

Fabio Panetta: Interview with Der Spiegel



Interview with Fabio Panetta, Member of the Executive Board of the ECB, conducted by Tim Bartz

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Mr Panetta, ECB President Christine Lagarde has announced that within five years at the latest the central bank could introduce the digital euro. What is that? Why is it needed?

People are paying less and less with cash and more and more digitally, at supermarket checkouts or online. One in two Europeans would now prefer to pay digitally, and the pandemic has accelerated this development. As a supplement to cash, people want an efficient digital means of payment which protects data and is accepted throughout the euro area. We want to be able to respond to these demands swiftly, since the trend is going to grow stronger.

How will the digital euro work?

The details have not been settled yet; we have only just concluded the consultation phase. The aim of a digital euro would be to provide an alternative to other digital means of payment that is simple, universally accepted, safe and reliable. And we would continue to offer cash.

Up to what amount would you be able to pay digitally?

It's not yet clear whether there would be a cap on payments. Ideally, there would not. However, there might be limits on how much digital euro you're allowed to hold.

And it would be in a special account at the ECB?

Like cash, and unlike other means of payment, a digital euro would be a claim on the central bank rather than a claim on private financial services providers. Nevertheless, banks would play an important role in the distribution of the digital euro. You could compare it to cash, which people mostly get via their bank's ATM.

So you will be competing directly with commercial banks in future?

No, we have explicitly and repeatedly stated that we want the banks to be our partners, not our competitors. We will offer safe money, not financial services. Offering financial services is the role of commercial banks. It would be crazy for us to do so. People already decide today whether to pay with cash, with various cards or online. In future they will have one more digital option, if they wish.

But people could transfer all their money into the ECB account in the hope that it would be safer there. The next financial crisis is certain to come.

That will not be the case. We might only allow digital euro holdings up to a certain threshold, or make them unattractive above this amount by charging interest. For example, the threshold could be around €3,000, which would be far more than the cash requirements of most people today. But this is still under discussion.

Once again: people already use digital means of payment like Apple Pay, Google Pay and PayPal. Why is a digital euro also needed?

We received 8,000 responses during the consultation phase. What people are most concerned about is data protection. They consider it important that no improper use is made of their personal data, which is something that can be guaranteed by the central bank. Moreover, the availability of central bank money for payments ensures that people are not dependent on a few providers who dominate the market. Such providers could exploit their market power and charge excessive fees.

Nonetheless, people put all sorts of things on social networks. They clearly don't care about data protection when they do that.

People also post photos, but certainly not their account details. Nobody does that. And people can trust the ECB to protect their privacy, as it has no commercial interest in personal data. And we don't want to make profits from the digital euro either, so that's another advantage.

But private providers don't demand any money from users either.

Yes, but they take their margin from sellers, credit card companies or banks, and thus indirectly from users, as these costs are passed on in the prices they are charged.

It is doubtful whether anyone thinks about that when they're at the supermarket checkout.

We won't force anyone to pay with digital euro. But we do want to give people the opportunity to use a uniform, secure and cost-free means of payment that is accepted throughout the euro area. Exactly like the euro in cash form, but digital.

How much interest is there in the digital euro?

The public consultation on a digital euro was our most successful yet. It showed that privacy was the first priority of respondents. The digital euro would be ideal for that. A digital euro project would start with an investigation phase, which would allow us to further test the reaction and expectations of the public.

The ECB's problem is not so much Apple Pay or Google Pay. With the digital euro, aren't you primarily aiming to counter Facebook's planned digital currency Libra or Bitcoin or even the digital yuan, which China's central bank is working on? You are afraid of losing sovereignty over your own currency. If Libra or the yuan are successful, the ECB will no longer be able to properly conduct monetary policy.

Our main motivation is, of course, the digitalisation of the financial sector. We need a European option, and we don't want a small group of companies dominating business and possibly raising fees. Should an economic zone as large as the euro area be left on the sidelines, when big tech and other central banks are forging ahead with the digitalisation of payments? I think not. We have to take part.

The ECB is also the banking supervisor for the euro area. If you deprive the commercial banks of deposits, they won't have money to refinance themselves in the capital markets. They might have to knock on the ECB's door to ask for liquidity. That would further increase the commercial banks' dependence on the ECB. Aren't you scoring an own goal?

No, the digital euro won't destabilise the financial system and the banks. If people decide to turn some of their cash into digital euros, the banks won't lose any deposits. And as I said, we will discourage large holdings of digital euro. If banks do in fact lose deposits, then we can make more liquidity available to them.

So I'm right?

But that would be within the framework of normal open market operations that we already carry out when, for instance, we lend to banks or purchase bonds. And banks have abundant excess reserves at the moment. Certainly more than will ever flow into a digital euro.

The open market operations are highly controversial, particularly in Germany.

Our actions are necessary in order to fulfil our mandate. I don't see any problem in that. The ECB enjoys a high level of credibility in the euro area.

But what if no one wants your digital euros?

Then we haven't done our job properly and will have to improve the quality of our offer. But I don't see why people would turn down the offer. The unprecedented number of responses to our consultation is a positive sign.

You're starting a bit late if you don't want to launch the digital euro for five years.

We are not late; we are doing the same as other central banks. The market is evolving rapidly, but we need 100% security and a sound concept. That takes time.

What are the next steps?

In the early summer, we will present our preliminary analysis to the ECB's Governing Council. It must then make a decision in principle on whether we should proceed. If so, the real work will begin, deciding on what the operational scope and technical solution for the digital euro should be. That will take at least 18 months. After that, the ECB's Governing Council must make another decision, and then the solution could be implemented. Four or five years would be a realistic timescale. And we must consult with policymakers. The ECB has set up a working group with the European Commission.

Are you considering a trial period? The Chinese are already trialling the digital yuan in a district in the megacity of Shenzhen.

That would be a possibility. Trialling the digital euro in different cities would probably be a wise move.