

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



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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.

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