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# Leak: EU Commission Wants Digital Euro Accessible to Everyone

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Global Research, June 15, 2023
Euractiv

Region: Europe
Theme: Global Economy



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*The European Commission wants to implement a digital euro that is accessible to all retail users for free, in an effort to strengthen financial inclusion and competition in digital payments, according to a leaked draft proposal seen by EURACTIV.*

The proposal for a regulation to introduce a digital euro is expected to be presented on 28 June. It will then have to be approved by both the European Parliament and the member state governments in the EU Council.

While it was unclear in what form the digital euro should be introduced, the leaked document now suggests that the Commission wants to make it accessible not only to banks but primarily to the public at large as a retail payment option.

One of the motivations behind the proposal is the desire to "reduce the fragmentation of the European retail payments market, to promote competition," and "to encourage industry initiatives to offer pan-European payment services," according to the draft proposal.

Moreover, the digital euro is a reaction to technological developments.

The discussion around the digital euro first picked up speed when a consortium around Facebook (today Meta) started the Libra project with the aim of creating its own digital currency. While the Libra project was abandoned in the meantime, the fear of losing monetary control to private initiatives remained.

## Accessible to everybody

"In the euro area, the establishment of a retail CBDC (central bank digital currency) – the digital euro – is necessary to supplement cash and adapt the official forms of the currency to technological developments," the explanatory statement of the draft proposal reads.

By going for a retail CBDC, the EU would take a different path than other jurisdictions. The Swiss National Bank, for example is mainly interested in a wholesale CBDC that could be used to facilitate interbank settlements.

The digital euro would be legal tender, meaning that economic operators will have to accept payment in digital euro, although there are exceptions, for example for microenterprises with fewer than 10 employees and less than €2 million in annual turnover.

The digital euro is backed by the European Central Bank (ECB), as physical cash is today. It would thus be more safe than bank deposits, which are only backed by the commercial banks and – up to a certain amount – by deposit insurance schemes.

Moreover, the digital euro should not only be available online, it should also be usable offline, via so-called proximity payments. However, offline use would only be allowed for low-value transactions.

## Free account, free transactions

Just like cash, the digital euro should be available to users free of charge.

"All credit institutions providing payment account services would be required to provide basic digital euro payment services upon request of their clients," the proposal reads. Moreover, the Commission wants to ensure that "basic digital euro services" are "offered for free to natural persons," even if they are not consumers of credit institutions.

In addition, public institutions like postal offices or local and regional authorities would be able to distribute the digital euro, helping to make its use independent from banks.

Payment services providers would also have to offer the transactions free of charge for natural persons. They can, however, ask for a fee from merchants, but the fee cannot surpass the fees "requested for the most efficient comparable means of payment," according to the proposal.

## Holding limits

In the past, some banks have expressed the worry that too attractive a digital euro could lead savers to withdraw their money from bank deposits and store it in the safer digital euro accounts backed by the central bank. If such a move happened too quickly, this could pose a risk to financial stability.

This tradeoff is acknowledged in the draft proposal that, in its own words, seeks to balance the trade-offs between "ensuring wide usage while protecting financial stability and credit provision."

The Commission wants to tackle that problem by limiting the use of the digital euro as a store of value. It tasks the ECB with "developing instruments to limit the use of the digital euro as a store of value".

According to the draft proposal, this could mean that the ECB would institute limits to how much digital euros any individual can hold in order to safeguard financial stability.

While individuals would be allowed to use multiple digital euro accounts, the ECB-imposed holding limits would apply to the sum of digital euros held in all digital euro accounts of any single individual.

## Data protection vs anti-money laundering

The enforcement of these holding limits, as well as the necessity to comply with anti-money laundering rules and EU sanctions, would force payment services providers to process personal data.

Especially regarding the enforcement of holding limits, the ECB would also have to process personal data, but may not directly identify the account holder.

For both the payment services providers and the ECB, the draft proposal mandates "appropriate technical and organisational measures including state-of-the-art security and privacy-preserving measures."

In any case, the Commission wants to "ensure that the [ECB] and the national central banks cannot directly identify individual digital euro users."

While the draft proposal's explanatory statement does not go into detail as to how this tradeoff between protecting privacy and ensuring traceability should be resolved, it mentions "pseudonymisation or encryption" as two possible technological solutions.

In general, the tradeoff should be resolved by ensuring a high privacy for offline transactions of digital euros, similarly to cash transactions, while applying the anti-money laundering standards of today's private digital payments to online transactions of digital euros.

## Front-end services

The draft proposal also regulates the front-end services provided to users of the digital euro. For example, they should be "interoperable with or integrated in the European Digital Identity Wallets." According to the draft proposal's recitals, "it should be possible to use the European Digital Identity Wallets for the storage of digital euros."

Moreover, the draft proposal also says that while payment services providers may develop their own front-end services, they also have to offer users access to the front-end services developed by the ECB.

However, the ECB would not be allowed to "provide for customer relationships", nor to have access to personal data of the users.

The draft proposal also requires producers of mobile devices to allow providers of front end services and providers European Digital Identity Wallets "effective interoperability" and access to the hardware and software features "necessary for storing and transferring data to process online or offline digital euro transactions, on fair, reasonable and non-discriminatory terms.

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*Additional reporting by Luca Bertuzzi*

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