



Speech by Commissioner McGuinness at the European Parliamentary Financial Services Forum on a digital euro

Brussels, 8 March 2023

Thank you Othmar [Karas], dear Vice-President of the European Parliament, and dear Stéphanie [Yon-Courtin], for raising this really important topic on International Women's Day, and making this location where I do see a mixed audience.

Not always happening in the financial services area, I think an important point to make on this day that we mark International Women's Day.

So, I think Stéphanie you have made a great case for more discussion, more debate and more communication, as Othmar did.

And I just want to compliment the European Parliamentary Financial Services Forum, because you are really right on the button with this topic on this day.

Because we're now beginning to understand what a digital currency is, what a digital euro might mean.

But we need it to translate and we need it transmitted beyond a technical exercise.

So thank you for organising today.

As you said, the ECB are well into the investigation on this project, and a lot of technical work.

We in the Commission will publish a legislative proposal this year setting out the principles behind a digital euro.

Of course the decision is one for the ECB, and clearly we are working together on the investigation and going through all of the details.

But I think as you've heard from Stéphanie, even I got more information, so it's really good to listen to the voices.

You've heard from colleagues how complex this topic is, and how there is a need to understand the difference between a digital payment on my phone and a digital euro.

And frankly I don't think we have simplified that explanation sufficiently.

But we have time to do that.

What's really, really important as a former Member of the European Parliament, is that you as members of parliament and leading members of parliament, have a particular role and responsibility to talk and listen to your citizens about their views on cash and the digital euro.

And I really want to complement the comments made around – this is not about replacing cash.

And in the Commission, every time I speak on this, I say this is to complement cash – taking account of what's happening in the real world around digitalisation.

So I think that the role of members of parliament is really key, and I know you will carry that responsibility and engage with citizens.

But maybe before we go digital, let's talk about money.

I actually don't have a pocket, so I've no money in my pocket, but actually I've none in my wallet either, and I think that's interesting. I did have some but I used it for good purposes.

But if we look at money itself, what it actually is, and how it's changing, I think that might help us then come to terms with what a digital euro is.

And I remember learning in business organisation all those decades ago that money is a means of payment: so you exchange it for goods and services.

It is a unit of account: so it allows a price to be set for goods and services.

And it is a store of value: so you can save it.

So when you think of those three principles, it is really what money's all about.

And we're long used to handling physical cash – although I tend to think that a younger generation are less accustomed to handling physical cash, they've different relationships with the financial system, and indeed with cash that perhaps their parents have. I have four to do some test marketing on so I listen very carefully.

Because as you know it is central banks that of course issue coins and banknotes.

They also, central banks, have a key role in regulating monetary systems, taking policy decisions to influence the cost and availability of money in an economy.

Central bank money acts as a 'monetary anchor'.

And for me, I think this is the most important sentence: it is the safest form of money. Although we don't encourage people to keep large amounts of it in their homes because we know that that can also lead to some terrible societal and terrible crimes.

But if you look at what cash and coins are, it's the only money whose face value is guaranteed.

When you deposit money in a commercial bank, it becomes a liability of that bank.

By contrast, a coin or banknote is a direct liability on a central bank and because it is central bank money, it is free from credit and liquidity risk.

When we use private money, our confidence in it is based on the fact you can convert it back to central bank money.

So it's clear that central bank money plays an important role in our system.

But let's look at what's happening on the ground – over the last few decades we've really seen a huge revolution in the world of money and payments.

And there's a sentence in front of me that says, money is not as straightforward as it used to be. I think those that don't have access to money know how crucial money is.

But it is true that money isn't what it used to be in terms of our relationships with it.

You know, in the past we paid for goods and services with cash.

But over the past decade, the use of banknotes and coins for payments in the euro area has declined.

And e-commerce, I think particularly during the Covid-19 pandemic, has led to a big shift towards digital payments.

And to some extent Covid and the pandemic has accelerated a trend that was already happening.

So today people have many more options to pay: there are instant bank transfers, debit or credit cards, smartphones, smartwatches.

And as one who left her wallet in her Member State some months back during Covid, I was able to survive just with a mobile phone because I had the cards on the phone. That was by accident rather than design, by the way.

We can even use private digital currencies or crypto-assets – but crypto-assets cannot provide the three functions of money that I just outlined.

And they are not backed by any central institution.

And I think recent experience should put us on our guard that they may not be the wisest currencies to rely on.

Because even stablecoins are not as stable as those pushing them claim they are.

Some of them in fact claim to be pegged, one to one, to a traditional currency.

But that's a promise made by a private company – a promise that in too many cases has turned out to be hollow.

And of course, thank you Stéphanie for mentioning the Regulation on Markets in Crypto-Assets, 'MiCA', which will address the risks in this area, alongside the revised Transfer of Funds Regulation.

So let me look then and pose a question about the future.

As digital payments explode, how do you keep central bank money accessible to everyone?

And this is the key question.

One answer would be to provide a public alternative to private means of payment.

This brings us to central bank digital currencies.

A central bank digital currency is – like cash – a direct claim on a central bank.

Central bank digital currencies are definitely not crypto-assets – they are safe, and secure, and sound.

Crypto-assets and stablecoins, as I've said, really entail considerable risks for their holders – value, credit and liquidity risks.

Central banks around the world are investigating, piloting and even issuing digital currencies.

If you look at figures from the Bank of International Settlements, 90 percent of central banks were actively engaged in some form of work on digital currencies by the end of 2021. So this is a global phenomenon.

Nine countries have launched a central bank digital currency.

About a dozen countries are in the pilot phase.

Our colleagues in Sweden have been investigating a possible e-Krona since 2017.

The United Kingdom is consulting on the design of a potential digital pound.

In the Eurozone, our answer to a central bank digital currency is of course a digital euro.

This would make central bank money available to people and businesses in digital form.

This will be in the same way as physical euro cash is available as a direct claim on the European Central Bank.

Now of course, the digital euro will have specific features and will diverge in some ways from cash.

The Commission and the ECB are working on a retail digital euro.

It would essentially be a means of payment.

As was mentioned earlier, we want to avoid the disintermediation of financial institutions, and the risks that could bring to financial stability.

Central bank and commercial bank money should continue to co-exist.

What we want to do with the digital euro is make sure that central bank-issued money can support our economy in the digital age.

If we don't provide our own solution, then we do run the risk of private stablecoins or foreign central bank digital currencies filling the gap.

The digital euro would keep central bank money widely available to and accepted by everyone in the euro-area.

The payment systems we have at the moment are national or international.

The digital euro would give us a pan-European payment system.

Now that would also serve financial intermediaries – like domestic payment providers that want to expand and compete across the entire eurozone.

The digital euro could also support financial inclusion. And this is for me a really important issue.

Most private digital payments do not specifically cater for vulnerable groups.

With the digital euro, we could have an easy-to-use option that could work offline.

We are also exploring whether basic digital euro services could be offered for free.

What the digital euro would provide is more choice:

- Sending and receiving payments to and from other people.
- Paying in shops, in restaurants and online.

- For merchants or corporate users to serve customers across the eurozone.
- To pay your taxes or fees to local and central governments.
- Or – the other direction – for governments to pay subsidies or rebates to people and businesses.
- Finally, more choice for machine-to-machine payments, which can work without human interaction – like the automatic recharging of cars, logistics, or deliveries.

And – importantly – the digital euro would be there where private solutions do not or cannot do the job.

Maybe it's not profitable, or it's too difficult for a private enterprise to do – but a central bank can.

It would also offer an alternative way to pay, a back-up solution in case of disruption in private means of payments.

There are important considerations around the design of the digital euro, so that it can provide us with the benefits I've just outlined.

Right now, the ECB is investigating key design and technical questions, ahead of deciding whether or not to proceed.

And indeed I know our colleagues from the ECB will give us more details.

Because the decision will for the ECB to make.

Of course, to allow the ECB to make this decision, we need a Regulation adopted by the co-legislators.

So the European Parliament, and I would emphasise this, and indeed Council, have a key and fundamental role to play.

And our proposal, as I said, is due in the second quarter of this year.

It will establish the digital euro and regulate its key characteristics.

And these include issues around:

- legal tender,
- privacy and anti-money laundering,
- financial stability,
- distribution and compensation,
- and the use of the digital euro outside the euro area.

So those are the key questions you will be asked to think about.

We are already listening closely to the concerns raised by Members.

And this engagement has been really valuable, and we are reflecting closely on the issues that have been raised.

I hope I have addressed some of them in these brief opening remarks.

As the Parliament, as one of the co-legislators, you will be able to amend our proposed Regulation as part of the normal legislative process.

In parallel with our proposal for a Regulation, and for consistency, we are also aiming to adopt a proposal for a Regulation on the legal tender of cash.

Because, and I repeat this, a digital euro will not replace cash – it will complement it.

This is also planned for the second quarter of this year.

So really, today I want to ask you all to keep engaging, to keep reflecting, to keep listening, to keep questioning.

Because this digital euro has so many political, economic and social implications.

That we need to have a deep understandings of how it will function and its implications for society.

And you know I have full respect for Members of the European Parliament, because I come from your House.

Because we directly represent citizens, and I think they will want the Parliament to bring them the

information and to have the conversation around the digital euro.

So if there's one point I like colleagues in the room from Parliament to take from this message, is that really the Parliament is pivotal. To get across what's happening, and to answer questions that citizens have.

Of course the euro is a major symbol for and of European unity.

If you're bringing the euro into the digital age then it is a very big European project.

But it's also a very political project – so therefore it needs to be supported by the European public, with a solid democratic base.

That's why this meeting, this gathering, this full room is really important.

I scribbled down some notes as I was listening to colleagues in relation to choice, ease of use, fast, secure. All of these really important points around a digital euro.

You know, I still have questions around a digital euro, and I think we all should have that very much open mind about how it will function.

There is no doubt that the early interest in a digital euro did spring from concerns about private currencies emerging from big tech companies.

That pressure seems to have subsided somewhat.

But then we've had the pandemic where there is this increase in digital transactions.

It is right and proper that the ECB are investigating this – I think we could be found wanting if in five years we had sat back and done nothing.

So you know, full support for what the ECB is doing, and working with the Commission.

I think this is hugely important, so today is important because it will allow you hear more detail of a digital euro.

And I would just say that, as I do test things on groups that I meet, because I think you listen to citizens, you will get more information than perhaps you believed you would.

I had two visitors group yesterday, two groups in Parliament.

And when we talked about cash, digital euro and other concerns, it was a really deep conversation about access to cash and the importance of that, and how that's beginning to become less available as banks rationalise ATMs, also leaves some spaces.

I went on then to talk about a digital euro, what did that mean. I have to say there wasn't really clarity, even though I tried my best, as to what it would actually mean.

So I think it's good for us to realise that the conversations we're having and have had with the ECB need to filter beyond these rooms and beyond Brussels, so that people from the ground up understand and indeed feel engaged in fully the whole digital euro project.

I'm doing my bit – Othmar, Stéphanie and colleagues in the European Parliament are certainly doing your bit, because this room is testament to your interest and indeed your support for this project.

And I'm really happy to be here on this day and to put forward some of the elements around a digital euro, and also to admit publicly that I don't think any of us have all the answers.

Because this has not been done before, and it is no harm that we acknowledge that and are prudent, but proceed with the best interests of citizens and of businesses at the very heart of our work.

Thank you.