**European Parliament Committee on Economic and Monetary Affairs (ECON)**

**Public Hearing on the "Digital Euro"; 28 November 2023**

*Introductory statement by:*

Ignazio Angeloni

I am pleased and honored to participate to this ECON hearing. I had the opportunity to contribute to your work on the digital euro already in April, with a briefing paper.[i]

Let me be clear at the outset. The involvement of the ECB in the discussions and preparations for the possible launch of a digital euro is useful. The entry of fintech and technological firms into the sector, especially after the turn of the century, has changed the playing field. Money and technology have gone hand in hand for centuries,[ii] but the digital technology is different because it involves expertise and challenges less familiar to central banks.

While all this is good, it does not imply that eventually launching a digital euro is also a good idea. The arguments on balance would not favor such a decision today, in my view. However, the ECB plans several years of work before any decision. [iii] There will be time for a careful consideration of the pros and the cons.

Let me now mention five arguments among those most frequently cited in the debate.

***First: The ECB must be ready for the demise of cash.***

The vanishing of cash is a mith. In the 22 years of its existence, euro banknotes have increased steadily in value at a rate of 10% a year.[iv] A similar increase, only at slower pace, was observed for other important currencies like the US dollar, the British pound and the Swiss Franc. Countries where cash has shrunk, like Norway and Sweden, are exceptions.

Some say that banknotes are used mainly by criminals: smugglers, drug dealers, tax evaders. But this cannot be true in general. Criminal activities do not grow at such a steady pace. And besides, euro coins increased in a similar way. It is unlikely that criminals make much use of coins.

What is really diminishing is the *use of cash for certain transactions*: online and retail store purchases. This is a welcome manifestation of efficiency of the euro retail payment system, to which I now turn.

***Second: The digital euro would increase the efficiency and strategic autonomy of the euro payment system.***

Euro retail payments have undergone big changes in recent years[v], towards more efficiency and safety. The use of cash in retail purchases is shrinking, but remains important. Cards and smartphone applications are spreading. The Single European Payments Area (SEPA) allows free-of-charge bank transfers within and across the 20 eurozone countries and beyond. Internet platforms are increasingly used for online commerce. My personal experience is that in the United States, where I am now speaking, retail payments are in certain respects less user-friendly than in the euro area.[vi]

This progress was driven by market competition, under the wise watch of regulators among which the ECB. A CBDC, a carbon copy of facilities already existing, would not contribute in a significant way.

US networks like MasterCard and Visa have high market shares in Europe, but their dominance is far from established. In Germany and Italy, for example, important alternatives exist.[vii] Whether policy intervention is needed to correct this situation is doubtful. At any rate, a digital euro as presently designed could hardly compete with those networks.

The CBDCs already existing in a few developing and emerging countries, like China, the Bahamas and Nigeria, have not been very successful. For example, two years after its launch the Chinese CBDC is little used, in spite of the multiple means of pressure used by the government to prop its success.

***Third: Helping financial inclusion.***

Financial inclusion is a worthy policy goal in developing and emerging countries. [viii] However, in the advanced world financially excluded individuals are a slim part of the population,[ix] and are likely to be such by choice or necessity; because they lack sufficient funds, or are unwilling to approach a bank. A digital euro requiring the same actions as opening a bank account would not make a difference.

***Fourth: Providing an "anchor" to money in the digital age.***

Of all the arguments, this is the most surprising to me as an economist. According to established monetary theory, ensuring an anchor to money means keeping its value stable in terms of good and services. This is what "price stability" is about. The ECB provides that anchor using its monetary policy instruments, interest rates and refinancing operations, regardless of the physical or digital form cash takes. Even if cash were to disappear – something which is neither happening or planned – the anchor to money would and should be maintained in the same way.[x]

***Fifth and last: Effects on to financial stability.***

The digital euro, as presently designed, is a "retail CBDC", meaning that individuals would be allowed to hold it and use it. To open a CBDC account, people would go through the same procedures used today to open a bank account. CBDC would be identical to bank deposits from a user perspective. Only they would be on the balance sheet of the central bank (a public entity guaranteeed by the taxpayer), rather than of a commercial bank (a private entity subject to risk).

Simple-minded reasoning may suggest that this would help financial stability and security, because CBDCs would be safer than regular deposits.

The opposite is true. The availability of a safe and guaranteed alternative to bank deposits can facilitate a bank run in a confidence crisis. As funds move out of banks towards the central bank, the banking crisis may deepen and a credit crunch may more easily ensue. To reduce this risk, the ECB considers imposing strict limits to the holding of CBDCs.

***Conclusion.***

Our eurozone payment system is modern and quite efficent. It is privately owned  but subject to close oversight and ruling by the ECB, the Commission and the legislators. A CBDC would upset this balance, with a regulator (the ECB) becoming also a market participant in competition with others.

An invasive form of public intervention like this one would be justified if clear evidence were to emerge of malfunctioning of the present system. This is not in sight at the moment. I can therefore restate the title of my April paper: "Digital Euro: When in Doubt Abstain (But Be Prepared)".

I thank you for your attention and look forward to your questions.

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[i] Ignazio Angeloni: "Digital Euro: When in Doubt, Abstain (But Be Prepared). Available online here: https://www.europarl.europa.eu/thinktank/en/document/IPOL_IDA(2023)741507.

[ii] Ignazio Angeloni and Daniel Gros: *Money in Crisis*; forthcoming, Cambridge University Press, 2024.

[iii] The ECB document accompanying the launch of the Preparation Phase states: *"The launch of the preparation phase is not a decision on whether to issue a digital euro"; "After two years, the Governing Council will decide whether to move to the next stage of preparations". See* ECB, "Eurosystem proceeds to next phase of digital euro project", available online here https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.pr231018~111a014ae7.en.html.

[iv] ECB, "Banknotes and coins in circulation". The flattening observed after mid-2022 is probably due to a "return to normal" after the extraordinary expansion of the demand for cash occurred during the pandemic period. See here: https://www.ecb.europa.eu/stats/policy_and_exchange_rates/banknotes+coins/circulation/html/index.en.html.

[v] See e.g. ECB, "Study on the Payments Attitudes of Consumers in the Euro Area (SPACE)", whose last issue is available here: https://www.ecb.europa.eu/stats/ecb_surveys/space/html/ecb.spacereport202212~783ffdf46e.en.html#:~:text=The%20SPACE%202022%20results%20show,2016%20and%2025%25%20in%202019.

[vi] I mentioned that in a recent letter to the Financial Times; see Ignazio Angeloni: "Banking in the US would make anyone a CBDC convert", 17 September 2023, available here: https://www.ft.com/content/22bd78d9-c299-42b3-b9f4-c99ba63eed55.

[vii] For example, data regarding Girocard in Germany and Bancomat in Italy are available in the online database Statista.

[viii] According to the World Bank, "Financial inclusion is a key enabler to reducing poverty and boosting prosperity". See the dedicated page of the World Bank website: https://www.worldbank.org/en/topic/financialinclusion.

[ix] 5% in the United States and even less in Europe: 3.6% in 2021 down from 8.2% in 2017. These data are from the Global Findex database, see here: https://www.worldbank.org/en/publication/globalfindex.

[x] Some argued that CBDCs would facilitate "helicopter money operation" – in plain words, giving money to people as a gift. However, these operations are not used by any central bank today, nor are they permitted by the EU Treaty, which stipulates that the ECB provides credit only "against adequate collateral".