



## Oireachtas Finance Committee Briefing Note on Digital Euro

### Central Bank Digital Currency and the Digital Euro

In today's monetary union, citizens benefit from a generally accepted means of payment, in the form of euro banknotes and coins (cash). But we live in a time when many parts of life are becoming increasingly digitised. This is also reflected in a gradual shift in people's preferences towards digital payments. To make our money "future-proof", it is important to adapt to those changing preferences.

The Digital Euro would be the next step in the evolution of cash. It would be an electronic equivalent to cash. While it would not have the physical form of a banknote or a coin, it would retain the most important characteristics that make cash a public good: free for basic use, widely accepted and easy to use, inclusive, resilient and offering strong privacy protection.

Importantly, a Digital Euro would **not** replace cash, but complement it. Being able to use cash is important for many people. That is why the Eurosystem will continue to issue physical cash and support its usability. Through the issuance a Digital Euro, citizens would simply have even more choice when making payments.

The exploration of a central bank digital currency is not unique to Europe. Globally, a number of countries are considering the potential introduction of a central bank digital currency, and are at various stages of development and pilot projects<sup>1</sup>. In a European context, the European Central Bank (ECB), in conjunction with national central banks (NCBs) of the euro area (including the Central Bank of Ireland), are considering the technical and policy elements of a possible issuance of [a Digital Euro](#)<sup>2</sup>. In parallel, from a political perspective, the European Commission has published a legislative proposal for a potential Digital Euro issuance.

From the perspective of consumers, a Digital Euro would offer a universally-accepted digital means of payment that can be used free of charge<sup>3</sup>, throughout the euro area, for payments in shops, online or from person-to-person. From the perspective of merchants, a Digital Euro, as a truly pan-European solution, could provide an easier and cheaper alternative to the currently fragmented payments landscape in which merchants operate. From the perspective of financial intermediaries, a Digital Euro would provide a platform to offer pan-European, innovative financial services to customers and could foster innovation in the growing e-commerce and digital payments segments.

More broadly, the issuance of a Digital Euro would contribute positively to public policy objectives, such as preserving the role of public money as the monetary anchor for the payment system. Currently, central bank money is only available to the public in the form of physical cash (banknotes and coins). A Digital Euro would offer an electronic means of payment - issued by the ECB, a public

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<sup>1</sup> In 2022, a [survey conducted by the Bank for International Settlements](#) (BIS) indicated that 86% of 65 Central Banks surveyed are exploring cost and benefits of a CBDC, with approximately 60% conducting experiments and proof of concepts, while 14% have moved toward a development and pilot phase. As per the figures, it is clear that interest in CBDCs is widespread.

<sup>2</sup> Information on the Digital Euro Project can be found on the [ECB's website](#)

<sup>3</sup> Please note, the free basic Digital Euro services will be defined by [Digital Euro Legal Package](#). Currently, free basic services are outlined in [Annex II](#) of the proposal



institution – that would be accessible to everyone throughout the euro area. So, a Digital Euro would, as a complement cash<sup>4</sup>, preserve the role of central bank (public) money as a stabilising force in payments<sup>5</sup>.

Finally, the issuance of a Digital Euro would also strengthen the strategic autonomy and resiliency of the euro area, by increasing independence from non-European payment technologies and reduce the risk of market domination<sup>6</sup>. Europe has higher dependencies on external (i.e. non-European) providers for digital payments than other developed economies, and the shift in consumer preferences from cash to digital payments is accentuating these dependencies. By design, a Digital Euro would be a means of payment based on European infrastructure, under European governance.

### Digital Euro: Progress from a Eurosystem perspective

In October 2021, the Eurosystem launched the Digital Euro project with a two-year investigation phase to explore possible technical and policy options that could form the basis of a Digital Euro design. This investigation considered how a Digital Euro could be distributed and used by citizens and businesses as well as the potential impact it may have on the European economy and society. The Eurosystem published progress reports throughout the investigation phase to communicate progress with broader stakeholders<sup>7</sup>.

Based on the findings of the investigation phase<sup>8</sup>, the Governing Council of the ECB decided to continue the work on the Digital Euro project by moving to the preparation phase. The preparation phase will be a multi-year project that will progress a number of policy and technical dimensions necessary to develop a Digital Euro. The launch of the preparation phase is not a decision on whether to issue a Digital Euro. Any such decision would only be considered once the EU's legislative process has been completed (see below).

### European Commission's Single Currency Legislative Proposal<sup>9</sup>

On 28 June 2023, in parallel to the ECB's project, the European Commission (Commission) published its legislative proposal<sup>10</sup> for a potential Digital Euro offering.

<sup>4</sup> To safeguard the role of Euro cash in the economy (ensuring its availability, accessibility and usability as a payment method), the European Commission in June 2023 published its [legislative proposal on the legal tender of euro banknotes and coins](#).

<sup>5</sup> Source: [The case for a digital euro: key objectives and design considerations](#)

<sup>6</sup> Source: [Digital euro: a common European project](#)

<sup>7</sup> Progress Reports: [First progress report on the digital euro investigation phase](#); [Second progress report on the digital euro investigation phase](#); [Third progress report on the digital euro investigation phase](#); and, [Fourth progress report on the digital euro investigation phase](#)

<sup>8</sup> [A stocktake on the digital euro: Summary report on the investigation phase and next steps](#)

<sup>9</sup> In addition to proposing a framework for the digital euro, the [Single Currency Package](#) safeguards the role of cash in society by ensuring it is widely accepted, and accessible as a means of payment. The Bank fully supports the Commission's proposal surrounding the safeguarding of cash.

<sup>10</sup> [Digital Euro Legal Package](#) (i.e. COM (2023)368 – Proposal for a Regulation of the European Parliament and of the Council on the establishment of the digital euro; and, COM (2023)369 - Proposal for a Regulation of the European Parliament and of the Council on the provision of digital euro services by payment services providers incorporated in Member States whose currency is not the euro and amending Regulation (EU) 2021/1230 of the European Parliament and the Council)



The legislative proposal was drafted by the Commission and covers a number of components considered key enablers for a functional Digital Euro environment - inclusive of Anti-Money Laundering/ Counter Terrorist Financing requirements, accessibility, European digital identification, distribution, fraud prevention, obligations of payment service providers, privacy and legal tender status. The proposal will ensure that the Digital Euro retains its key characteristics as a public good.

The European Council and Parliament requested the ECB provide its opinion on the Digital Euro legislative proposal<sup>11</sup>. The ECB published its opinion on 31 October 2023<sup>12</sup>. In the opinion, the ECB broadly welcomed and agreed with the legislative proposal; with only a few areas of divergence noted in the ECB's opinion - e.g. on the possibility to have multiple Digital Euro accounts and the remuneration approach.

Representatives from the Department of Finance (DoF) and Department of Foreign Affairs (DFA) are on the Commission's Council Working Party for the Digital Euro legislative proposal. The Bank has been, and will continue to, engage closely with the DoF and DFA to inform deliberations on matters concerning to the Digital Euro legislative proposal<sup>13</sup>.

It is important to note that whilst the preparation phase of the ECB project will run in parallel with the legislative process, a decision to issue a Digital Euro will only be considered by the ECB's Governing Council in the event that the European Parliament and Council have adopted a Digital Euro legal act enabling the issuance of a Digital Euro<sup>14</sup>. That is, a decision would be considered only in the event that there is political backing for a Digital Euro in Europe.

## Stakeholder Engagement

Ireland is currently developing a National Payments Strategy, led by DoF. This is subject to an open Consultation Process until 14 February 2024. To align with current EU legislative proposals<sup>15</sup> and European Retail Payments Strategies, Ireland's National Payments Strategy<sup>16</sup> proposes to set out a strategic roadmap for the payments system in Ireland until 2030<sup>17</sup>. Given the Digital Euro legislative proposal is intended to progress prior to 2030, the Digital Euro was included in the public consultation launched 11 December 2023<sup>18</sup>.

<sup>11</sup> In accordance with [Article 133 of the Treaty on the Functioning of the European Union](#), the European Parliament are responsible for laying down measures necessary for the use of the euro as the single currency, but measures shall be adopted post consultation with the ECB.

<sup>12</sup> [Opinion of the European Central Bank on the Digital Euro](#)

<sup>13</sup> Although not solely on the topic of the legislative proposal, the Bank has had regular meetings with DoF on the digital euro project since February 2023 (prior to the legislative proposal being published). In addition, DoF are standing members of the IRPF and have received updates on the project since the commencement of the investigation phase in 2021.

<sup>14</sup> Source: [European Commission Finance - Digital Euro](#)

<sup>15</sup> Legislative proposals including the Payment Service Regulation, Payment Service Directive (PSD3), and the digital euro.

<sup>16</sup> National Payments Strategy [Terms of Reference](#)

<sup>17</sup> The NPS proposes to cover a period up until 2030. It is important to note that this date may change. For instances, DoF launched a public consultation which put a question to the public on the 2030 timeline and if they considered it appropriate/not appropriate.

<sup>18</sup> National Payments Strategy: [Public Consultation](#)



The Bank has been engaging with the DoF to discuss how the National Payments Strategy could support the preparation activities for a Digital Euro in Ireland, should it be issued. This engagement will continue under the formulation and implementation of the new National Payments Strategy.

The Bank also provides updates on the Digital Euro project to the Irish Retail Payments Forum<sup>19</sup> on a regular basis. Some of the updates have included the Digital Euro legislative package. The meetings of the forum bring together payment service providers - banks, credit unions, card companies and fintechs - and payment service users - merchants and consumer representatives - and facilitate purposeful dialogue on topics related to retail payments.

The Bank also regularly monitors broader public discourse on central bank digital currencies, including the Digital Euro. This has identified a number of critical issues from the perspective of the public. These include the protection of privacy, fraud detection and prevention, the risk of displacing cash (referenced above) and financial inclusion. All of these dimensions are being considered carefully, both from a legislative perspective as well as a technical design perspective.

The Bank, alongside the ECB and Commission, have promoted an open and transparent approach on the project and legislative proposal, and will continue to do so. For example, the Bank frequently updates its website<sup>20</sup> to provide Digital Euro updates, addresses any queries from the public regarding the Digital Euro, and attends industry events which cover the Digital Euro. We plan to continue building our engagement approach, including with the public, as the Digital Euro project progresses over time.

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<sup>19</sup> Further details on the [Irish Retail Payments Forum](#) - its members and meeting notes.

<sup>20</sup> Central Bank of Ireland's [Digital Euro Website](#)