

FAQs on the digital euro

Line of Activity: Payments & Operations

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First things first: is the digital euro a done deal?

No, the digital euro is not yet a certainty. If and when it will be possible to pay with the digital euro has not been established.

How will the creation of the digital euro be decided?

In October 2020, the European Central Bank (ECB) published a digital euro feasibility report. From October 2020 to January 2021, the ECB then held a public consultation on the benefits and challenges of issuing a digital euro and its possible design.

Focusing on key issues related to the design and distribution of the proposed new digital euro, the research phase started in July 2021 and ended on 18 October 2023. On 1 November 2023, the ECB launched the preparatory phase. This phase, which will last at least two years, will lay the groundwork for introducing the digital euro: a regulation will be finalised, providers of the necessary IT and other infrastructure will be selected, and a testing and experimentation phase will be organised. After this two-year period, a decision can be taken to move on to the final preparations, which could culminate in the issue and launch of the digital euro. Starting the preparatory phase therefore does not mean that the digital euro will become a reality. The ECB's Governing Council can only decide on this once the legislative procedure has been completed.

The European Commission initiated this legislative process by publishing a proposal for the introduction of the digital euro on 28 June 2023. The European Council (composed of European Member States) and the European Parliament must now consider this proposal. All parties must reach consensus on the final content. Whether this will happen, and if so, exactly when it will happen, is not yet known.



What is a digital euro ?

A digital euro can be seen as a digital form of cash. As with cash, the ECB would issue a digital euro (whether or not through the national central banks). A digital euro will always be worth as much as a non-digital euro. 1 euro = 1 digital euro.

Why does the European Central Bank want to issue a digital euro?

Digital transformation has influenced the way we pay in recent years. Consumers are increasingly using digital payment solutions and abandoning cash. This is why the ECB believes the digital euro can be an electronic form of cash for the digitalised society. According to the ECB, the digital euro can achieve the following:

- **Be a monetary anchor:** As the role of cash as a payment instrument diminishes, it is hoped that the redeemability of bank deposits in cash will be ensured in the digital age. A digital euro could safeguard access to a public currency.
- **Safeguard monetary sovereignty:** If cash is no longer used, or if the public uses other digital currencies, the ECB will lose control and influence over monetary policy. After all, its instrument, the euro, will then no longer enter the economic cycle.
- **Make the European payments market more efficient:** The digital euro creates a pan-European payment instrument that can be used in the same way in all Eurozone countries. This makes Europe less dependent on private, non-European players. It is also hoped that the digital euro will influence the cost of payments in Europe and make European payment transactions more innovative.

What is the Belgian banking sector's view?

As the Belgian banking sector, we understand the ECB's aim of maintaining sovereignty over monetary policy and payments in the hands of European institutions. Yet the digital euro needs to be designed with care, paying attention to:

- **The current payments landscape:** The Belgian payment system is already highly developed and meets consumers' needs. It offers consumers a payment option for every payment requirement, developed by private market players. Belgium, for example, has a very high banking rate. Consumers are familiar with transfers and direct debits, using payment cards in physical and online shops, and mobile payments are also well established. However, in its research phase, the ECB is looking specifically at four applications, or use cases:
 - Person-to-person (P2P) payments
 - Payments in physical shops (Point of Sale, POS)
 - Payments in online shops (e-commerce & m-commerce)
 - Person-to-government (P2G) payments

As these use cases for the digital euro compete directly with existing and planned private payment solutions in the market, the digital euro needs to be sufficiently differentiated from them.

Otherwise, it will not be used, and the investments imposed on banks will be wasted. Conversely, the potential success of the digital euro could create competition for existing payment solutions and crowd them out. The digital euro therefore needs clearly distinct and complementary functionalities.

- **Financial stability and the bank's intermediary role:** To use the digital euro as a payment instrument, consumers will have to convert part of their bank account balances into digital euros. This is like withdrawing cash from an ATM when you convert your current account balance into banknotes. Now, current account balances will be converted into digital euros. For banks, this means that some of the funds that allow them to grant loans will be depleted. If withdrawals are too high, banks are less able to lend readily and cannot easily fulfil their role as **financiers of the economy**. This can reduce the total loans available and make them more expensive, leading, for example, to higher interest rates for mortgage loans. Banks risk having to pay more to attract withdrawn deposits again. As deposits play an increasingly important role in funding a country's banks, introducing a digital euro could therefore have greater consequences. Belgium is one such country where banks are mainly funded by deposits. In times of crisis, the ability to convert bank deposits into digital euros could even affect and erode the stability of the financial system.
- o **Future innovation:** Banks would be required to offer the digital euro payment account to their customers and to develop payment solutions for the digital euro. This would require major infrastructure investments, which the banks would have to make, diverting resources from other innovative projects. The business model behind the digital euro and how the costs incurred will be recovered is moreover still unclear.

Remaining critical and considering the added value a digital euro can offer before issuing it in the market and requiring large investments from all parties involved is therefore essential.

What are the characteristics of any digital euro (as far as known)?

- It is a **payment instrument** (not a store of value).
 - o The digital euro is seen primarily as a payment instrument rather than as a store of value or as a savings or investment instrument. It is not a cryptocurrency. A digital euro account will never be interest-bearing.
- You can use it **online and offline**.
 - o The digital euro will allow both online and offline payments (with or without an internet connection).
 - o Digital euros held offline can be lost in the same way as cash.
- A **holding limit** will apply.
 - o The total that someone can hold in digital euros can also be capped. Although this limit has not yet been determined, the figure often quoted is €3,000 per individual.

- The Belgian banking sector welcomes such a limit as it would minimise the impact on financial stability. This limit needs to be set carefully so as not to compromise financial stability. The Belgian banking sector believes that the quoted limit of €3,000 is still too high in this context.
- End-customer **privacy** will be considered.
 - As the ECB and the Eurosystem will not have access to the private information of digital euro users, they will not be able to store this information. They will also not be able to identify individual digital euro users.
 - Banks and other payment processing institutions will expressly only have access to the information needed to curb illegal activities (money laundering, financing of crime) and the data needed to make payments and transfers.
 - When the digital euro is used offline, the payment details will be known only to the payer and the recipient, as with a cash payment.
- You will be able to pay with it anywhere (**mandatory acceptance**).
- It will be **free** for the payer.
 - The basic services for using a digital euro will be free of charge for consumers making everyday payments.
- It will be possible to charge a **fair fee** to the trader.
- Customers will have to manage a **separate digital euro account** in addition to their existing payment account.

Where and how could I pay with the digital euro?

The digital euro will be legal tender within the Eurozone. In principle, it will therefore have to be accepted everywhere for making payments. However, an exception to this principle applies if the trader concerned does not accept other digital payment instruments. As every trader in Belgium is required by law to offer at least one digital payment solution, this does not apply. In Belgium, you will therefore have to be able to pay with the digital euro everywhere.

Digital euro payments can be made by using payment applications such as apps or wallets that the payment institutions will develop. The ECB will also develop such a payment application itself. A card allowing you to pay with the digital euro might also be issued but this has not been confirmed yet.

How would I get a digital euro as a consumer?

There would be three ways to get a digital euro account: through your bank, through a payment institution, or through a standalone app marketed by an institution yet to be determined.

Banks will be required to offer digital euro payment accounts, each with a unique account number, at the customer's request. These digital euro accounts will be credited from a standard (non-digital euro) payment account or with cash (ATM or bank branch). The bank must provide the option of transferring money between a standard payment account and a digital euro account.



What happens if I exceed the holding limit on the digital euro account?

If the digital euros in the digital euro account exceed the holding limit, your bank will transfer the excess to your linked payment account (overflow function/waterfall).

Can I open several digital euro accounts?

The current legislative bill has no restriction on the number of digital euro accounts that can be opened. However, a user will only be able to designate a payment account in non-digital euros that must be linked to the digital euro account to use additional features such as the overflow function/waterfall. The individual holding limit would apply across all digital euro accounts combined.

What happens if I don't have a payment account?

Eurozone Member States must designate an institution that will have to offer basic payment services in digital euros to the group of consumers without a payment account. Consumers wishing to use the digital euro will therefore not need a payment account in non-digital euros.

Will individuals or companies from outside the Eurozone have to accept the digital euro?

It will be compulsory to accept payment in digital euros only if the recipient of an online payment resides or is established in the Eurozone. For it to be compulsory to accept an offline payment in digital euros, the payment must be made in the Eurozone.

Is the digital euro a new payment instrument?

The digital euro is not a new payment instrument. It is a digital version of cash. The added value of the digital euro to consumers' daily needs is unclear. The current, existing payment landscape covers consumers' needs. However, the solutions that presently exist for payments abroad are owned by non-European players. The ECB wants to provide its own European alternative to this with the digital euro.

What does this mean for me as a consumer?

Consumers will be able to use the digital euro, like cash, in every Eurozone country.



What does this mean for me as a trader?

A trader in the Eurozone will be required to accept the digital euro. However, an exception will apply if a trader does not accept other digital payment instruments. As every trader in Belgium is required by law to offer at least one digital payment solution, this does not apply. In Belgium, you will therefore have to be able to pay with the digital euro everywhere.

The implications of this for investing in hardware (e.g. payment terminals) is currently unknown.

Will the digital euro replace cash?

No, the digital euro will not replace cash. The intention is for it to complement cash.

Is the digital euro a cryptocurrency?

No, all cryptocurrencies are based on a blockchain principle. A blockchain is a secure database that contains its users' entire transaction history. These transaction data are updated in real time and stored in a huge, decentralised computer network. The cryptocurrency market is not regulated by a central bank or financial institution. The blockchain users ('miners') also determine the quantity of cryptocurrencies.

By contrast, the ECB will issue the digital euro and determine how many will be in circulation. The IT system that will be used for this purpose is known as the Eurosystem. This system is used as a link between the ECB and the Eurozone's national central banks and is tasked with implementing monetary policy. The ECB will thus regulate the digital euro.