



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Mr Chris MacManus

Member of the European Parliament

European Parliament

60, rue Wiertz

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Frankfurt am Main, 21 January 2021

L/CL/21/6

Re: Your letter (QZ-067)

Honourable Member of the European Parliament, dear Mr MacManus,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs (ECON), accompanied by a cover letter dated 19 November 2020.

As I had the opportunity to explain to your honourable colleagues in a letter dated 22 December 2020¹, the Eurosystem provides safe money and reliable means of payments to households, businesses and the broader financial system in the euro area. It is in this context that the Eurosystem is currently conducting a conceptual analysis and practical experimentation on the technical requirements for the issuance of a digital euro in the future, as discussed by my colleague Mr Fabio Panetta, member of the Executive Board of the ECB, when he presented the Eurosystem Report on a digital euro² to the Members of the ECON Committee.³

In response to your first question on whether a digital euro would have an impact on the issuance of cash, I would like to stress that a digital euro would complement, not substitute, the current offering of cash. A digital

¹ See letter to Mr Marco Zanni, Ms Francesca Donato, Mr Valentino Grant and Mr Antonio Maria Rinaldi, Members of the European Parliament, available at:
https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter201229_Zanni_Donato_Grant_Rinladi-8df6e11334.en.pdf.

² See *Report on a digital euro*, ECB, October 2020, available at:
https://www.ecb.europa.eu/pub/pdf/other/Report_on_a_digital_euro-4d7268b458.en.pdf.

³ See *A digital euro for the digital era*, introductory statement by Fabio Panetta, Member of the Executive Board of the ECB, at the ECON Committee of the European Parliament on 12 October 2020, available at:
https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201012_1~1d14637163.en.html.

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euro would be central bank money available in digital form to the public for retail use and would exist alongside cash.

In broad terms, money in the hands of citizens and non-financial corporations consists of central bank money (in the form of banknotes today as well as digital euros, if introduced, in the future) and private money (in the form of bank deposits and electronic money). As to the relative use of these two forms of central bank money in the economy, European citizens would decide for themselves whether to pay with one or the other. As a result, a digital euro would not in itself lead to an increase in overall liquidity in the economy, but rather a change in its composition. Notwithstanding this fact, and as outlined in the above-mentioned report, a digital euro should be designed as an attractive means of payment, while avoiding its use as a form of investment that would compete with other financial instruments. Moreover, the ECB would not aim to acquire deposits, thereby further limiting the substitution of current forms of money with digital euro.

In this context, it is important to note that cash currently remains the dominant means of payment in the euro area as a whole. It fulfils crucial needs for citizens, although its use as a means of payment is in decline following a shift in transactions from physical stores to e-commerce.⁴ The Eurosystem will continue to ensure the availability of cash, and appropriate measures will be taken to this end.⁵ The production volumes of euro banknotes need to be sufficient to meet expected and unexpected increases in demand and to replace unfit banknotes. Alongside cash, a digital euro would combine the efficiency of a digital payment instrument with the safety of central bank money. It would also offer the option of using central bank money for contactless and online payments.

In response to your second question, in the aforementioned reply to your honourable colleagues I had the opportunity to discuss the Eurosystem's stance on the possible implications of a digital euro for commercial banks and the potential impact on household deposits. A digital euro should be made available in a fully harmonised manner across all euro area countries through supervised intermediaries, which could leverage their customer-directed services and avoid the costly duplication of processes. Like cash, a digital euro would complement forms of commercial bank money, thereby increasing competition and consumer choice and accessibility to electronic payments, which in turn would support financial inclusion. As mentioned above, a digital euro would be designed as an attractive means of payment, not as a form of investment, thereby avoiding the risk of large shifts out of commercial bank deposits into digital euro. The Eurosystem is assessing the tools that could be used to avoid these effects with the aim of safeguarding the stability of the financial sector, including the provision of financial services other than payments (e.g. credit provision), the smooth transmission of monetary policy and the proper functioning of retail payment systems.

⁴ For more information, see *Study on the payment attitudes of consumers in the euro area (SPACE)*, ECB, December 2020, available at: https://www.ecb.europa.eu/pub/pdf/other/ecb_spacereport202012-bb2038bbb6.en.pdf. It should also be noted that the use of cash for transaction purposes is only one driver of banknote demand – around 75% of euro banknotes in circulation are used as a store of value.

⁵ The Eurosystem has recently published its Cash 2030 strategy to ensure that banknotes remain widely available and accepted as a competitive, reliable payment instrument and store of value that can be owned and used directly by all consumers. See https://www.ecb.europa.eu/euro/cash_strategy/html/index.en.html.

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Finally, let me reiterate that the Eurosystem is in a phase of active listening. To this end, it launched a public consultation to receive feedback from all interested stakeholders, including future end users, on the design and the financial and social issues relating to the possible introduction of a digital euro. The consultation, which attracted a very large number of participants, closed on 12 January 2021. More than 8,000 citizens, firms and industry associations submitted responses⁶. A comprehensive analysis of the consultation will be published in the spring. This analysis will be an important input for the decision of the Governing Council whether to launch a digital euro project.

Together with European institutions and authorities, I look forward to holding further discussions about the framework that would be needed to introduce a digital euro. In this respect, the ECB and the European Commission services are jointly reviewing at technical level a broad range of policy, legal and technical questions emerging from a possible introduction of a digital euro, taking into account their respective mandates and independence provided for in the Treaties.⁷ The European Parliament, as co-legislator and representative of European citizens, will also have a fundamental role to play in discussing the framework required for the introduction of a digital euro.

Yours sincerely,

[signed]

Christine Lagarde

⁶ For more information, see *ECB digital euro consultation ends with record level of public feedback*, press release, 13 January 2021, available at: <https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210113~ec9929f446.en.html>.

⁷ For more information, see *ECB intensifies technical work on digital euro with the European Commission*, press release, 19 January 2021, available at: <https://www.ecb.europa.eu/paym/intro/news/html/ecb.mipnews210119.en.html>

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