes with the relationship between payment service providers and their customers and is not in line with the goal of giving the market room to innovate. Besides this, there is the question whether issuing an ECB app is within the ECB's mandate. We would urge the ECB and policymakers to refrain from putting forward any proposals that may distort market competition. Instead, the ECB could provide a software development kit that allows intermediaries to integrate the digital euro into their own platforms. This would allow users to easily access the digital euro through the banking apps and interfaces they are already familiar with.

8. *Allow for a sustainable business model for base services*

Introduction of the digital euro would require significant investments from both banks and retailers, while there is no clarity about the business model yet. Especially for the P2P payments. Licensed and supervised entities should be compensated for the costs associated with the introduction of the digital euro and the infrastructure required to support it. Payments can be free of charge to users, but always come with costs which must be covered. This requires sustainable business cases at least for the payment acceptance side. With an interchange fee, market mechanisms could ensure a sustainable business case to the issuing side as well, since the payments are always network based. Additionally, compensation is required for onboarding and other necessary client services, including mandatory KYC and CFT activities.

If the Eurosystem decides to introduce the digital euro, then the Eurosystem should bear the cost to a large extent, in particular where the digital euro leads to inefficiencies caused by the overlap with the existing payments infrastructure. Market disruption should be prevented.

A competition-driven market must be enabled to ensure the adoption of the digital euro in the retail sector, comparable to checkout systems and cash logistics . Banks and companies must be able to provide technical integration and logistic services for a fee.

9. *Do a cost benefit analysis*

The introduction of the digital euro is pivotal to charting the course for the development of the monetary system in the digital age. It is crucial that the design of the digital euro is carefully considered. It is not only a technical decision in terms of payment transactions, but also a fundamental political decision on the future interaction of the central bank and commercial banks (equivalent to the state and the private sector) in the economy.

Before the final planning and introduction of the digital euro, detailed impact studies, conducted jointly between public (the ECB, the European Commission, etc) and private sector (financial services, EPC, etc.) are therefore necessary to evaluate the effects of the introduction of the digital euro on the financing of private households and companies and thus on our entire economic area. This also requires a sound analysis of the extent to which the banking industry will be able to continue performing its role in the monetary system in the future. In this context, it is crucial to look at the potential impact of a digital euro at the level of individual banks (different impact of a potential digital euro on bigger vs. smaller banks, banks with different customer base e.g. many small retail clients vs. corporate customers), and not the average impact on the banking sector. The differences in national markets should also be considered.

Similarly, close monitoring by the euro area Member States and clarity concerning the mandate of the ECB are urgently needed. After all, currencies thrive on the trust that citizens and economic players at home and abroad place in them, and this is even more relevant when it comes to transferring cash to the digital arena.

To conclude, the EACB welcomes and strongly encourages a broad political and public debate on a digital euro. As provided in a recent Eurogroup statement *"… the introduction of a digital euro as well as its main features and design choices requires political decisions that should be discussed and taken at the political level"*[10]. We are keen to contribute to that discussion from the position of EU's cooperative banking sector.

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The EACB trusts that its comments will be taken into account.

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[10] Eurogroup statement on the digital euro project, 16 January 2023: https://www.consilium.europa.eu/fr/press/press-releases/2023/01/16/eurogroup-statement-on-the-digital-euro-project-16-january-2023/#:~:text=A%20digital%20euro%20should%20be,of%20the%20digital%20euro%20design.