



EUROPEAN CENTRAL BANK

EUROSYSTEM

Summary of feedback on work on methodology for holding limit calibration

15th ERPB technical
session on digital euro

11 February 2024



Digital euro project

Recap of the timeline



Block 1: Usability (I)

Main points shared

The waterfall functionality is not a solution for all consumers and all use cases. The lower the holding limit, the more the user experience with multiple accounts will be compromised.

The waterfall functionality would not be able to effectively counterbalance a holding limit for varying reasons (privacy, fraud, budgeting, account capacity, etc.).

Usability should not be a factor in holding limit methodology, as (reverse) waterfall solves for any restrictions.

Digital euro cannot be the only payment means covering the full users' monthly income and monthly consumption needs, as the analysis seems to imply.

Data from the use of existing electronic payment methods (such as cards, instant payment solutions) could also be considered.

Response

- *Holding limit methodology is being designed in accordance with legislation, including usability.*
- *Both pre-funding and use of reverse waterfall are being considered in the methodology.*
- *Survey evidence will shed additional light on preferences for (reverse) waterfall vs pre-funding that will be used as data input for the model.*
- *Investigation on data sources ongoing and will be used but data limitations exist.*
- *The monthly payment cycle should indirectly capture this, as well as the heterogeneity of payment behavior.*

Block 1: Usability (II)

Main points shared

Unclear if and how differences between countries in all the key variables will be addressed (e.g. whether average or median data will be used).

The uneven distribution of wealth also means that for many consumers storing money on a digital euro account might not be used as an addition to storing money in cash but rather as an alternative.

Median amount of cash held by euro area citizens at the beginning of the day (from SPACE survey) to be considered as a key reference.

Response

- *Methodology will consider aspects of heterogeneity within country and across countries – while it should be considered that banknotes are accessible and usable uniformly across the euro area.*
- *User research will provide further insights into the heterogeneity of consumer behavior across different countries.*
- *Methodology leverages on SPACE survey and is complemented by an ad-hoc survey being conducted to better understand users' needs.*

Block 1: Usability (III)

Main points shared

Methodology assumptions and tools assess variety of income and expenses sources, some which are beyond typical use of cash, implying that digital euro usage is being designed to capture usage beyond existing cash usage.

An effective mitigation against potential withdrawal of money from payment and savings accounts would be for a bank to offer attractive interest rates.

Financial stability can be preserved by guaranteeing that digital euro will not be interest bearing.

Holding limit is not necessary if certain conditions met (e.g., no interest on holdings).

Response

- *Due to physical nature, cash is not usable for day-to-day digital payments (e.g. e-commerce), which will instead be possible with digital euro.*

- *Methodology includes examination of the role of deposit remuneration, taking into account that the digital euro is not remunerated (as per draft regulation).*
- *Holding limits and non-remuneration are both integral parts of the design features of the digital euro.*

Block 2: Monetary policy and implementation

Main points shared

Unclear whether the impact of reduced liquidity, resulting from deposit outflows, is implicitly considered within the reserves element.

Top-down approach will not capture individual banks; request to see individual banks results to compare to internal models.

Response

- *Methodology considers impacts of deposit outflows, from banks to the Eurosystem, on autonomous liquidity factors and available reserves, among other factors.*
- *Methodology also accounts for scenarios of future lower levels of excess liquidity.*
- *Most of the methodology relies on data collected from individual banks.*
- *Country- and bank-level heterogeneity is taken into account in all blocks of the methodology, and disaggregated results are scrutinized for most of the analysis under Block 2 and Block 3.*

Block 3: Financial Stability

Main points shared

Model does not fully consider that cooperatives may have not have access to market/non-HQLA (not all cooperatives can generate non-HQLA) and risks signaling effects from those date due.

Importance of considering of IRRBB risks and impact on reducing loan supply.

Real life scenario of liquidity stress being non-linear, and that large declines in LCR/NSFR alone could drive further stress.

Selection criteria for the 185 LSIs included in the sample.

The size of European banks varies considerably and bucketing them all in only two categories (SIs and LSIs) does not help capture the risks faced by small banks.

Response

- *Considered as banks with no market access remain inactive on interbank market. Analysis focuses on digital euro outflows and ignores second-round effects from other stakeholders on purpose.*
- *Impact of digital euro on IRRBB indicators considered as part of Block 3 analysis. Credit supply impact is considered in Block 2 analysis.*
- *Impact of the digital euro estimated taking a conservative approach in Block 3: banking sector experiences a system-wide shock and due to a loss of confidence in the banking system unrelated to the digital euro, deposit outflows occur.*
- *LSIs were selected by NCAs, with aim at creating a representative sample at country level (no harmonised selection criteria).*
- *Assessment includes country and business model analysis of banks (i.e. not just SI vs LSI). Impact computed at bank-level.*

Common assumptions and scenarios

Main points shared

Scenarios should be modelled by considering at least a probable percentage adoption based on current wallet and debit card deployment and calculating an EU average.

More realistic scenarios should be established, as it is unlikely that there is an adoption rate of the digital euro of 100% and it is unlikely that 100% of consumers store the maximum amount allowed.

A forward-looking analysis should be conducted considering future reserve levels, an interbank market closure, and ultimately a crisis scenario and lack of confidence that could pose a risk to financial stability.

The results coming from the model should be recalibrated to take into consideration real market situations that occurred over the last few years.

Response

- *Additional scenarios are being developed (incl. incorporating the findings of the survey), to be included in the refined methodology.*
- *Elements already included (e.g. interbank market closure, future reserve levels).*
- *Ongoing work to further enhance the assessment with sensitivity analyses, looking at different assumptions.*

Next steps

Sector-specific ad-hoc expert sessions

- ***Ad-hoc expert sessions scheduled to deep dive into the feedback received from the consultation launched on 10 December***
 - *20 February for Banks PSPs*
 - *21 February for Non-Banks PSPs*

ERPB Technical Sessions

- ***Next ERPB technical sessions to present and discuss further developments on the methodology for holding limits***
 - *22 May: 17th ERPB Technical Session*