



Digital euro

Nordea Group Leadership Team meeting on 8 March 2022, Teams

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The role of cash is declining in daily transactions

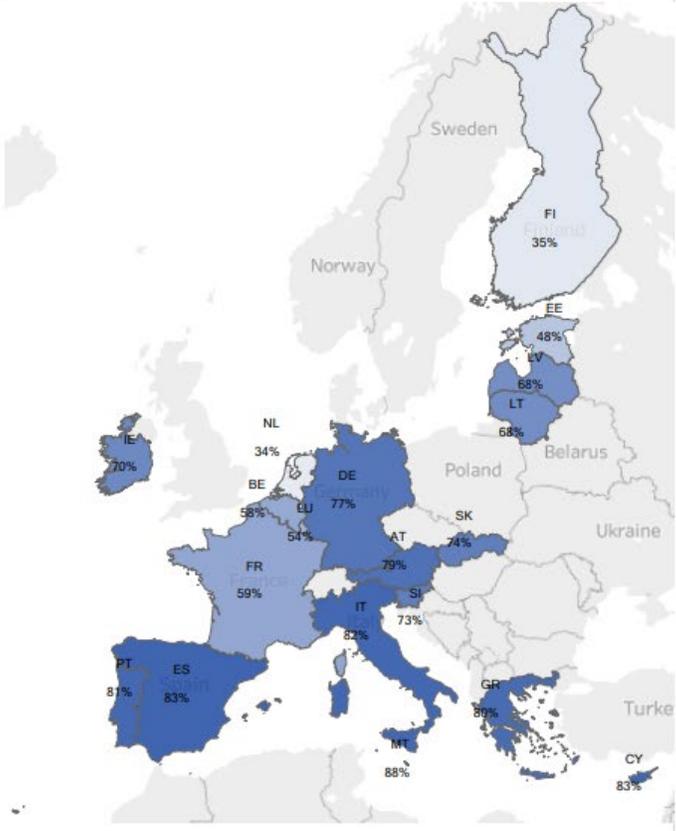
Most common payment method in daily purchases according to the Bank of Finland consumer survey
% of consumers



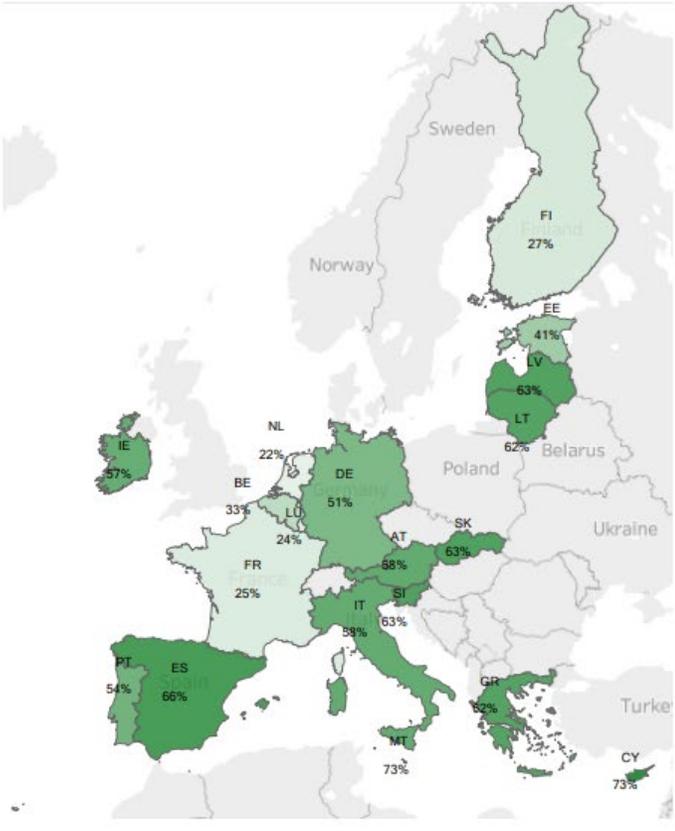
...but it differs around the euro area

Cash payments – number and value of transactions

a) Number of transactions



b) Value of transactions

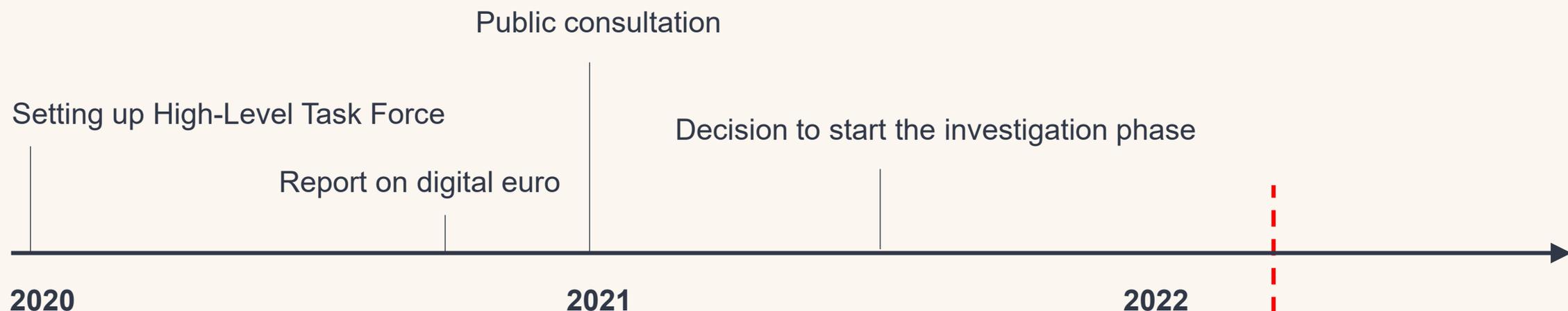


Sources: ECB (2019), De Nederlandsche Bank and Dutch Payments Association (2019) and Deutsche Bundesbank (2017).

Why digital euro

- Supporting digital transformation
 - Digital euro would be a central bank liability made available in digital form for use in retail payments.
- Against declining use of cash as a means of payment
 - A digital euro would not replace cash but rather complement it. The Eurosystem will continue to ensure that people will have access to cash across the euro area.
 - The Eurosystem should ensure the access to the legal tender in all circumstances.
 - Facilitating resilience and fostering competition.
- Tackling sovereignty concerns
 - Private non-euro payment methods or foreign CBDS
 - Need for a pan-European payment method with European governance

Digital euro project



Possible issuance of digital euro is still years away

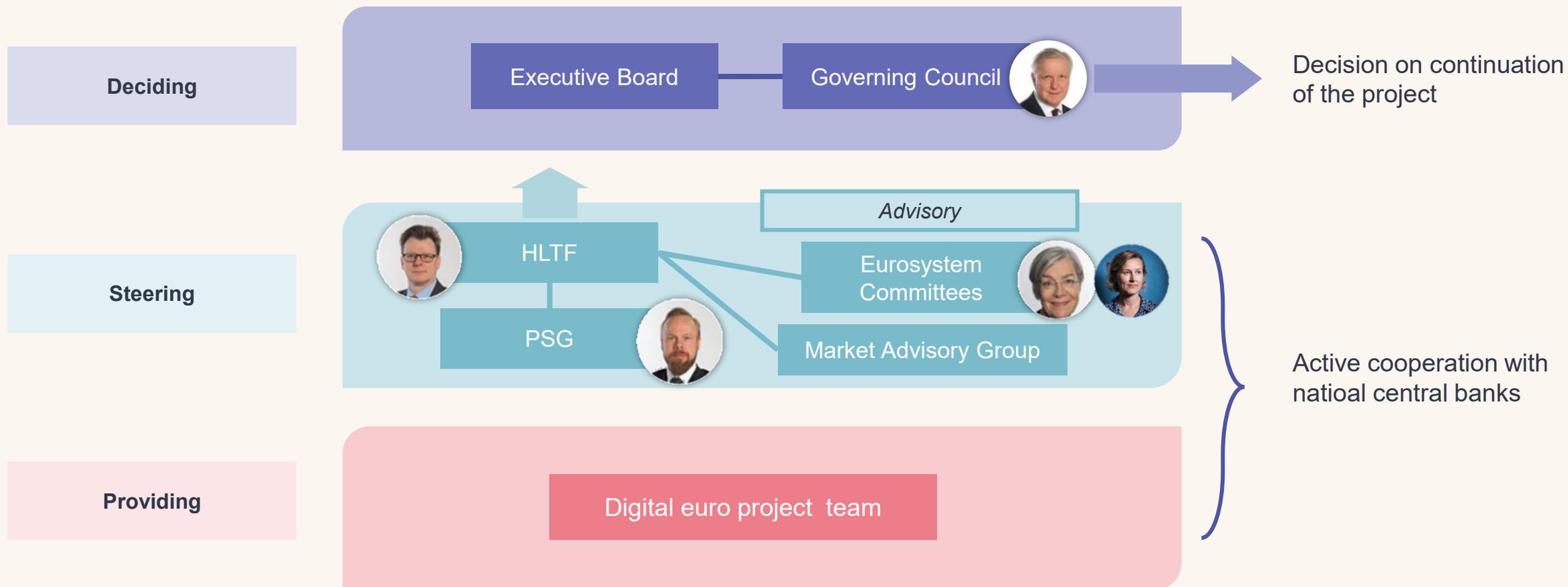
Investigation phase

- The Governing Council of the ECB decided last July to launch the investigation phase of the digital euro project. The Investigation phase will last for two years (started in October).
- Purpose of the investigation phase is to prepare for the possible need to issue a digital euro. Decision on the possible issuance at a later stage.
- National central banks have a significant role in the project.
- Active communication and cooperation between European policymakers, financial industry and citizens of the eurozone is crucial for the project.

Consulting the public

- ECB conducted a public consultation on the digital euro in 2020/2021
 - The sample of respondents was not very representative of the euro area population
 - Privacy was considered the most important feature of the digital euro by both citizens and professionals. Digital euro should also be secure, cheap and easy to use throughout the euro area. Supervised intermediaries should play a prominent role in the provision of digital euro services.
- During the investigation phase a focus group research will take place in each euro area country
 - The objective is to gather information e.g. on how the end users might react and adopt to digital euro and different functionalities.
 - No findings yet to be reported.

Project organization



Cooperation with the financial industry

- Objective to maintain the equilibrium between commercial bank and central bank money
- Aim to offer digital euro through supervised intermediaries
 - Central banks do not aim at offering front-end payment services. This does not exclude the possibility to provide a digital euro app (wallet).
- Alternatives increase the resilience of the payment system as a whole

Focus of the investigation phase

A lot of open questions:

- Use cases on digital euro that serve to achieve given goals
- Features and functionalities
- Interaction with the European retail payments market
- Business model
- Legal issues
- Which technical solutions may best handle the above issues

Digital euro would be designed to be a medium of exchange rather than a store of value

- Digital euro is not intended as an investment vehicle
 - Possible balance limits for accounts/wallets; remuneration
- Important for ***financial stability***
- Maximise usability as medium of exchange
 - Most daily payment needs should be covered
- Important for user convenience



Tools to avoid disintermediation

- It is possible to limit the use of digital euro with design choices and functionalities
- Possible tools:
 - Set quantity limits on individual users' holdings
 - Tiering, with unattractive rates applied to holdings beyond threshold
- Digital euro needs to be designed so that ***it does not interfere with monetary policy transmission***

Utilizing existing infrastructure

- There is a multitude of different expectations concerning digital euro. Everything cannot and should not be met. (*Swiss army knife dilemma*)
- Instant payment systems and digital euro share many similar objectives
 - Developing retail payments
 - Settlement in central bank money
 - Real-time payment system
- Advantages from utilizing the existing instant payment infrastructure (TIPS)
 - Evidence on usability and functioning
 - Reduced investment needs

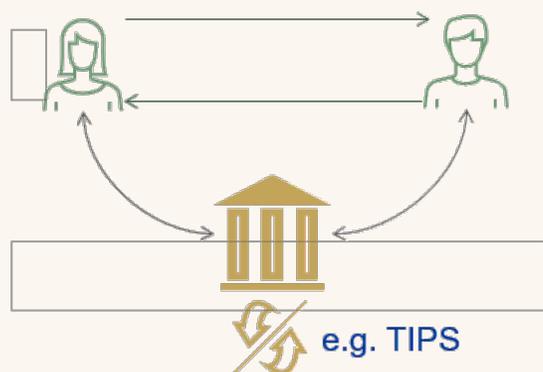
Role of intermediaries

- If digital euro were to be issued, private sector intermediaries would have a significant role in distribution
- Core services like onboarding services, AML/CFT checks, funding/defunding, provision of user interface and customer care would be carried out by supervised intermediaries
- ECB/Eurosystem to provide basic transaction services and enable more advanced services. Intermediaries to develop value added service and innovate, differentiate and compete on the market.

Two types of (possibly co-existing) digital euro

Account-based

- Could be based on TIPS
- Reminds most electronic payment solutions
- Constant network connection



Bearer instrument

- Value is stored in the payment instrument.
- Cash or prepaid card like solution
- More possibilities in terms of anonymity like privacy



Integration

- The aim is that the digital euro would be interoperable with financial market ecosystem and possibly integrated with digital identity.
- In the investigation phase the eurosystem will make design choices regarding the interoperation with existing market solutions.
- Possible cross-border and cross-currency use is also still under investigation.
- Using digital euro could be restricted based on geo-location or it could be allowed for travelers coming outside the euro area as well.

Conclusions



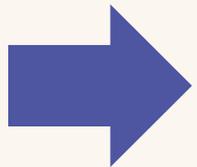
Supporting digitalisation in the European economy



Maintaining public access and full usability of central bank money as a reliable means of payment



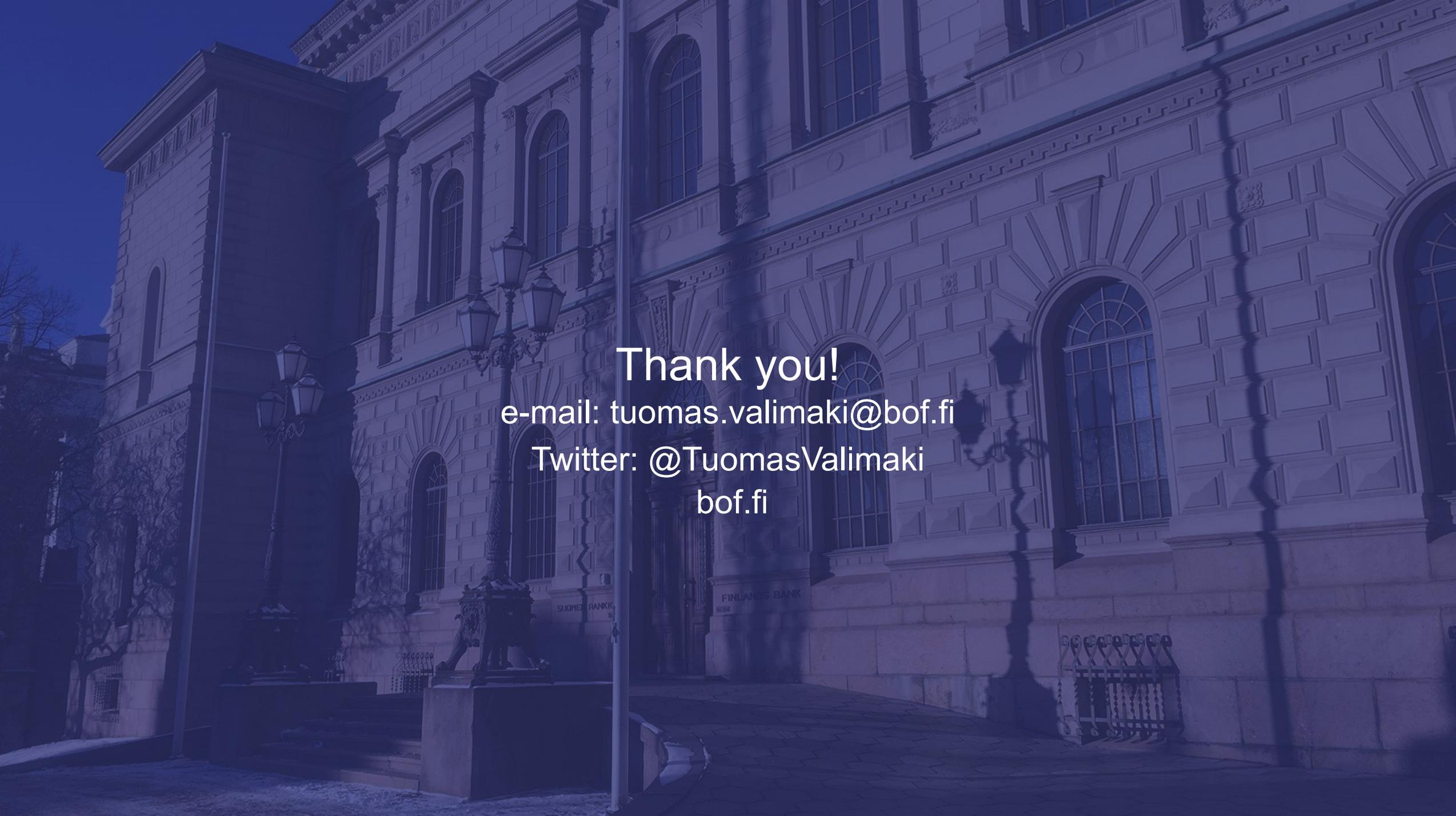
Reinforces the international role of the eurozone



Eurosystem must be prepared for the uncertain future

More information:

<https://www.suomenpankki.fi/en/money-and-payments/central-bank-digital-currency/>



Thank you!

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