

# Why is the ECB eyeing a 'digital euro'?

October 11 2020, by Florian Cazerres

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A digital euro would complement, not replace cash

The European Central Bank will on Monday launch a public consultation and start experiments to help it decide whether to create a "digital euro" for the 19-nation currency club.

The move comes as the pandemic accelerates a shift away from [cash](#),

and as policymakers nervously eye the rise of private cryptocurrencies like Bitcoin.

Here's an explainer of what a "digital euro" would mean for the region's citizens.

## **What is a digital euro?**

A digital, or virtual, euro would be an electronic version of euro notes and coins, it would be legal tender and guaranteed by the European Central Bank.

It would also for the first time allow individuals to have deposits directly with the ECB. This could be safer than with commercial banks, which could go bust, or than holding cash that could be stolen or lost.

And like cash, [money](#) could be stored outside of the banking system, such as in a "[digital wallet](#)".

It would allow citizens and firms to make their daily payments "in a fast, easy and secure way," the ECB said as it published a report on [virtual money](#) in October.

A digital euro would "complement cash, not replace it", the ECB stressed.

Issuing and transferring digital euros could be done using the distributed ledger technology known as blockchain on which cryptocurrencies such as Bitcoin rely.

## **Why now?**

The Covid-19 pandemic has boosted electronic payments as customers avoid notes and coins over fears they might spread the coronavirus.

Even in Germany, where cash is said to be king, consumers are this year expected to spend more money by card than in cash for the first time, according to a recent Euromonitor International report.

Like other central banks around the world, the ECB is also wary of falling behind virtual money issued by foreign private players like Bitcoin and Facebook's yet-to-be-launched Libra.

If people in the eurozone were to switch en masse to virtual currencies that operate outside the ECB's reach it could hamper the effectiveness of its monetary policy measures.

Facebook's plan to create the Libra, "has accelerated central banks' thinking" on the subject, Pictet Wealth Management economist Frederik Ducrozet told AFP.

## **What are the risks?**

People might avoid traditional accounts in favour of going digital, weakening retail banks in the euro area.

The risk would be higher in times of crisis, when savers might be tempted to flee to the safety of a "digital euro" and trigger a run on traditional banks.

To avoid this, the ECB might propose to limit the number of digital euros that each citizen could own or exchange.

Concerns about privacy and making sure the "digital euro" can't be used for money laundering will also be part of the ECB's thinking as it weighs

the pros and cons in the months ahead.

## Who else is doing it?

Privately-issued digital currencies are extremely volatile. The price of Bitcoin has nearly halved since its late-2017 high of around \$20,000 (17,030 euros).

But in recent years, central banks have begun looking into offering their own virtual money—known as Central Bank Digital Currency (CBDC)—as a stable and risk-free alternative.

The Chinese central bank started trials with digital currency in four cities in April, and the Bank of France has started experiments as well.

On Friday, the Bank of Japan said it would step up research into the topic.

The Bank for International Settlements, a network of central banks, in January announced the creation of a working group dedicated to the issue.

## When can I spend mine?

The ECB launches a three-month consultation on Monday and will carry out a series of experiments on the feasibility of a digital euro over the next six months.

The [central bank](#) aims to decide around mid-2021 whether or not to launch the project, it said.

But don't expect a digital [euro](#) in your electronic wallet soon.

It will take "between 18 months and three or four years" to see the initiative come to life, a source close to the project told AFP.

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