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Digitalisation and central banking

DigitalES Summit 2021

Pablo Hernández de Cos

Governor

Good afternoon.

Allow me to begin by thanking the organisers of DigitalES Summit 2021 for the opportunity to participate in this event. I am doing so online, as has become the norm since the pandemic started. This is one of the many examples that illustrate how the health crisis has speeded up the incorporation of digital technologies into the production and management models of many firms and institutions.

Digitalisation could be further stepped up in the coming years and is also having a particularly strong impact on the financial system, with the emergence of new, technology-intensive, financial products and services, and the substantial improvement of existing ones.

One such financial product is attracting growing interest worldwide and having a profound impact on monetary authorities, such as the European Central Bank and the Banco de España, as part of the European System of Central Banks.

I am referring here to the possibility of central banks issuing **digital currencies**, which in our case would mean the **digital euro**.

At present, citizens and firms use two forms of money: the physical coins and banknotes that central banks put into circulation and bank deposits. It is important to note that bank deposits already have a digital format, as book-entries through which we perform digital, not physical, transactions.

The introduction of the digital euro would mean the creation of a third form of money which would combine the features of the other two. It would be issued directly by the central bank, but would have a digital representation and could thus be used in a broad range of remote transactions that cannot be carried out with cash.

It is important to clarify that the digital euro is not intended to replace cash or bank deposits, but to complement them, providing a broader range of means of payment.

At some central banks, the process of issuing a digital currency is advancing rapidly. China has recently ramped up its programme to implement the digital yuan. In the Bahamas, paying with the digital version of the country's currency is already part of the daily lives of its citizens. The US Federal Reserve and the Bank of England have strengthened their research programmes in this area. And Sweden's central bank has announced the launch of a pilot project for the digital krona.

The reasons why these central banks are pressing ahead with the issuance of a digital currency are varied and largely reflect the distinctive characteristics of each country.

Foremost in China has been the need for the state to counter the significant traction gained by big tech companies in means of payment. The central bank has also sought to promote greater financial inclusion. Let us not forget that, in China, there are more citizens who own a mobile phone than with access to traditional banking.

Financial inclusion has also been a decisive factor in the Bahamas, added to the logistical challenge of distributing banknotes and coins in an archipelago. In Sweden, the constant decline in the use of cash by its citizens has played a key role.

In our case, the reasons are shaped by the mission and objectives that define us. The digital euro is conceived as a tool to stimulate innovation and act as a catalyst for competitiveness and growth.

In addition, it would provide essential support in safeguarding our monetary sovereignty and could, moreover, enhance the external role of our currency and, by extension, our capacity to exert influence beyond our borders.

This ambitious approach requires addressing the design of the digital euro with an open mind, while taking the necessary precautions to ensure that all relevant dimensions are appropriately taken into account.

Against this backdrop, and with these reasons in mind, a Eurosystem high-level task force was created a year and a half ago to coordinate the efforts of all euro area central banks. In October 2020, the results of its work were published. They specifically comprised an analysis of the scenarios in which the issuance of a digital euro would be advisable, of the core requirements that such issuance must meet and of its implications for other key areas of central banking.

The task force has subsequently launched a public consultation to gauge the views of citizens and professionals, and has conducted a series of technical experiments that have provided us with more information to determine the feasibility of the different technological options.

We have made significant progress, but the research needed to underpin such a far-reaching project is still under way. The to-do list of tasks includes, for example, to better define the technical features that the digital euro should have. In addition, we need a more detailed analysis of its effects on areas such as financial stability, monetary policy and the configuration and role of the financial sector, which are so important for society and, of course, for a central bank.

In the coming weeks, the Governing Council of the European Central Bank is planning to review the progress made and set the objectives and schedule for the formal launch of a digital euro project. This will be a crucial and strategic decision that will chart the future course of the digital euro.

It will be a decision with profound implications potentially going beyond central banking and finance, and impacting the digitalisation of society as a whole. Indeed, the Banco de España's Strategic Plan identifies digitalisation as one of the main trends that we must address as a society. And, as I have already said, the pandemic has but accelerated this trend.

Therefore, with the digital euro, and as a member of the Eurosystem, the Banco de España is actively contributing to a project that could be vital for providing a European financial system that is effective and in step with the ever-increasing digitalisation of our society.

Thank you.