

ECB presses ahead with digital euro – focusing on use cases first

Although two years to investigate sounds like a pretty long time, there is a lot to discuss, and many things to get right before launching a digital euro. But first up, decide on the main goal



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The European Central Bank has [today](#) entered the next phase in introducing its own central bank digital currency - the “[digital euro](#)”.

A two-year investigation period will first involve discussions of policy objectives and use cases for the remainder of the year, followed by tradeoffs between privacy and other policy objectives such as anti-money laundering in early 2022.

After that, the impact on the financial system, particularly the drain on bank deposits and how to manage this, as well as the use of cash, are on the agenda. Another important element of the investigation will be the business models of private and public entities involved with the digital euro.

Introduction of digital euro pushed back to 2026

After the investigation phase, and a decision to continue in 2023, the actual development is scheduled to take around three years, which means the ECB has quietly added another year to the development phase, compared to its statements a few months ago.

This suggests that the general public may be introduced to a digital euro in 2026.

First step is thrashing out policy goals and use cases

Today's announcement is accompanied by an [interesting overview](#) of technical experimentation done on possible infrastructures, ranging from scaling the current TARGET Instant Payment Settlement or TIPS system to distributed ledger technology (DLT) and offline payments. The technical work shows that the ECB has initially cast the net wide. The document notes that “the sooner the scope of possible use cases can be narrowed down, the easier it will be to set up focused and specific technical investigations in the future.” This is a delicate observation, given that one of the most common remarks about CBDC outside central banks has been, “What problem is CBDC actually solving?”.

Indeed, while there is no shortage of (justified) motivations from a central bank and policymaker perspective to investigate CBDC, whether Eurozone citizens will actually be helped by, e.g. a faster, cheaper or more seamless payment experience than what is available today, remains to be seen.

It is, therefore, no coincidence that objectives and use cases are first on the agenda, as they should be.

The materialisation of purported benefits is not a given

One of the main motivations for the ECB to accelerate its work on CBDC has been the threat of privately issued stablecoins crowding out central bank money.

To be concrete, Facebook's announcement of Libra back in 2019 is what jolted the Eurosystem into action. The ECB emphasises that “European intermediaries would be in a position to ... stay competitive even as global tech giants expand into payments and financial services.” Indeed, if designed well and accompanied in a way for Europeans to identify themselves seamlessly and securely (to be helped along by the European Commission's recent [Digital Identity wallet proposal](#)), a digital euro could foster diversity in Europe's digital markets, but this is not the only possible scenario.

A digital euro, combined with a Europe-wide digital ID wallet, could also, in fact, strengthen large platforms, allowing them to integrate ID and digital euro building blocks into their platform. Their resulting ability to offer users complete on-platform, in-app experiences could weaken competitors outside the dominant platforms.

In designing the digital euro, there are a lot of moving parts, and it will be a challenge to get this right.

With the digital euro, there are still a lot of questions that need to be answered, and little can be taken as given at this stage. This also applies to the purported benefits, including financial inclusion, privacy, safety, and competition between digital services providers.

We think the time ahead will bring more clarity on what is feasible.

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