**Claudia BUCH**
Chair of the Supervisory Board

Mr Auke Zijlstra
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 19 May 2025

**Re: Your letters (QZ-008 and QZ-009)**

Honourable Member of the European Parliament, dear Mr Zijlstra,

Thank you for your letters on the implications of the digital euro for the banking sector, which were passed on to me by Ms Aurore Lalucq, Chair of the Committee on Economic and Monetary Affairs (ECON), accompanied by a cover letter dated 14 April 2025.

In your two letters, you ask about the potential costs, financial impact and risks for banks following a future introduction of the digital euro. At the meeting of the ECON Committee on 27 March 2025, I answered related questions by Jonás Fernández (S&D, ES) and Enikő Győri (PfE, HU) by stating that concerns about the impact on banks are addressed by the digital euro's design features. Banks could benefit from the digital euro if they develop business models around it. They would be at the core of digital euro distribution and remain central counterparts for end users.

But let me use this opportunity to explain the ECB's approach to the digital euro, and our assessment of the impact on banks, in more detail. Ensuring financial stability and preserving the soundness of the banking sector are key pillars of the ECB's approach to designing the digital euro. The digital euro is the Eurosystem's response to the rapid digitalisation of the financial system. Digitalisation calls for banks to develop sustainable digital business models. Payment systems need to be improved in order to enhance cost effectiveness and promote competition. This is why the impact of the digital euro on banks cannot be assessed on the basis of the status quo. Instead, it needs to be considered in the context of a rapidly evolving financial sector landscape, in terms of payments services, increased competition and potential disruption of existing value chains in the provision of financial services.

The impact of the digital euro on banks depends on a number of design parameters and on the evolution of markets for payment services. Therefore, it is not possible to exactly assess the impact of the digital euro in quantitative terms. However, the design features currently being discussed aim to ensure that the digital euro will not affect the banking sector adversely but offer new opportunities for providing digital financial services. Of course, the concrete design of the digital euro will depend on the final regulation, which is for the co-legislators to determine.[1]

Regarding digital euro holdings for individual end users, concerns have been raised that the digital euro might trigger a relocation of deposits away from banks, in particular during periods of stress. This, in turn, may impair the role of banks in providing credit to the economy and preserving financial stability. Let me stress that the first line of defence against risks to financial stability is a sound regulatory and supervisory framework. Banks need strong financial and operational resilience to continue providing financial services also in times of stress.

Additionally, the digital euro will contain strong design features that provide safeguards against negative implications for banks. These safeguards include (i) individual holding limits, (ii) non-interest-bearing holdings, (iii) no holdings for businesses, and (iv) a waterfall functionality, whereby digital euro would be moved automatically to end users' commercial bank accounts if holding limits are surpassed. A comprehensive Eurosystem workstream is now working on the calibration of holding limits and the liquidity implications for banks. ECB Banking Supervision has conducted a dedicated data collection exercise, and its analysis incorporates, among other things, effects on banks' prudential regulatory requirements such as effects on liquidity coverage ratios and net stable funding ratios. We continue to engage with market participants, as we seek and consider their views. In order to garner market feedback, the ECB presented and published the preliminary methodology to the Euro Retail Payments Board (ERPB) in December 2024[2], following a discussion in the ERPB in July 2024.[3]

Regarding your first letter referring to potential revenues for banks resulting from the digital euro, the draft legislative proposal for a digital euro envisages a compensation model designed to provide financial incentives for banks.[4] Use of the digital euro would be free of charge for consumers and cost efficient for merchants, while PSPs would generally be remunerated for the services they would offer. The ECB supports this approach. Moreover, the costs of settlement and processing expenses would be borne by the Eurosystem, which would lower the operational costs for PSPs.

Generally, the digital euro would create new possibilities for PSPs to broaden their customer base by providing a unified payment method throughout the euro area under the digital euro rulebook developed by the ECB. The rulebook provides a single set of rules, standards and procedures to standardise digital euro payments.[5] The rulebook is developed in collaboration with market participants and other

1 See the proposal for a Regulation of the European Parliament and of the Council on the establishment of the digital euro.

2 See the presentation given on 10 December 2024 and the annex to the preliminary methodology for holding limit calibration.

3 See the update provided on 16 July 2024.

4 See footnote 1.

5 The Eurosystem established a Rulebook Development Group for the digital euro. For more information, see the list of members of the Rulebook Development Group and the update on the work of the digital euro Rulebook Development Group sent by Mr Piero Cipollone to Aurore Lalucq, Chair of the Committee on Economic and Monetary Affairs of the European Parliament, on 9 April 2025.

stakeholders. It will leverage existing standards where possible in order to minimise adaptation costs for PSPs.[6] As soon as the regulation is adopted by the co-legislators, the digital euro rulebook can be finalised and market participants can start using its standards, even before the potential issuance of a digital euro.

As regards your second letter referring to the costs for banks, PSPs will need to invest initially to be able to distribute the digital euro. However, measures are in place to mitigate these costs. The Eurosystem, in the Rulebook Development Group, is working closely with PSPs and other main stakeholders to define how to create a digital euro that is as cost-efficient as possible by using existing infrastructures and standards.[7] Ultimately, the final legislative framework will have an impact on the investment needs associated with the digital euro. More broadly, the need for investing in the digital transformation varies from bank to bank depending on business model, size, and existing IT architecture. Given the strong recent profitability performance and sound capital and liquidity positions of the European banking sector, banks are arguably in a relatively good position currently to make the necessary investments into digital business models.

Moreover, additional investment costs need to be balanced against the digital euro's potential to generate cost savings for end users by boosting competition in Europe's payment market and thus lowering payment services fees.

Looking ahead, the ECB is prepared to provide ongoing technical support to co-legislators as necessary. The ECB, represented by the member of its Executive Board in charge of the digital euro Mr Piero Cipollone, will continue updating you during the dedicated hearings on the digital euro before the ECON Committee.

Yours sincerely,
[signed]
Claudia Buch

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6 In October 2024 the ECB issued a call for expressions of interest in innovation partnerships for the digital euro.

7 All documentation on the digital euro scheme rulebook is available on the ECB's website.