

The digital euro is coming!

Armissan, July 5, 2023 | Dieter Wermuth

After years of discussions and analyses the ECB is now at a point where the implementation of the digital euro project can begin. The decision will be announced at the October 23 meeting, and it will then probably take three years until banks will finally be able to load the new money onto mobile phones or create special accounts which can be used online by euro area citizens – if they are interested. The digital euro has the status of a legal tender (“central bank money”), issued by the central banks of the Eurosystem, which does not replace today’s banknotes: it will complement them. Just like those banknotes it will be booked on the liability side of central banks’ balance sheets.

Physical cash has become less and less important in households’ daily transactions. In Germany, its share has fallen to just 58 percent of all transactions – and the trend is down steeply. People are getting increasingly used to pay without cash – they are thus less dependent on cash machines and wallets, and less time is needed at the cashiers. For the stores, the advantage is that there is less and less counting, storing, transporting, and insuring of coins and bills. This reduces their costs. Another advantage of the digital euro, like that of cash, is that retailers will not have to pay fees to the card companies, which raises their net revenues. They could actually reduce their prices and thus help to bring down inflation.

Since the Bundesbank and the other central banks of the euro area have, among others, the statutory mandate to provide an efficient and safe payment system, the future digital euro is a step in the right direction. According to the Bank for International Settlements, almost 90 percent of the world’s central banks are presently studying digital alternatives to cash. It will be interesting to see whether cross-border money transfers will be part of the reforms, and whether the huge bid-offer spreads in households’ foreign exchange transactions will disappear.

A large part of European monetary transactions is organized by big-tech companies whose headquarters are outside the currency union. The digital euro will reduce this dependency, facilitate the Eurosystem’s governance of this business and make it less exposed to the whims and strategies of the foreign firms. It is important to know what is happening to the European data which is generated on an ongoing basis. Europe will become more autonomous and strengthen its position in negotiations with big data collectors.

Since European citizens may probably hold no more than 3.000 euros in digital form, banks will not get balance sheet problems. It can be expected that they will develop new finance products based on the digital euro, such as automated autonomous payments or micro-

payments. The new euro can be used for digital payments in stores, in e-commerce, for transactions between households and last, but not least for payments from and to the state.

It is unlikely that there will be significant changes in the transmission process of monetary policies, if any. The overall numbers are simply too small, and one form of cash is partly replaced by another form of cash. Neither the cash-based underground economy nor tax evasion will be seriously affected. These remain issues for the European tax authorities.

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