

DIGITAL EURO

FEBRUARY 10, 2025 | NOVA SBE - LISBOA





Maria Tereza Cavaco

Role | Head of Payment Systems
Department at Banco de Portugal

Birth Date | November 1975

Joined Banco de Portugal in | January 2000

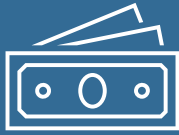
Prospective user of | the digital euro 😊



The payments ecosystem is in constant (r)evolution, mainly driven by technological innovation



Preference for
quick,
convenient
and low-cost
payment
solutions.



Decline in the
use of cash in
some
countries.



Greater use of
electronic
payment
instruments.



Use of new
technologies in
the payments
market.



New *players*
offering
innovative
payment
services.



Crypto assets and stablecoins have been increasingly integrated in the payment systems.

Large payment service providers, globally active, such as PayPal, Mastercard and Visa, start expanding their activities related to crypto assets.

Increasing number of merchants and service providers willing to accept payments in crypto assets, without any conversion.

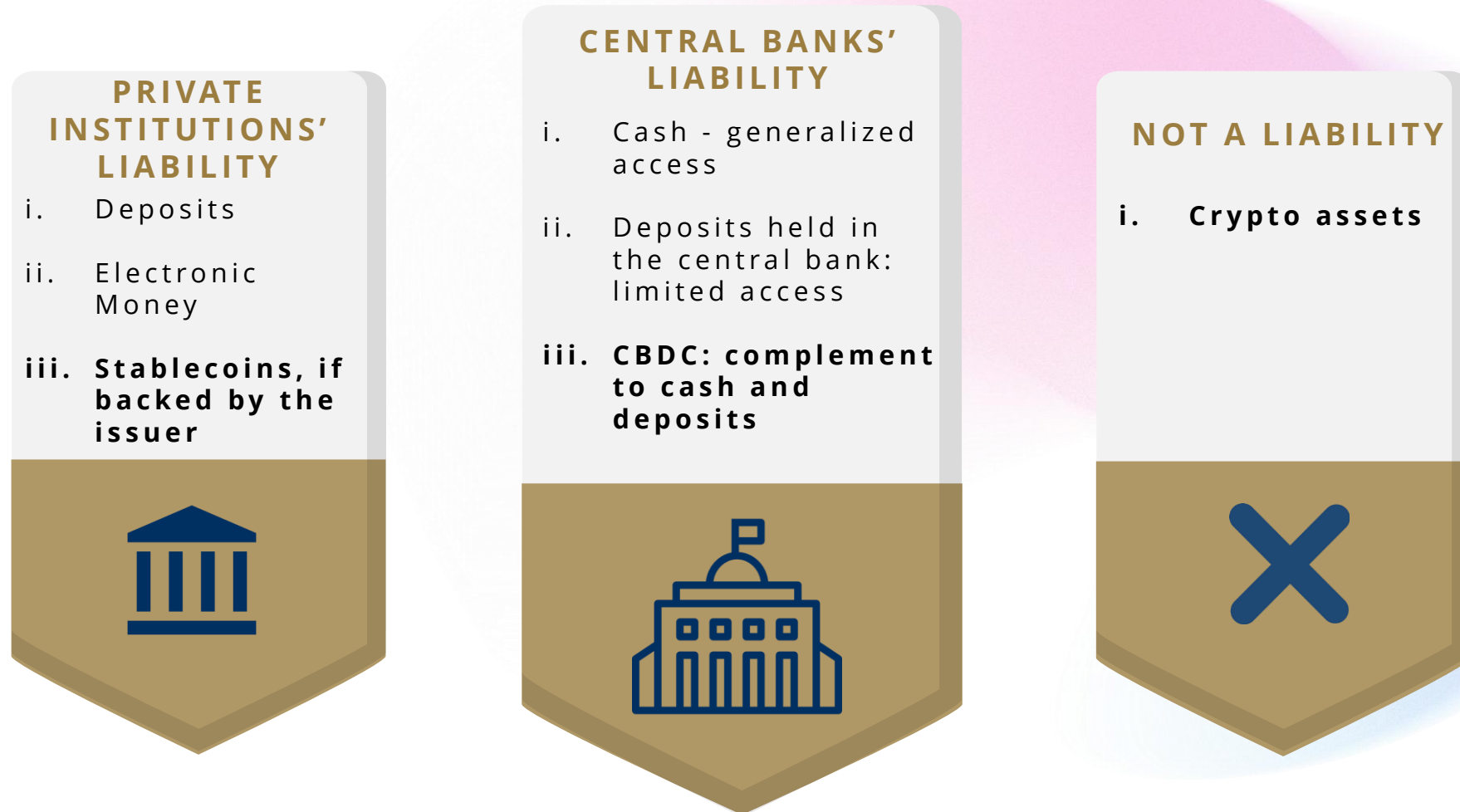
Some of the larger banks in the world invest in companies related to crypto assets.

Stablecoins may be made available by large technological companies with global reach that intend to include the offering of payment services in their value chain.





Crypto assets, Stablecoins and Central Bank Digital Currencies (CBDC) are different “animals”



Stablecoins and Crypto assets led to the need for action by legislators and Central Banks

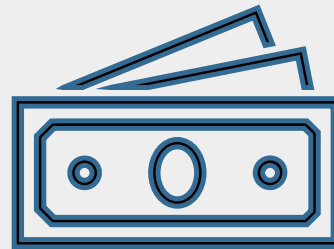


Legislators

Ensure a **level playing field** between entities/activities: “same business, same risks, same rules”.

Central Banks

Explore **new forms of central bank money**, complementary to cash and deposits held with the central bank, **adapted to the digital context**.





What is a CBDC?

Digital representation of a
central bank liability.

Third form of central bank money, which aims to complement the other two existing forms of central bank money:



Cash



Deposits held with the
central bank

Retail: directly available to the general public, including citizens and companies.

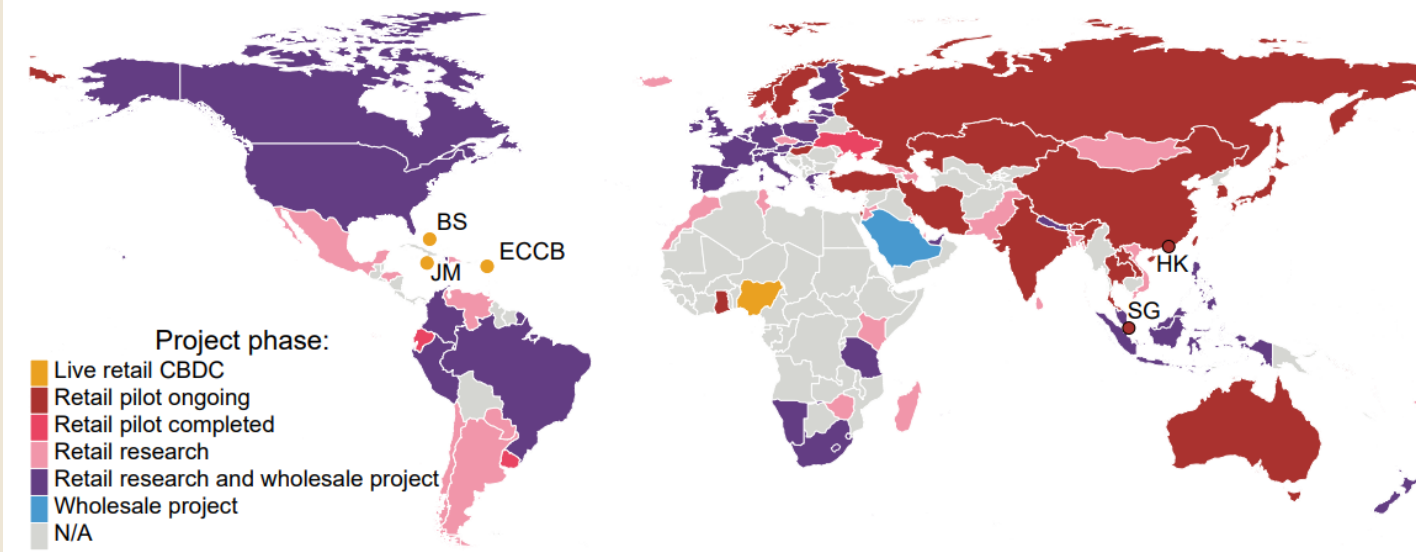
Wholesale: only directly available to credit institutions (roughly speaking).



Retail CBDC is equivalent to an electronic version of cash, allowing you to make electronic payments in central bank currency (risk-free)

CBDC PROJECTS

CBDC research and pilots around the world



Source: *Rise of the central bank digital currencies: drivers, approaches and technologies*, update March 2024

- Over **90%** of central banks are involved in CBDC projects;
- **More than half** of central banks are developing CBDC or carrying out concrete experiments;
- **More than two-thirds** of central banks consider the issuance of a retail CBDC to be likely or possible in the short or medium term.



The **digital pound project** is evolving...

- **March 2020** - Bank of England published a [discussion paper](#) where one approach to the design of a central bank digital currency was presented. The feedback from the payments industry, academics, and other interested parties is [publicly available](#).
- **April 2021** - Announcement of the creation of a Digital Pound Taskforce (CBDC Taskforce). This Taskforce brings together HM Treasury and the Bank of England, to coordinate the exploration of a potential UK CBDC.
- **February 2023** - Publication of a consultation paper on [The digital pound: a new form of money for households and businesses?](#) and of a [Technology Working Paper](#). A [response](#) to the contributions received from households and businesses was published in **January 2024**.
- **May 2024 and December 2024** - Publication of a [report on Point-of-Sale experiment](#) and of a research paper on [Enhancing the Privacy of a Digital Pound](#).
- **January 2025** - Publication of a [Progress update: The digital pound and the payments landscape](#).

The possibility of a digital pound is being explored. No decision is made yet on whether a digital pound will be issued.



...but the **digital dollar** has been banned...



In **January 2022**, the Federal Reserve published the paper Money and Payments: The U.S. Dollar in the Age of Digital Transformation, as a first step in this regard.



In **April 2023**, the Fed published the conclusions of a public consultation conducted within this scope.



The Fed has engaged in experiments related to digital currencies and in economic and policy research, including financial inclusion and financial stability.



In **January 25**, President Trump issued the Executive Order **STRENGTHENING AMERICAN LEADERSHIP IN DIGITAL FINANCIAL TECHNOLOGY**:

"The digital asset industry plays a crucial role in innovation and economic development in the United States, as well as our Nation's international leadership. It is therefore the policy of my Administration to support the responsible growth and use of digital assets, blockchain technology, and related technologies across all sectors of the economy, including by:

(...)

*(v) taking measures to protect Americans from the risks of Central Bank Digital Currencies (CBDCs), which threaten the stability of the financial system, individual privacy, and the sovereignty of the United States, including by **prohibiting the establishment, issuance, circulation, and use of a CBDC within the jurisdiction of the United States.**"*



...and the development of **stablecoins** is now the focus in the US.

Executive Order STRENGTHENING AMERICAN LEADERSHIP IN DIGITAL FINANCIAL TECHNOLOGY:

"The digital asset industry plays a crucial role in innovation and economic development in the United States, as well as our Nation's international leadership. It is therefore the policy of my Administration to support the responsible growth and use of digital assets, blockchain technology, and related technologies across all sectors of the economy, including by:

(...)

*(ii) promoting and protecting the sovereignty of the United States dollar, including through **actions to promote the development and growth of lawful and legitimate dollar-backed stablecoins worldwide.**"*

Donald and Melania Trump launch rival memecoins as crypto industry hopes rise

Value of incoming president's token soars then falls after wife unveils separate coin





What will the **digital euro** be like?

It will be the Eurosystem's central bank digital currency, complementary to cash, made available to the general public (individuals and companies) throughout the euro area, to make retail payments.

PRIORITISED USE CASES



E-commerce



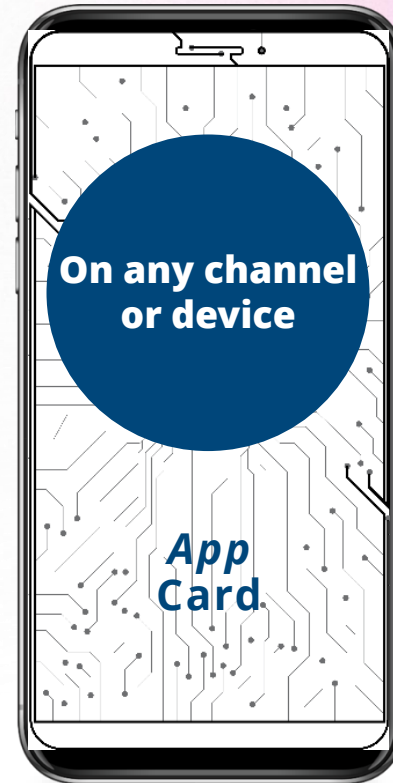
Person-to-Person



Physical point of sale



From and to government institutions



Privacy ensured

Minimum essential access to user data



Free of charge for basic features

What are the advantages of the digital euro?



FOR CONSUMERS

- **“Simplify life” / universal use** in several payment occasions and in all euro area;
- **Use in situations where cash is not an option** (e.g.: e-commerce and person-to-person remote payments), preserving some cash characteristics;
- **Always available**, allowing payments with central bank money in any situation, similarly to cash.



FOR MERCHANTS

- **More payment alternatives**, which could provide **greater negotiating power**;
- **Higher sales completion rate** by providing another payment method to the end consumer.

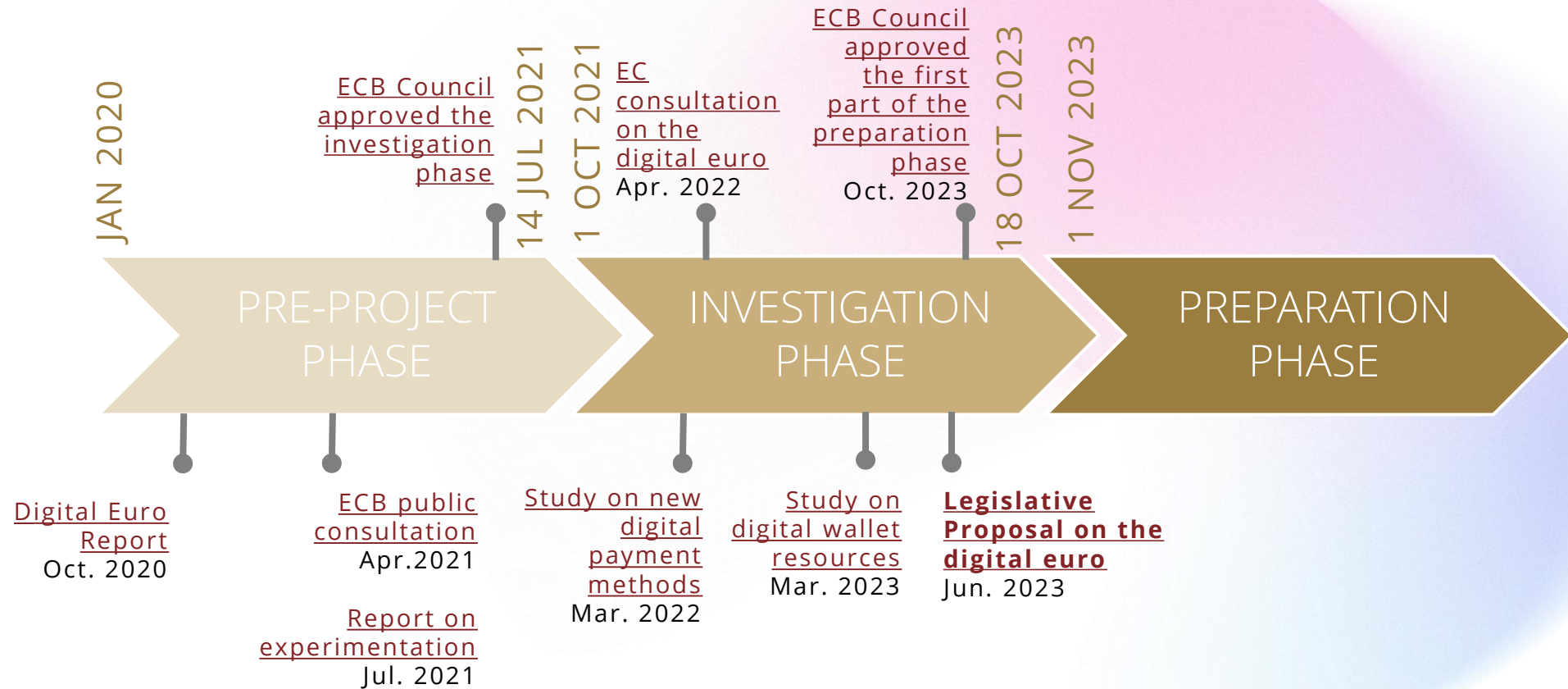


FOR INTERMEDIARIES

- **Expand the distribution and service offering area**, covering the European market besides the national market;
- **Increase market share** in e-commerce;
- **Contain costs** by reducing dependence on non-European providers.

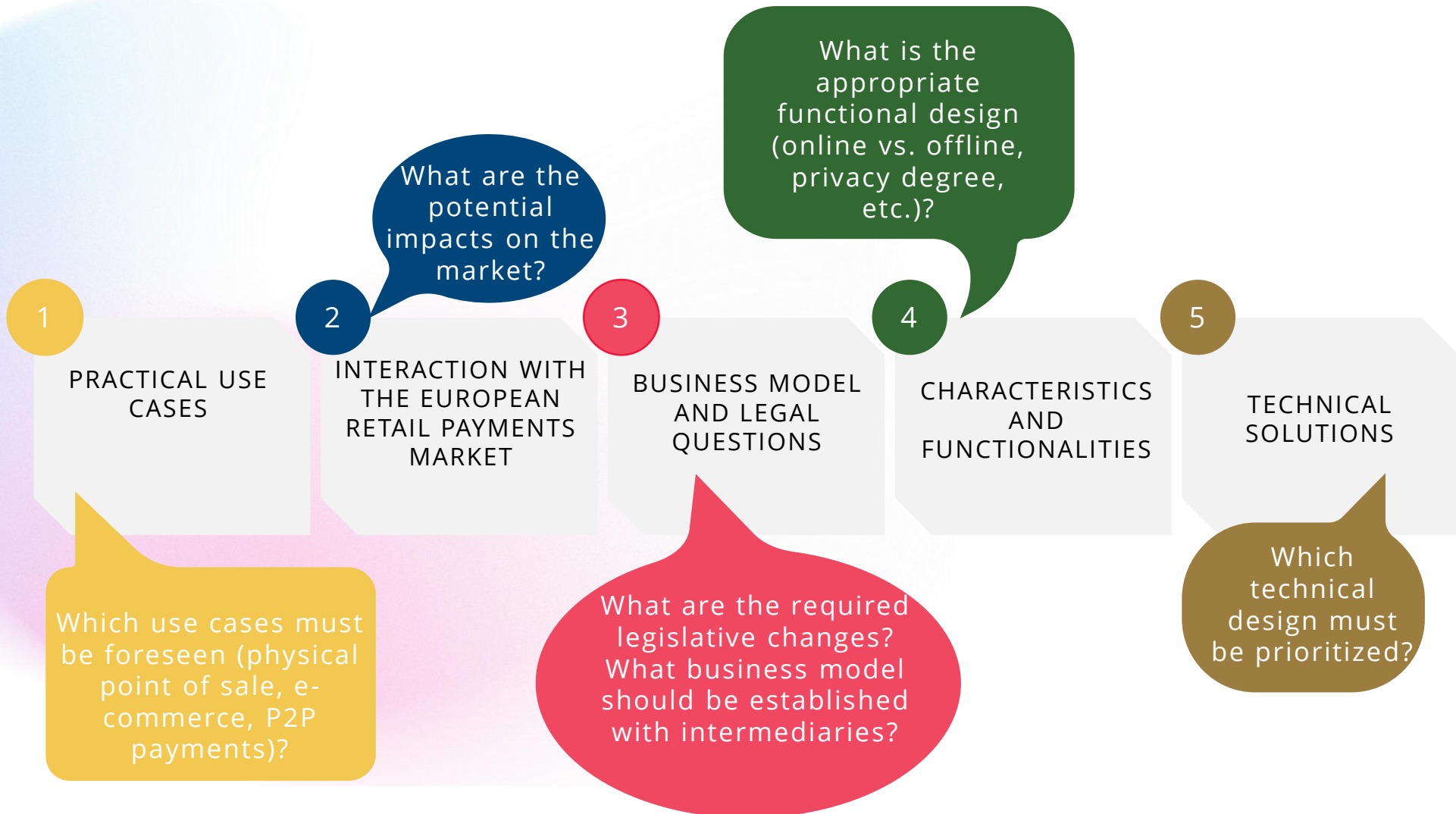


Project calendar



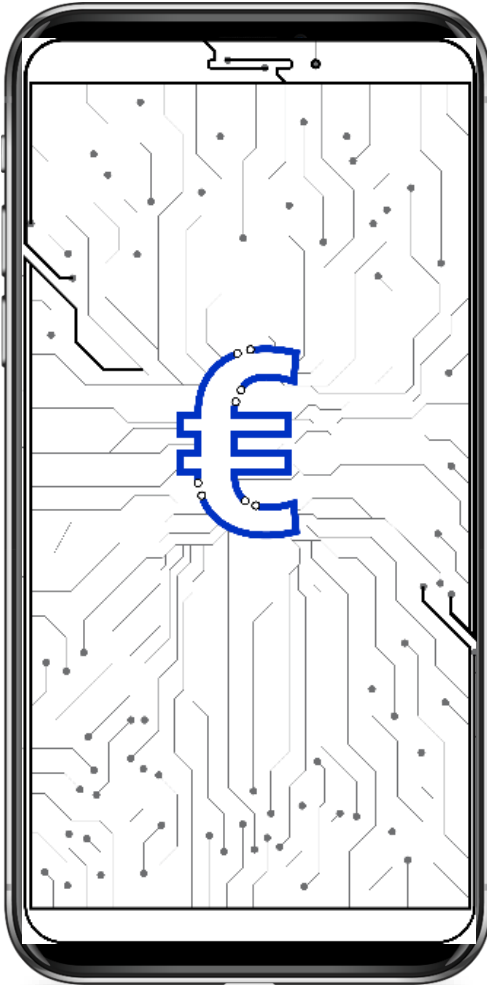


Questions assessed in the investigation phase





Objectives for the issuance of the digital euro



Be an anchor for the payment system – “Cash and digital euro: stronger together”

- Ensure general public **access to central bank currency**, preserving its **relevance in the payment systems**;
- Increase the **efficiency of the financial system**;
- **Reduce the risk of eventual market-abusive behavior** if the payments market was dominated by a small number of private sector participants;
- Ensure the conversion of private money into central bank currency by citizens at any time, maintaining **trust in public and private** money and protecting the currency **function as a unit of account**.



Contribute to promote the strategic autonomy and economic efficiency of the euro area – “Reliable money, no matter what”

- **Reduce dependence** on non-European payment solutions and infrastructures;
- Promote **innovation in payment systems**;
- Allow intermediaries to offer **additional payment services** based on the digital euro.



Digital euro design

Role of intermediaries	Holding limits	Funding and defunding	Connectivity and transfer mechanism	Privacy
Supervised intermediaries would have a relevant role in the distribution of the digital euro and would have the contractual relation with the users.	The digital euro design shall include holding limits , without harming the experience of end-users, nor excessively increasing the complexity of the product design.	Possibility to manually and automatically fund/defund the users' digital euro holdings and implementation of waterfall and reverse waterfall mechanisms .	Validation of online transactions by third-parties . Validation of offline transactions through secure hardware devices .	The Eurosystem shall have access to the minimum of data for payments' verification and statistical, research, supervision and oversight purposes. Supervised intermediaries shall have access to limited data , for client onboarding and AML/CFT purposes.



Preparation phase

Objective: develop the digital euro in accordance with the high-level design, requirements and conditions defined during the investigation phase.

Two parts:

Part I (24 months): starting on the 1st November 2023

- Finalization of the digital euro scheme rulebook;
- Selection of service providers for the development of the digital euro infrastructure;
- Carrying out experiments to increase knowledge on the digital euro functionalities.

Part II: to be decided by the Governing Council after Part I

- Implementation of the scheme rulebook;
- Development of infrastructure components by contracted service providers;
- Launch of pilots.





LEGISLATIVE PROPOSALS - SINGLE CURRENCY PACKAGE



Published by the European Commission, on **June 28, 2023**.



Composed by:

- i) Proposal for a regulation on the **establishment of the digital euro**;
- ii) Proposal for a regulation on the provision of digital euro services by payment service providers incorporated in **Member States whose currency is not the euro**;
- iii) Proposal for a regulation on the **legal tender of euro cash**.



Under these legislative proposals, the digital euro will **complement cash** and will be made available to the general public; as a central bank digital currency, it will be a **responsibility of the Eurosystem**.

Under current EU law, euro banknotes and coins are the **only legal tender in the euro area**. The new package aims to clarify these rules, particularly with regard to the digital euro.

Next steps



OCT 2023

Decision to move
towards the
preparation phase



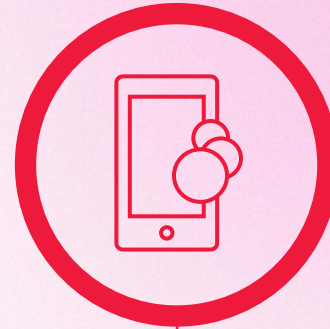
OCT 2025

Decision to advance
to **part II of the
preparation phase**



?

Publication of the
**Digital Euro
Regulation**



?

Decision on the
issuance of the
digital euro and
launch of **pilots**



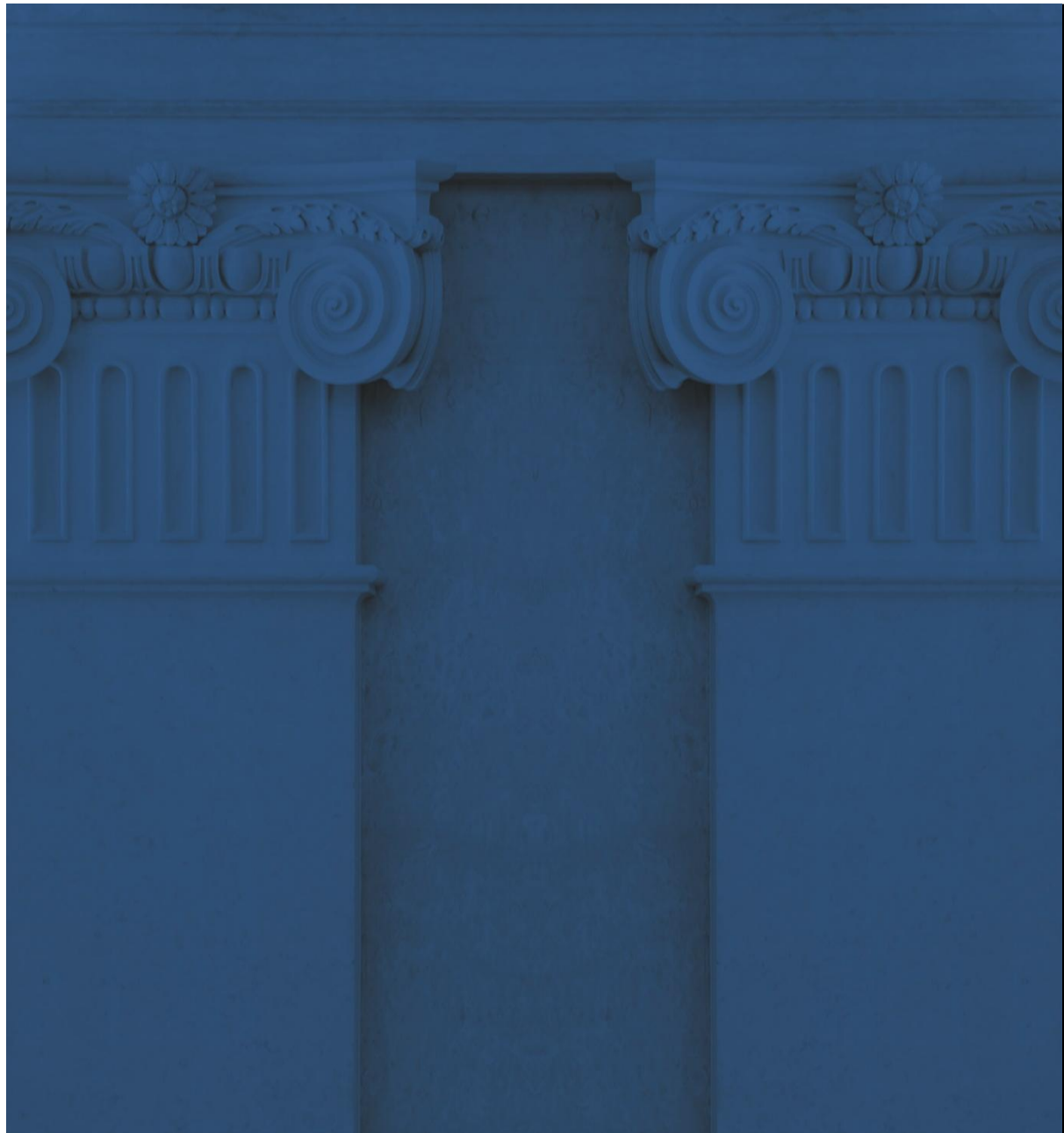
?

Digital euro launch



Digital Euro





DIGITAL EURO

FEBRUARY 10, 2025 | NOVA SBE - LISBOA



BANCO DE
PORTUGAL
EUROSISTEMA