

Letter

Letter: ECB's cautious approach to digital currencies is the right one

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It was October two years ago that the European Central Bank launched the investigation phase of its digital euro project. As made clear in the Lex note “CBDC/digital euro: more than a token impact on banking profits” ([FT.com](https://www.ft.com/content/0b1b1b1b-1b1b-1b1b-1b1b-1b1b1b1b), October 20), the governing council of the ECB has now decided to move to the second phase of the project: the preparation phase.

It started this week, and will initially last two years. Some market participants challenge the ECB, questioning the timing and purpose of the project, with some going as far as to assert that the digital euro is “a solution in search of a problem”.

The ECB’s decision to move forward early in the evolution of the digital payment debate creates at least two valuable possibilities.

First, it will allow the ECB to make mistakes early in the process and to give itself enough time to learn from those mistakes, and potentially move to a “Plan B”.

For example a change of plan could include a fundamental adjustment of the digital euro’s design, by making it programmable, purpose-bound, interest-bearing, or time-limited. It also means the ECB has the the opportunity not to introduce a digital euro in the future.

Second, it gives market participants the option to use the digital euro in the future, if they choose to do so.

By creating these two opportunities, the ECB is allowing for choices to be made in future rather than making those choices now when it would be difficult due to market uncertainty.

Thus the issue is not whether a decision to proceed with a digital euro is right or wrong, but rather to point out it is important that the ECB is able to keep its options open so as to make the right decision in the future.

And this is what it is doing.

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