



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Compensation model for the digital euro

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Digital Euro MAG  
Item 4



24 February 2023

Digital Euro Project Team

# Where do we stand?

Tentative - timing subject to change

**July 2021**  
Governing Council  
decision to launch  
investigation phase

Use case prioritisation  
Report on focus groups with  
citizens and merchants



Design options to moderate take-up  
Distribution model



Compensation model  
Access to ecosystem  
Value added services  
Advanced functionalities

Prototyping results



Selection of service provider(s)  
for possible project realisation  
phase

Decision making document  
including advice on potential  
issuance digital euro, its design  
and implementation plan



Q4-2021

Q1-2022

Q2-2022

Q3-2022

Q4-2022

Q1-2023

Q2-2023

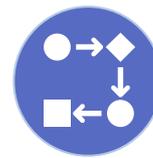
Q3-2023



Project team on-boarding  
Governance set-up



On-line/off-line availability  
Data privacy level  
Transfer mechanism



Settlement model  
Distribution of amount in circulation  
Role of intermediaries  
Integration and form factor  
Funding and defunding  
Prototype development



User requirements

Preparation for possible  
project realisation phase  
decision making

**autumn 2023**  
Governing Council  
decision to possibly launch  
realisation phase

# Objective of today's exchange



Present **Eurosystem's analysis on the core principles for the digital euro compensation model.**



Invite you to **share your input as part of a written procedure (deadline 24 March 2023).**

# Background

The digital euro  
is a **public good**

Natural evolution  
of cash in the  
digital sphere

It should be **widely available and usable anywhere in the euro area** to make and receive payments.



This needs establishing an appropriate combination of **requirements & economic incentives** providing confidence that **network effects** will be achieved.

# Objectives of compensation model



# Core principles for the compensation model

- 1 Free basic use by private individuals
- 2 Network effects generating economic incentives for acquirers and merchants
- 3 Comparable economic incentives for issuers
- 4 Eurosystem bears its own costs, as with production and issuance of banknotes

# Free basic use by private individuals

## 1 Free basic use by private individuals

- The digital euro should be free for basic use by private individuals.
  - This is consistent with the context of cash, which is a public good as well, where people can pay, be paid, and have access free-of-charge.
  - The 'basic use' would cover all services necessary to enable persons to pay and be paid with digital euro in a convenient manner.
- Onboarding to digital euro, opening and holding of a digital euro wallet/account
  - Funding and defunding the digital euro wallet/account from the payment account which the person associates it to
  - Provision of a basic instrument to pay with digital euro
  - Making and receiving Person-to-Person (P2P) payments
  - Making payments to merchants, businesses, or governments (i.e., POI, including POS, e-commerce, and P2G)
  - Receiving payments from governments (G2P)
  - Combinations of the above elements such as waterfall (i.e., receiving a payment and defunding) and reverse waterfall (i.e., funding and making a payment).

# Incentives for acquirers and merchants

## 2 Network effects generating economic incentives for acquirers and merchants

- PSPs offering digital euro acquiring services would be able to **charge merchants** for these services, **in line with cash and other payment methods**, where merchants also face costs.
- Price setting for merchants could be determined by **market forces**. The wide distribution of a digital euro could allow for a more **open competitive space** in the euro area with **greater choice**.
- Co-legislators might decide to implement **safeguards to prevent potential abuse from the legal tender nature of digital euro** (i.e., possible mandatory acceptance). Legislation might establish an **expectation on merchant pricing** considering the current levels for comparable retail payment solutions.

# Comparable incentives for issuers

## 3 Comparable economic incentives for issuers

- PSPs distributing digital euro and offering wallet/account management services to private individuals should have a **similar level of economic incentives** to do so as for electronic payment alternatives.
- This is to ensure an **effective distribution of a public good** like the digital euro.
- The objective is that PSPs have **comparable incentives** to promote an **optimal usability** and **end-user experience** as they have with alternative electronic payment instruments they distribute.

# Eurosystem bears its own costs

## 4 Eurosystem bears its own costs, as with production and issuance of banknotes

- The Eurosystem will **bear its own costs**, reflecting the **public good nature** of the digital euro.
- **Same logic which currently applies to cash.**
- PSPs would have their own costs related to the distribution of the digital euro services they provide, but they would **not be charged Eurosystem costs** such as those related to **scheme management** and **settlement processing**.

# For feedback

We invite reflections by  
participants

What are your views on the  
suggested core principles  
for the digital euro  
compensation model?

Thank you for  
your attention

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