Honourable members of the ECON Committee - thank you for giving me the opportunity to present Positive Money's position on the digital euro.

For those of you who do not know us, we are an international campaigning and research organisation that works towards a money and banking system that enables a fair, sustainable and democratic economy.

Today, I have 3 key messages that I would like to deliver :

1. **We welcome the Commission's proposal to protect access to cash for as long as possible.** Cash remains the most inclusive, anonymous, and cost-free means of payment.
2. **A digital euro is an opportunity to provide a universally accessible and safe electronic form of public money for people**. Unfortunately, the current proposal on the digital euro undermines this ambition by heeding too much to the concerns of the banking industry. However, there is still time for the EU legislators to improve the proposal.
3. **A more ambitious digital euro should have similar benefits as cash today and should be available through public intermediaries**.

The cash issued by central banks, what we call public money, plays a crucial role in establishing trust.

People trust that the moment that they want to withdraw money from their bank account, they can convert their bank deposits, which is private bank money, immediately on par into cash, which is public money.

Cash is the most liquid, anonymous and risk free asset that people have access to in an economy today.

It is risk free because it's a promise from the central bank to pay the owner of the money what the banknote states is its' worth, and, as opposed to private banks, a central bank cannot go bankrupt.

Today, cash accounts for less than 15% of money in circulation in the real economy.

This dominance of private money over public money is further reinforced by the closure of ATMs, which the banks see as unprofitable.

This decline of cash has serious implications for our society.

It would mean that people no longer have access to the safest and most liquid asset in the economy today.

They would instead have to rely on bank deposits, which are inherently risky, as we have seen during the numerous banking crises, including one just earlier this year.

Without cash people would lose access to an anonymous means of payment.

It would mean even more transfer of personal data into the hands of the private banking sector.

For these reasons, **we welcome the Commission's proposal on the legal tender of cash.**

However, faced with an increasing demand for digital payments, we also need a cash equivalent fit for the digital age.

The digital euro is an opportunity to provide a universally accessible and safe electronic form of public money.

This is what the ECB initially set out to do.

In 2020 it announced that it would start investigating the issuance of "a digital equivalent of euro banknotes"[1]

But the ECB has since backtracked on this ambition.

It has now reduced its ambition to simply offering 'a digital means of payment' and not 'digital public money'.

This distinction is key.

If the digital euro is simply a means of payment, then people cannot store or save it, they can only use it to carry out payment transactions. Money, on the other hand, can be stored as well as used for payment transactions. [2]

So why has the ECB and European Commission adopted this approach?

The issue is that if people could store digital euros, then private banks would have to compete with the ECB to attract deposits.

They would for instance have to offer more attractive interest rates on deposits.

This only seems fair considering banks are currently making billions in profits but are refusing to increase interest rates on deposits despite increasing rates on loans.

---

[1] Panetta, Fabio (2020a), 'We must be prepared to issue a digital euro', ECB blog, 2 October
Panetta, Fabio (2020b), 'A digital euro for the digital era', Introductory statement at the ECON Committee of the European Parliament, 12 October

[2] As Sereina Grünewald explains in her report, money has both a **payment function**, you can carry out payment transactions with it, and a **storage function**, you can decide to keep it without doing anything with it. Grünewald, Seraina (2023), 'A legal framework for the digital euro', In-depth analysis requested by the ECON Committee', May

But the banks have taken the argument further.
They cry wolf that there will be massive financial instability due to the sudden and large outflow of bank deposits towards the digital euro.

I'm going to come back to this point on financial stability, but I first want to demonstrate the impact that the arguments of the banking sector have had on the design and use of the digital euro, and why this undermines the entire digital euro project, even its use as a mere 'digital means of payment'.

To prevent the digital euro from competing with bank deposits, the ECB and Commission have tried to make the digital euro unattractive enough for people.

The digital euro will therefore not be remunerated - it will not bear interest - and there will be a limit on the amount of digital euros that people can hold.

The holding limit currently being proposed by the ECB is €3000 - it's worth mentioning that the banks initially pushed for €60.

Moreover, the Commission has made it clear that people that have existing non-digital euro bank accounts will only be able to access the digital euro through banks.

If I'm a consumer, and I open my online banking app, and I see two seemingly very similar accounts, one where I can hold unlimited digital bank deposits that are remunerated, and the other where I can hold only €3000 unremunerated digital euros, I will most certainly not bother with the latter.

I wouldn't even be able to use the digital euros as a means of payment to buy three tickets to Vietnam over Christmas.

The current proposal on the digital euro is a missed opportunity, but it can still be remedied by the EU legislators.

We can still ensure that the digital euro has very similar benefits to public money today and that it is usable for people.

To do this, EU policymakers would need to ensure three things:

1. **That the digital euro has a very high level of privacy**

As evidenced by the ECB's public consultation on the digital euro, privacy is a major concern for people.

For this reason, the offline version of the digital euro is crucial as it is most able to mimic the anonymous nature of cash today.

The design and choice of technology for the offline version must be carefully chosen to ensure this.

2. **People must be able to access digital euros through an account with a public or non profit entity**

The digital euro is a public good and should therefore be accessible through public intermediaries such as post offices.

We welcome that the Commission's proposal allows this for people who do not have an existing bank account or for accessibility reasons, but we think that everyone should be able to choose this option.

3. **Just as with cash, there should be no or only temporary high holding limits**

We believe that holding limits are only appropriate if deemed necessary to prevent acute financial stability risks, namely banks being unable to meet their obligations to depositors, and that these should then gradually be removed.

However, there are numerous studies, including from the Bank of Canada, that show that even under extreme circumstances, banks would be able to cover large outflows to central bank digital currencies.[3]

Other studies, including from the Bank of International Settlements, show that the risk of bank runs are unlikely and that central bank digital currencies could in fact increase the resilience of the financial system.[4]

Finally, it's worth noting that the Bank of England is considering holding limits in the range of 10,000 - 20,000 GPD.

In conclusion,

A digital euro should provide people with a safe electronic form of public money - it should not be reduced to a simple means of payment.

The current proposal should therefore be remedied to ensure that the digital euro is usable for people, that it has similar benefits to cash, and that it can be accessed through public intermediaries.

---

[3] Gorelova, Alissa,Lands, Bena and teNyenhuis, Maria (2022),'Resilience of bank liquidity ratios in the presence of a central bank digital currency', Staff Analytical Note, May
Another study shows that a limit of €3000 would have no impact on the system, indicating that this limit could probably be further increased without causing any immediate issues in terms of bank funding: Meller, Barbara and Soons, Oscar (2023), 'Know your (Holding) Limits: CBDC, Financial Stability and Central Bank Reliance', ECB Occasional Paper, 16 August

[4] Auer, Raphael, Frost, Jon, Gambacorta, Leonardo, Monnet, Cyril, Rice, Tara and Song Shin, Hyun (2021), 'Central bank digital currencies: motives, economic implications and the research frontier', BIS Working Papers, November