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“A strong case for a digital euro”

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In mid-July the ECB will decide whether the preparations toward decision on digital euro should continue.

We cannot look at the process of digital euro without taking into account the entire environment within which the ECB has launched its reflection, published the report back in October, pursued public consultation on the undertaking and within which the ECB Governing Council will eventually make its July decision. According to the informal road map the formal launch of the digital euro, if decided, may take another five years.

One element of this complex environment in which we see the digital euro process is the advancement of digital finance. This is the future of finance. This is happening very quickly, over a very short period, actually in historical terms, overnight. We know that pandemic has accelerated this change. The challenge now is to ensure that we have in place an adequate and conducive regulatory framework.

Another element that matters for the central bank digital currency is the geopolitical context. We see many jurisdictions moving in this direction, with different speed and time line. China is among the first to roll out its digital currency and being furthest ahead if you disregard Bahamas sand dollar. Russia plans to launch a pilot beginning 2022. Bank of Japan has already started trials. UK established a task force. Sweden is working on it since 2017 has completed technical pilot. US is seeing it as a priority with FED looking into technology.

Big tech have also started to enter finance, China based firms offer the widest range of services, and the potential for big tech financial services in US and Europe cannot go unnoticed.

In this global context some ask whether we are not coming too late with our CBDC. At the same time, payments are undergoing a fundamental change; alternative global payment system is emerging with clear moves both on technology and consumer sides. All that implies that in the EU working toward digital operational resilience has become crucial. ECB and other central banks have a key role to play in underpinning European payments by a competitive and innovative market while preserving the European sovereignty.

In my view, the ECB initiative deserves a strong support.

A digital euro, which will be an equivalent of an account in the central bank, is a step in responding to new payment needs in the EU. We hear from the ECB that it would come as a complement to cash and payment solutions offered by private sector. However, this, of course, puts many issues on our plate - legal, technical and political. The issue that cannot be ignored is whether while offering a fully protected central bank account central bank digital currency really means no risk to commercial banks. We hear from ECB that there is understanding of this risk and there are ways and means to address it.

It is the Chinese case of the digital currency that has led to another concern, namely the impact of CBDC on the powers of central banks and monetary policy. The issue here is also, whether China can use this vehicle to strengthen its position and the role of its currency in the global financial and monetary system.

There is definitely the need to study at length all aspects before deciding.

Some experts say that the EU has found itself under a sort of pressure to embark on this reflection on the CB digital currencies.

Consultations whose results the ECB published in April and which actually showed enthusiasm and support for the digital euro, raised many issues that matter for public at large. They also point to the benefits for those who are currently underserved by the banking sector. In general, the debate in Europe focuses largely on what might be the benefits, but we see as well issues to address related in particular to the consumer protection. For participants in the consultations what matters most is security, privacy but also broad usability of the new digital currency. Among the questions raised, we see the question on where the accounts would be placed. Should it be central banks or private banks as intermediaries? We also face the question on how to preserve the privacy of transactions and how to strike the right balance between privacy and control; or on chances to ensure interoperability of the system as even the single market is a multi-currency area.

The challenge is to avoid that central banks could become competitors of commercial banks in offering payment service to the public at large. It should be ensured that the CBDC would not destabilize the financial system by draining commercial banks deposits in unpredictable ways. Finally, this brings the question on how to ensure a level playing field for public and private participants. How to ensure that CBDC will not crowd out private solutions or discourage new initiatives in the payment market. Many of us would agree that there is enough space in the payment area for coexistence of private solutions and central bank digital money. With digital euro we might increase volumes but digital sector will bring innovations.

Another argument seen by many as fundamental is the programmability of payments that can be achieved through the CBDC, this is often used as the major argument in favour of digital euro. Money has to move smoothly between banks, companies, individuals, machines and require programmable payments pay per use models. We see that demand for programmable payments is growing and the CBDC, together with tokenized commercial bank money are seen as bringing the greatest functional benefit in this regard, as cash flows can be synchronized with the flow of services. In general, I would say that it can be assumed that digital euro will open new innovative avenues for services to be developed. This implies that the international dimension of digital euro allowing cross border payments beyond euro area will be another aspect to look carefully at. This certainly would require interoperability agreements with other central banks.

The good news is that ECB is already cooperating internationally with other central banks who work on the possible CBDC. That is why I believe that we should consider the possibility of cross border use of the digital euro at an early stage of reflection. It could reduce the costs of cross border euro denominated payments. My understanding is, however, that initial reflection is limited to the idea of digital euro in the context of euro system.

Digital euro could strengthen the international role of euro. That implies that Europe should ensure the use of euro as a reference and reserve currency in the field of digital finance.

There is also market reality that we must not ignore when working on the central bank digital currency or, indeed, the digital euro. I think here of the emergence of decentralized finance which today can rely only on the US dollar stable coins to manage risks. I think I can say that unfortunately, in the emergence of decentralized finance we see the US taking lead. They are responding to quickly increasing demand for digital representation in fiat currencies. The fact that there are practically no significant euro referenced assets in public block chains undermines European potential in digital money innovation. This signals risk of strong dependency on American currency in the future.

Let me finish by saying that both ECB digital euro and privately issued digital representations of euro that do not pose risk to monetary sovereignty can work together.