

## ECB: Moving towards a digital euro

After months of academic debate, the ECB has finally published its first report on a digital euro, thereby leaving the door open for further experimentation in 2021. Although the Governing Council has not made an official decision yet, we see this as a first attempt to secure a digital future for the common currency and catch up with other central banks



Source: Shutterstock

### The ECB issues its first report on a digital euro...

Although the ECB Governing Council has not made an official decision on issuing a digital currency just yet, the central bank today published its first report discussing different alternative scenarios that may facilitate the issuance and the adoption of a digital euro. Unsurprisingly, the rapid digitalisation of the economy, fast-changing consumer attitudes towards digital payments, as well as the emergence of crypto currencies, are key drivers behind the possible issuance of a digital euro in the future.

As [we've argued](#) before, this makes a lot of sense: although cash still remains a dominant means of payment across the eurozone (and many other countries across the world, including the US), the Covid-19 crisis has encouraged consumers to change their payment habits and rely more on contactless payments and e-commerce more broadly. We see this as a developing trend even after the current pandemic ends. Although other key drivers such as cyber-security, natural

disasters, pandemics and other extreme events have been mentioned, crucially we think that the most interesting one relates to the international role of the euro.

Indeed, the potential launch of a digital euro is seen as a deterrent against the development of other CBDCs around the world. This is also seen in the context of Article 127 of the Treaty on the Functioning of the European Union (TFEU), which describes price stability as one of the key objectives for the ECB. The report also states that the digital euro should potentially be accessible to non-euro area residents, and this could potentially stimulate demand for the euro by foreign investors.

## ...but a lot of questions are still unanswered

Obviously, there are still many unanswered questions. Just think of privacy issues or how retail and wholesale customers are supposed to get access to the digital euro. Also, if customers were allowed to directly open a digital account at the ECB, would this then be an interest rate free bank account or would the ECB's deposit rate apply. Many questions will have a direct impact of how the ECB conducts monetary policy. Currently, the main transmission channel is through commercial banks. A digital currency could bypass these commercial banks, not only affecting their business models but also the way the ECB's monetary policy affects the economy. In a distant future, a digital euro could actually also be an enabler of helicopter money as it could give the ECB direct access to economic actors.

It is remarkable that the ECB is finally going digital. Several ECB officials have given insights into the ongoing strategy review in recent days and today's announcement should add a very interesting chapter to this review.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10

Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.