

SPEECH

Public money: keeping up with the times

'Why do we need a central bank digital currency? To keep up with society. To pursue strategic autonomy. And to maintain access to public money in a digital world.' With these words, Klaas Knot concluded his opening remarks to The European House-Ambrosetti's panel on 'Central Bank Digital Currencies (CBDCs): The Future of Money', on 5 April 2024.

Published: 05 April 2024



Lake Como has been drawing people to its shores ever since Roman times. So, it is no wonder it does so too, today – and not only physically, like us, but also in the digital world.

Apparently, somewhere on the digital shores of Lake Como, the first so-called Metaverse Mansion was built. So, also in cyberspace these shores are a desirable place to spend time.

Everywhere you look, the world around us is digitalising rapidly.

And so, you might ask: isn't it high time for the coins and banknotes in our wallets to do the same? Isn't it high time for our central bank currencies to go digital? And the answer is, of course, yes.

Let me elaborate on three reasons why central banks around the world are investigating CBDCs.

First, our banknotes have stood the test of time, but central banks are making sure that they also keep up with the times. As the world is digitalizing, so are central banks.

Keeping up with innovation in payments



Source: *ING Historical Archive*



Let me start by taking you back to what you can see on the left side of this slide.

On this picture, we are back in 1988, where we find ourselves in a Dutch supermarket. And what we are witnessing here, is the very first time someone, somewhere in Amsterdam, used a card instead of cash to make a payment.

In the meantime, the world of digital payments has evolved rapidly – we went from card, to contactless, to mobile phone and, today, even a ring.

And the cash in my wallet...? Well, on my next slide, you can see the evolution of a banknote. From 1988 till now.

...and standing the test of time



Don't get me wrong, banknotes have definitely undergone a lot of innovations. While banknotes date back to seventh century China, today's security features and materials are very much up to date. Banknotes have stood the test of time – and they continue to do so.

But, however much that may be the case, the leap into the digital realm has not been made. Not yet.

With such a leap into the digital realm, we would extend the public's trust in physical banknotes to the digital world. To do so successfully, a banknote's digital twin must have the same features as physical banknotes have today.

- No one needs to know what you pay for with digital euros – just like with cash. The balance, though, between privacy and other public policy objectives, like countering money

laundering and illicit activities, is ultimately for the European co-legislators to decide.

- Everyone must be able to use the digital euro, including the less digitally savvy. Just like cash.
- Everywhere in Europe, at every point of sale, to every other person, you should be able to pay with the digital euro, just like cash.
- Digital euro holdings will not be remunerated, in line with the non-remuneration of cash.

Indeed, the digital euro will have all the good things of cash. Most notably the offline functionality, which is to be offered from the outset, will be instrumental. Offline is the embodiment of a digital version of cash, bringing true and unique added value to consumers and retailers, not just in my home country. A digital euro must provide for both online and offline use cases to fulfill the promise of being able to pay with public money anywhere in Europe at any time.

Public and private laying the puzzle together



A second reason why we are investigating the digital euro is that it will provide a public answer that – together with private solutions – will lay the puzzle for a more integrated European retail payments market. Digitization has brought innovative solutions to the European payments market, but two characteristics stand out:

One – our European retail payments market is heavily fragmented along national lines;

And two – our European digital payments market is, essentially, dependent on non-European technologies or non-European parties.

To cut to the chase: currently, we do not have a pan-European digital retail payment solution of European origin. And though this doesn't have to be a problem in normal times, it does raise questions about European strategic autonomy in adverse times.

Because no matter how you look at it, payments – whether cash or digital – are like water, electricity and gas for our economy. They keep our economy going.

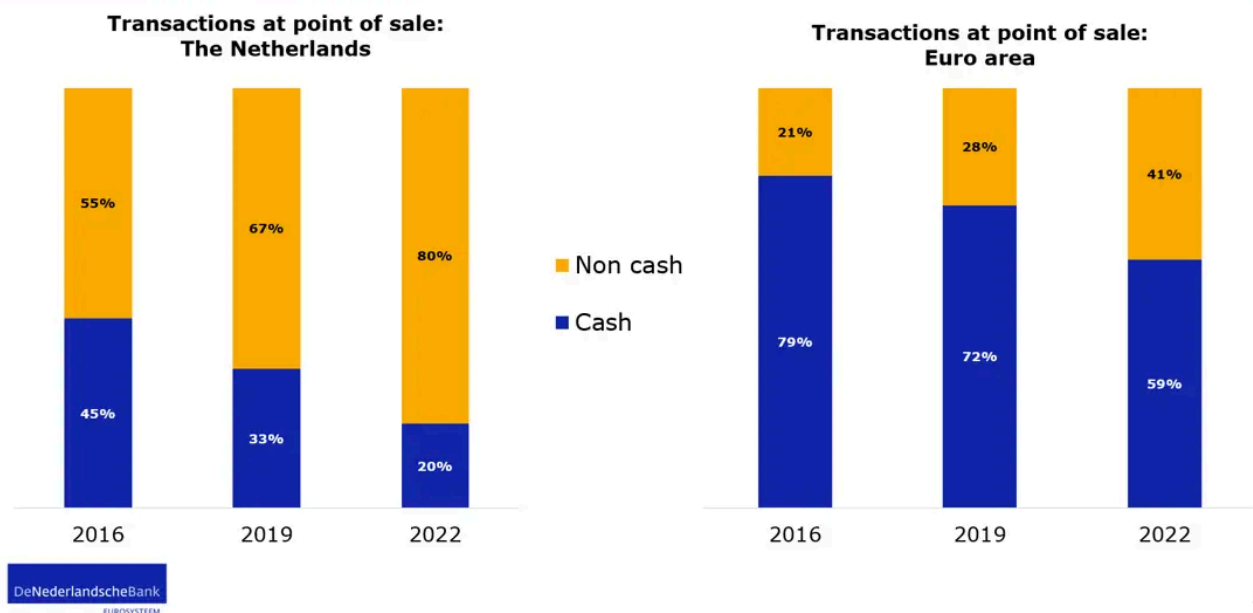
And so, to increase the resilience of the European payment system, for whatever the future holds, we will likely need the digital euro – as a digital pan-European means of payment, supporting Europe's strategic autonomy in payments.

This being said, a digital public currency will not crowd-out private initiatives. On the contrary, it will rather support 'crowding-in' – as it will pave the way for, and co-exist with, private solutions of European origin. And so, it is encouraging that private parties are now also stepping up their game in developing pan-European retail payments solutions.

Third, the digital euro meets society's demand for public money.

Today, there is a clear downward trend in the use of cash to make payments – as you can see on the next slide.

The declining use of public money in payments



In the Netherlands, only one in every five transactions at a point of sale is made in cash.

There is an overall decline in paying with cash. And this means that the role of public money in our economy is declining. To a certain degree, this is worrisome.

And although there is no reason to think cash will fully disappear in the foreseeable future;

although the European Commission, on the same day it proposed the draft digital euro legislation, also proposed a legislation on the legal tender status of euro cash;

the diminishing use of public money could pose a problem, because public money serves an important goal.

It safeguards trust in our currency, alongside cash.

It safeguards accessibility – all over the euro area, alongside cash.

It safeguards inclusivity – for everyone, alongside cash. And let's not forget that there is still a demand for cash – from the less digitally savvy consumers, to people who use it for budgeting purposes, to the elderly, and young people too.

After the 'why?' comes the question of 'how?'. And, as with many major innovations, there are challenges.

Let me share two with you.

Our primary concern is stability



For starters, there are concerns about the impact of CBDCs on financial stability and on the banking system.

Let me assure you that a digital euro would not upend the healthy equilibrium that has existed for decades between bank deposits and central bank money, between private money and public money.

How do we ensure financial stability? The digital euro would be designed as a means of payment – and not as a store of value. As such:

- Digital euro holdings will not be remunerated, in line with the non-remuneration of cash.
- There will be a holding limit on digital euro holdings – without constraining users' ability to pay with the digital euro. Users can link their private bank account to their digital euro account through a (reverse) waterfall functionality.
- Merchants and businesses would have a zero holding limit.

Because of these mitigating design features, the digital euro will not fully mirror cash as a store of value. Nevertheless, the store of value function of cash is already diminished by the fact that it is unremunerated and that you could lose it.

No digital euro without political backing



28 June 2023: *Proposal for a Regulation on the establishment of the digital euro*



Next to concerns about their potential impact on financial stability, some parts of the population question our motives for developing CBDCs.

In an era in which public institutions in general are under pressure, central banks are also grappling with mistrust. We take these concerns seriously. So let me also assure you in this regard, that there is no hidden agenda. What we are doing regarding the digital euro is taking place in all openness. Which is also why I am here. Which is also why we are speaking with all relevant stakeholders, including, but not limited to, retailers, consumers and banks. Ready to answer any questions and gather feedback.

Ultimately, the introduction of the digital euro is a political decision – not one made by technocrats. As such, it is a decision backed by the whole of society.

In Europe, it is currently up to the co-legislators to give the green light to the digital euro. They will need to establish the legal framework for the ECB to issue the digital euro.

This is, of course, not an easy task – because it will lay the foundation for the euro in the digital age. And so, thorough discussions are taking place in both politics and society.

Privacy is one of the topics of discussion.

It is clear that different jurisdictions working on CBDCs have different social and political systems, and with that, different understandings of privacy.

From my a-political stance, I can only assure, once more, that privacy is a central pillar of the digital euro design. Let there be no misunderstanding: the Eurosystem would not be able to identify users through the transaction information we get.

Moreover, being discussed in the political union with the strongest privacy and security laws in the world, the digital euro will, of course, comply with all EU rules on data protection. This is essential for the necessary political and societal support.

Let me wrap up.

I started my presentation with a question. ‘Why do we need a central bank digital currency?’

After what I have just told you, the answer could be summarised as follows: to keep up with society. To pursue strategic autonomy. And to maintain access to public money in a digital world.

Banknotes belong to all of us. They have stood the test of time, and – if you ask me – will continue to do so. And as we prepare them for what lies ahead, we will keep an eye on financial stability risks and leave it to politics to decide. We will not venture into a vacuum. The

digital euro will not exist in isolation, but will take its place in an integrated European payments landscape.

Proud of our past. Propelled towards the future.



© DNB & Shutterstock

And with this conclusion, I find myself paying tribute to our host's – The European House-Ambrosetti's – tagline. This tagline says: 'Proud of our past. Propelled towards the future.' Well, let that be exactly how I feel about our European currency.

Thank you.
