



EUROPEAN CENTRAL BANK

EUROSYSTEM

Summary of inputs on the methodology for calibrating holding limits

12th ERPB technical
session on digital euro



16 July 2024

Digital euro project

ERPB members' feedback*: overview

ERPB members were invited to share their views on the factors underlying the calibration of the digital euro holding limit

- ERPB members overall agreed on the **comprehensiveness of the factors** considered for the calibration, suggesting few additions which have been carefully assessed
- ERPB members generally welcomed the attention given in the calibration to **user experience, monetary policy implications, and financial stability**, as per draft regulation
- Member(s) of the consumers sector welcomed the focus on **user experience**, in particular the ability to **pre-fund**, while highlighting that **deposit outflows scenarios should consider deposit competition (i.e., ability of banks to raise rates to retain deposits) and adoption scenarios**
- Member(s) of the banking sector supported the focus on **financial stability**, e.g., **potential tensions in liquidity and lending**, while argued **against covering all use cases** for usability
- Member(s) of the merchant sector also welcomed the factors and stressed that **deposit competition** should be considered and highlighted that **digital wallets** already exist that may affect outflows

*All feedback published on the [ECB website](#).

1. Usability and ecosystem

ERPB members detailed comments regarding the usability factors

Member(s) of the consumers sector suggested that

- **The holding limit should facilitate usability.** A holding limit of (or close to) zero would prevent adoption for **users not willing to activate reverse waterfall**
- A holding limit should be set so that the digital euro can be a **fully functional payment account, regardless of the reverse waterfall**. Key factors would be users' **preference for pre-funding** versus **preference for the reverse waterfall**
- Other factors suggested for the calibration were, e.g., the average **monthly salary** or **PSPs' distribution capacity** and **merchants' acceptance**

Member(s) of the banking sector argued that

- A holding limit should be aligned with user needs like **monthly spending** for **cash payments** and **cash holdings**
- **Reverse waterfall could allow a “low” holding limit**, while **low speed** would **not justify a high holding limit** (rather E2E flows should in this case be improved)
- **ATM withdrawals** could be a relevant factor to understand adoption

Envisaged follow-up in the methodology

➔ *User needs and preferences to be captured through i) user research; ii) quantitative analysis of individuals' monthly cycles*

➔ *Merchants' acceptance addressed in legislative draft and to be factored in the setting of user research*

➔ *Monthly spending (incl. cash, but not only) and preference for reverse waterfall to be captured through user research*

2. Monetary policy and its implementation

ERPB members detailed comments regarding the monetary policy factors

Envisaged follow-up in the methodology

Member(s) of the banking sector highlighted that

- **Credit supply** is a key part of monetary policy transmission via banks
- **Second-round effects on financial markets** should be considered, including a possible dry-up of the interbank market in a stress scenario, with the potential need of ECB intervention
- **Flexibility of collateral frameworks** is important to obtain liquidity, and, in addition, the **heterogeneity** in collateral frameworks should be considered

➔ *Captured in models and/or through possible scenarios*

➔ *Collateral availability and its implications captured in models*

Member(s) of the consumers and merchants sector highlighted that

- **Competition with cash** should be in focus, too, as individuals may draw from cash holdings rather than deposit holdings
- **Digital payment wallets already exist** that allow users to convert commercial bank money into e-money

➔ *Analysis to capture possible impact of the digitalisation on the demand for banknotes*

➔ *Captured in models, including through possible scenarios*

3. Financial stability and banking supervision (I)

ERPB members detailed comments regarding the financial stability and banking supervision factors

Envisaged follow-up in the methodology

Member(s) of the merchants and consumers sector highlighted that

- **Ability of banks to raise rates** is an important factor, as banks could prevent outflows towards digital euro by offering attractive interest rates } ➡ *Captured in models and/or through possible scenarios*
- It is important to conduct user research under the first pillar, as it could **clarify potential adoption and the maximum deposit outflows** } ➡ *User needs to be captured in user research*
- It is important to consider the (uneven) **wealth distribution and heterogeneity across households** } ➡ *Captured through available data, user research and the SSM's targeted data collection exercise*

3. Financial stability and banking supervision (II)

ERPB members detailed comments regarding the financial stability and banking supervision factors

Envisaged follow-up in the methodology

Member(s) of the banking sector stressed that

- **Choice between pre-funding and usage of reverse waterfall can have different liquidity impacts** for banks } → *Captured through available data*
- Outflows have consequences for **liquidity buffers and metrics like the LCR and NSFR**, through e.g., “unwinding” (HQLA reduction), the inability of some institutions to raise capital market funding, the overall counterbalancing capacity, and the distribution of excess liquidity } → *Captured in models and/or through possible scenarios*
- The effect on **profitability** is also important, as **banks’ funding costs** could be affected, **impacting net interest income**
- **Heterogeneity of banks**, e.g., by geography, by business model, by collateral framework or by size is important, as well as a distinction of **normal vs. crisis times**. } → *Captured in models and/or through possible scenarios / Captured through available data or the SSM’s targeted data collection*

Engaging with the market over the next year

One-year outlook

