



BANCA D'ITALIA
EUROSISTEMA

Istituto Affari Internazionali
Zoom seminar

The (near) Future of Central Bank Digital Currencies

Issuing a CBDC: a complex task

by Piero Cipollone

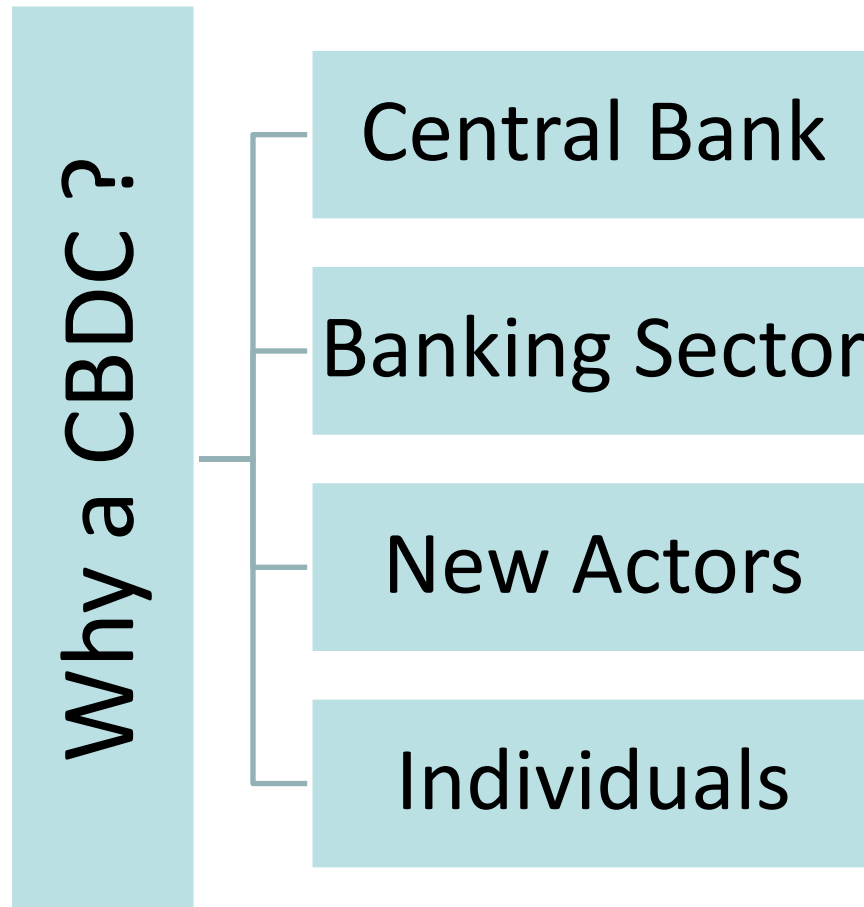
Deputy Governor of the Bank of Italy

20 April 2021

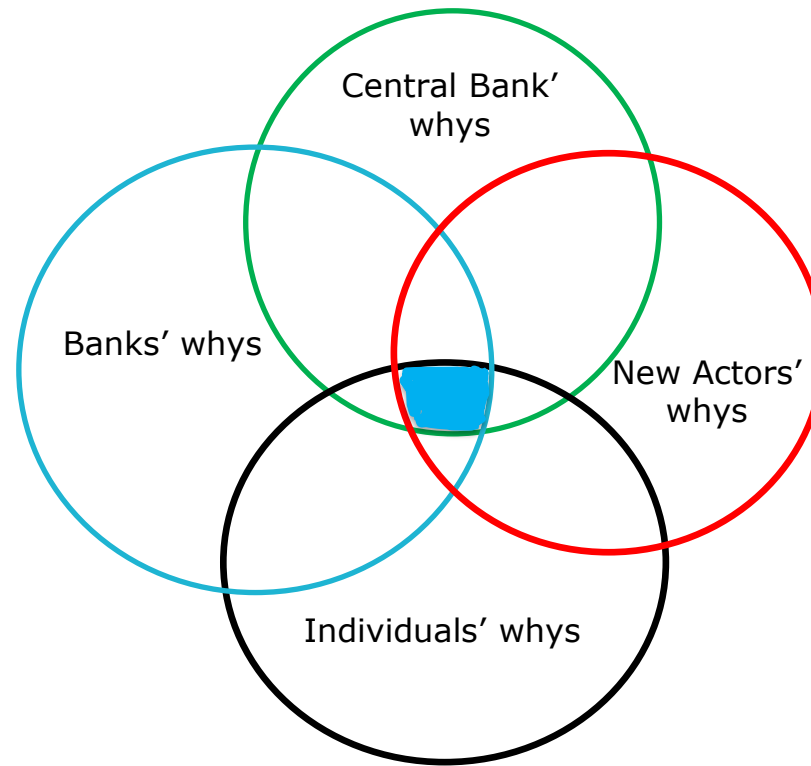
agenda

1. Why a CBDC?
2. Key dimensions of (a project for introducing) a CBDC
3. Digital Euro Project

1. Why a CBDC?



Union or intersection of the “whys”?



Issuing a CBDC: a very complex task

Key dimensions of a CBDC										
A. LEGAL			B. ECONOMICS			C. TECHNOLOGY		D. CENTRAL BANK ORGANIZATION		
Legal basis	CBDC as legal tender	EU regulation	Monetary policy	Financial stability	Real economy	Token	Account based	Banknote printing	Supervisory function	skills

B. Economics

Monetary Policy	Financial Stability	Real Economy
1. Remuneration (faster transmission of monetary impulses?)	CBDC replaces deposits	
	Search for other liabilities (Bank Runs)	Deleveraging:
2. Higher volatility of the liquidity in the economy/ higher volatility of exchange rate	2. Central Banks ? Central Bank foot print / collateral	2. New actors will finance the real economy (Central Bank)?
3. Who can hold CBDCs (dollarization of the economy)	3. Others? Stability and costs of other sources of funding	3 Towards narrow banking?

How to manage these risks

1. Economic Theory: equivalence result (Brunnermeier-Niepelt).
2. Cash or deposits?
3. Limits and disincentives
4. Not a particularly large impact

Large amounts of cash to be replaced

Eurosystem - Consolidated Balance sheet February 2021 (trillions of euros)			
Assets		Liabilities	
Securities	4.0	Banknotes	1.4
Loans to banks	1.8	CB reserves	3.8
Other assets	1.3	Other liabilities	1.8
		Capital	0.1
Total	7.1	Total	7.1

SOURCE: ECB, Consolidated financial statement (CFS) of the Eurosystem
(<https://www.ecb.europa.eu/press/pr/wfs/2021/html/ecb.fst210302.en.html>)

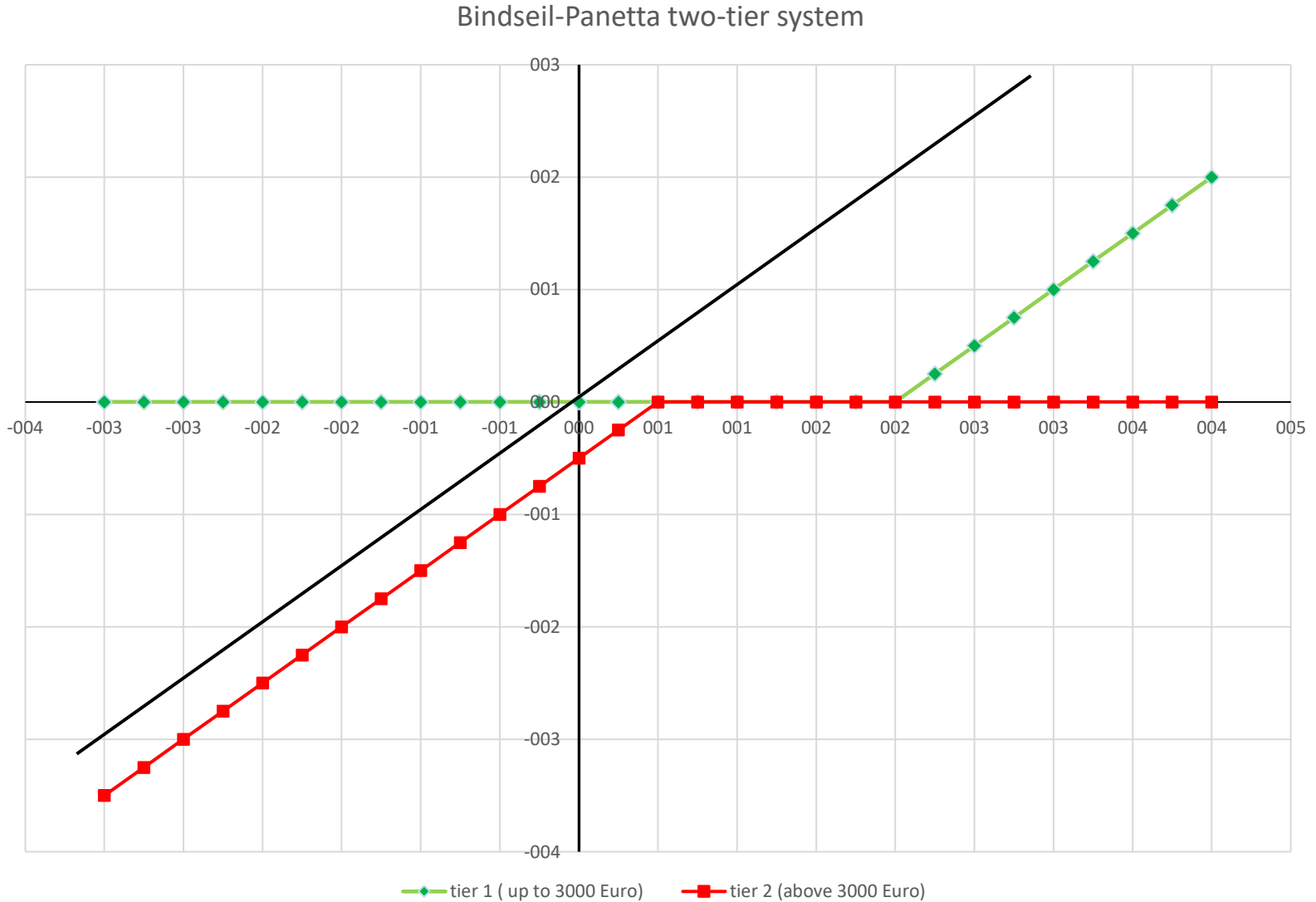
NOTE: 'Loans to banks' corresponds to the item 'Lending to euro-area credit institutions relating to monetary policy operations denominated in euros' in the CFS; 'securities' corresponds to the item 'Securities of euro-area residents denominated in euros' in the CFS; 'CB Reserves' corresponds to 'Liabilities to euro-area credit institutions relating to monetary policy operations denominated in euros' in the CFS;

Euro area - Banking system Balance sheet February 2021 (trillions of euros)			
Assets		Liabilities	
CB reserve	3.8	Overnight Deposits	9.1
Loans to non MFI sector	12.9	Other Deposits	5.6
Securities	4.0	Debt vs CB	1.8
		Bonds	2.7
Other assets	15.1	Other liabilities	14.0
		Capital	2.6
Total	35.8	Total	35.8

SOURCE: ECB

NOTE: 'Securities' does not include shares and stocks; 'Other deposits' corresponds to M3 excluding overnight deposits; Bonds are 'Bonds held by non-MFI residents'

Limits and disincentives: the Bindseil-Panetta Proposal

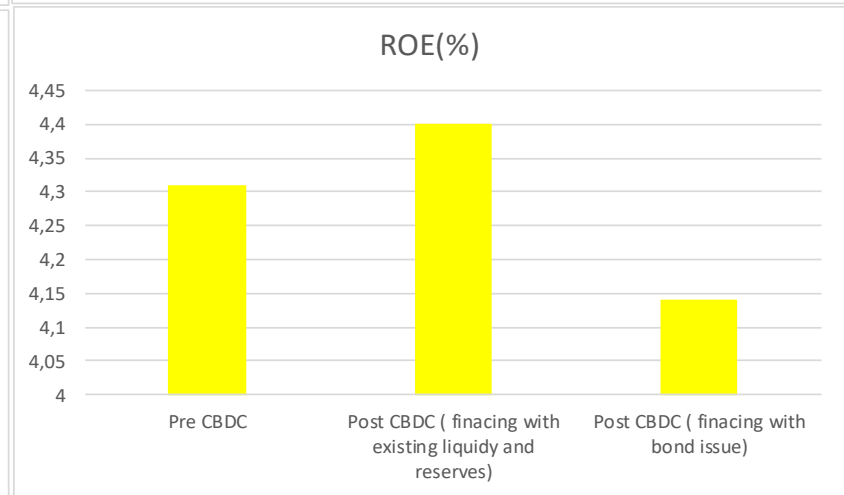
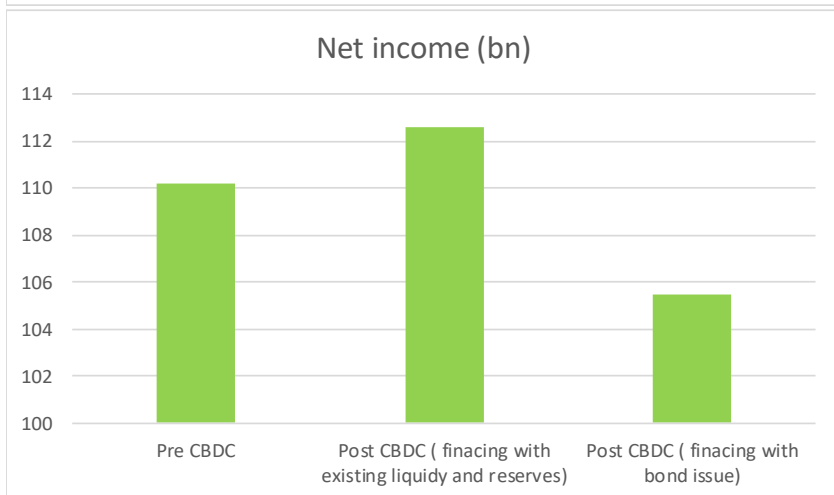
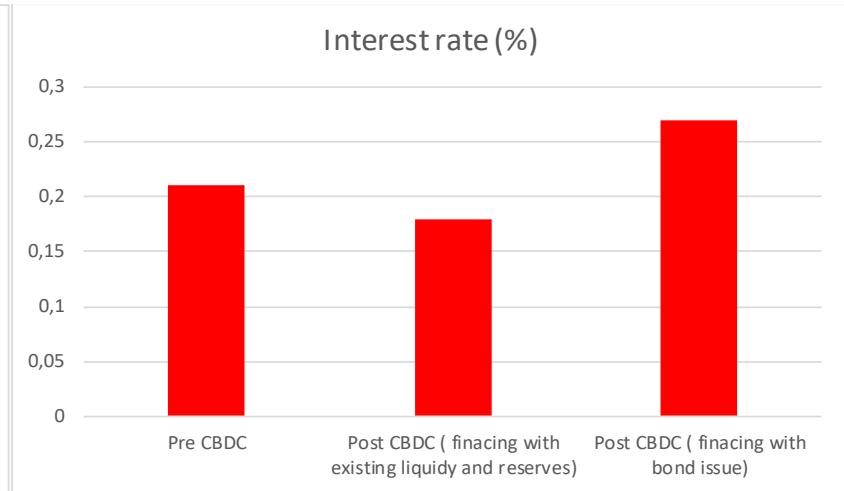
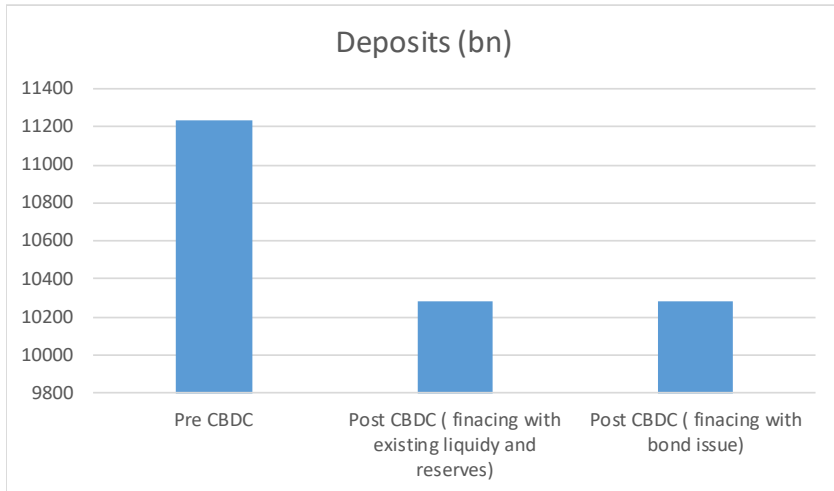


the Bindseil-Panetta Proposal: hp for a simulation

1. Account holders (about 316 million: 291 households +25 million NFCs)
2. €950 billion of deposits (sight) replaced by a CBDC (about 8.4% of total households and NFC deposits net of repos).
3. Funding case A: Banks finance the gap by their holding Eurosystem (Deposit Facility at funding cost of -0.5% and excess reserves at 0% funding cost)
4. Funding case B: Banks finance the gap by bond issuance of 5-7 year senior unsecured bonds at a cost of 0.67% (average of the cost of funding for EU Banks in 2020 net of the March-May period)

Not a large impact

Effects of the Bindseil-Panetta proposal

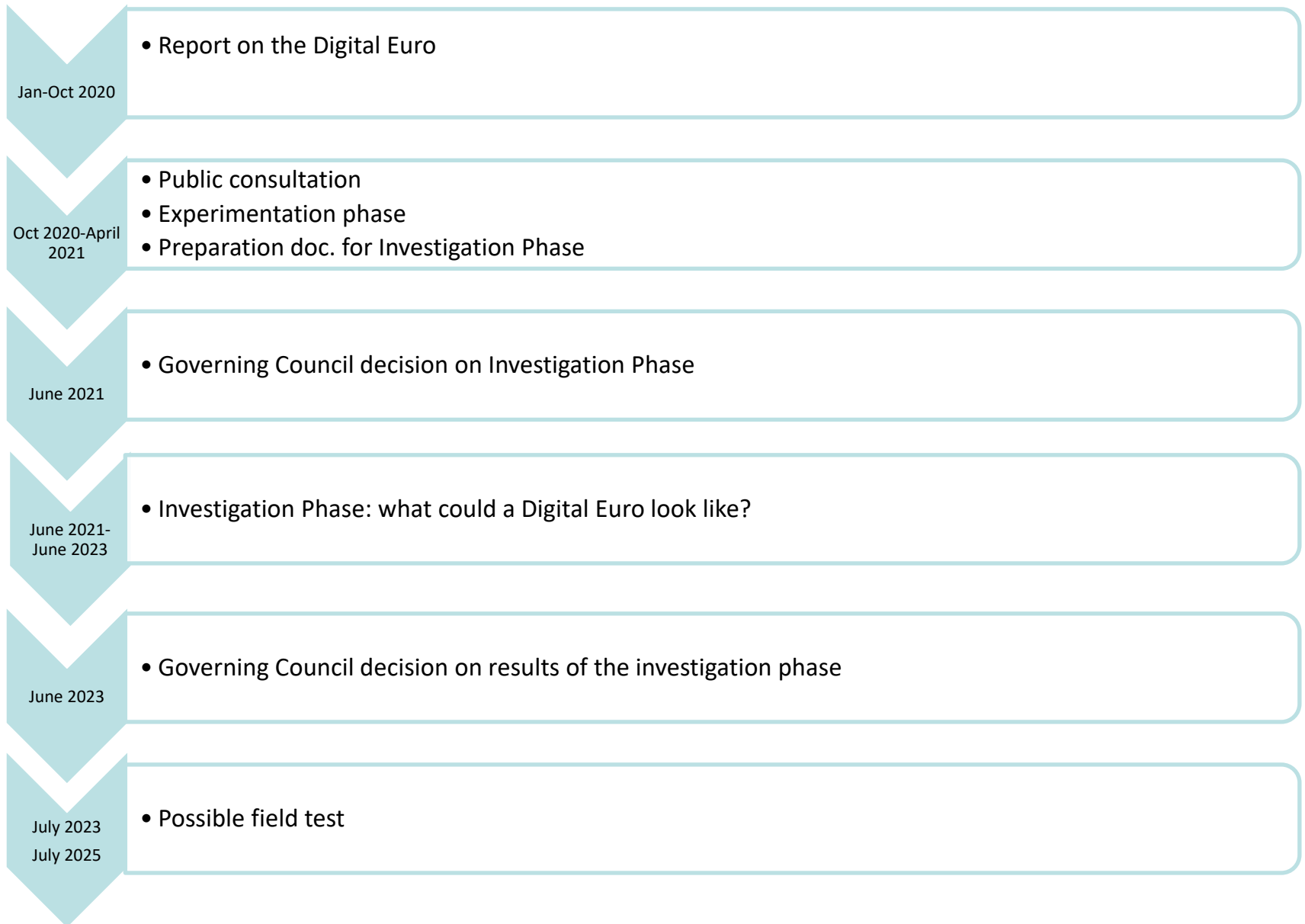


3. Digital-Euro-project

1. Where do we stand?

2. What people say about the digital euro

3. Digital-Euro-project: time line



3. Digital-Euro-project

2. What people say about the digital euro

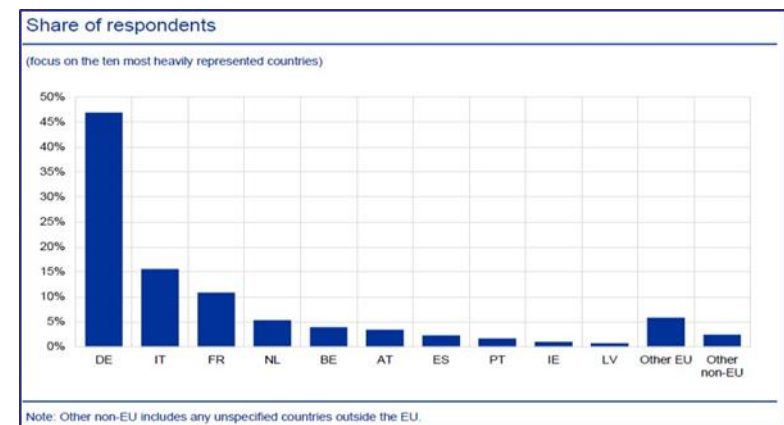
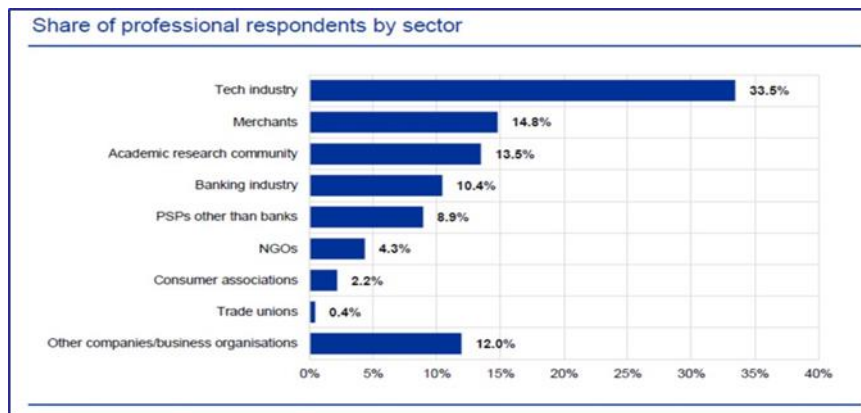
Report on the public consultation on a digital euro, **14 April 2021** (public consultation 12/10/2020 -12/01/2021).

The consultation ended with a record level of public feedback: 8,221 responses (94% citizens, 6% professionals).

- The sample of respondents is biased in terms of gender, industry and country of residence.
- The replies from both citizens and professionals do, however, provide valuable input to the Eurosystem's reflections on a digital euro.

Most contributors originate from three countries:

- Germany 47%,
- Italy 15%
- France 11%



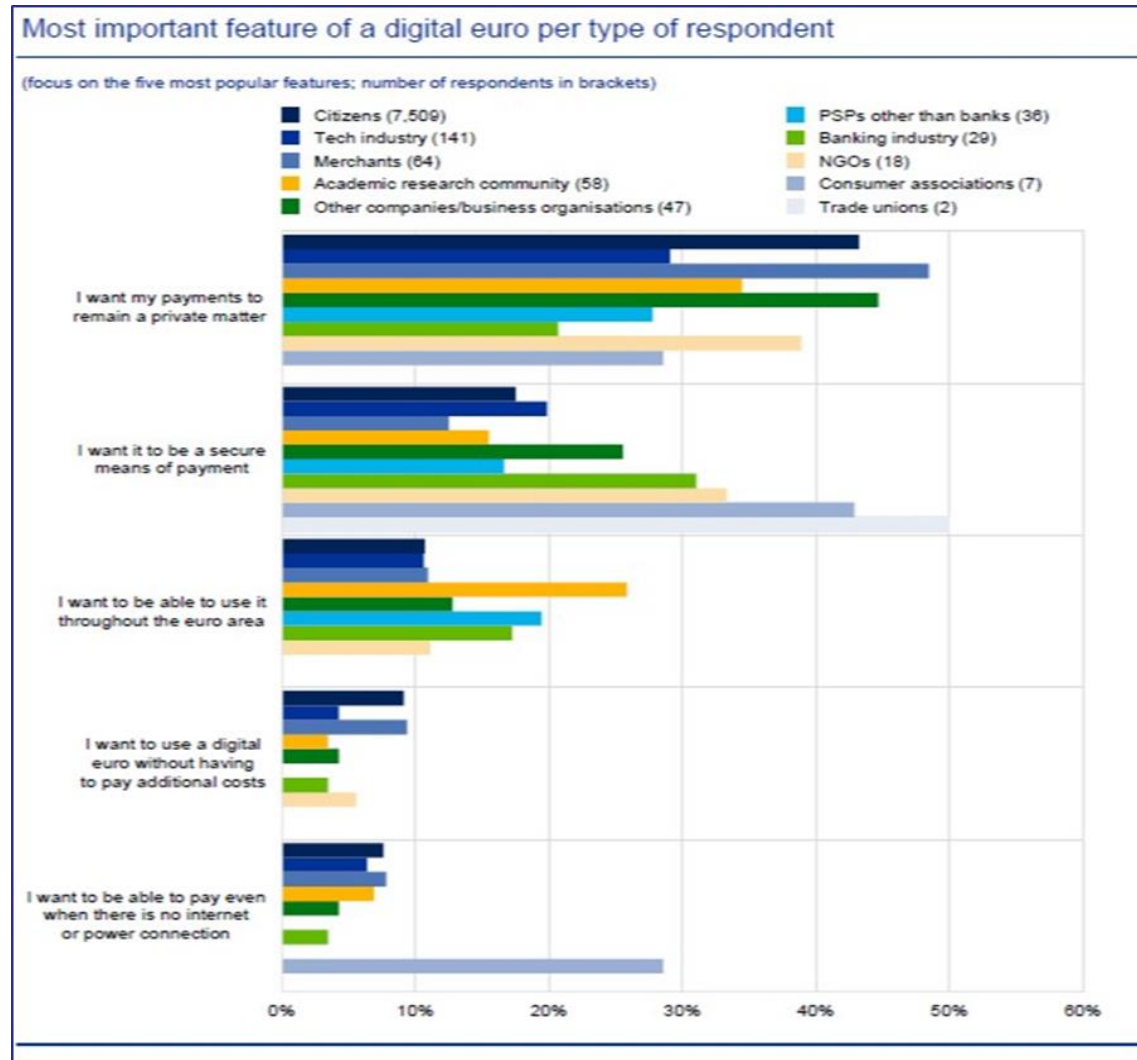
The analysis will provide an important input for the ECB Governing Council when it decides in mid-2021 whether to launch a formal investigation phase in view of the possible launch of a digital euro.

3. Digital-Euro-project

2. What people say about the digital euro

Possible features of a digital euro

- **Privacy** emerges as the most important feature that a digital euro should offer.
- Notwithstanding the attention to privacy, both citizens and professional respondents take into account the **requirements to avoid illicit activities** (less than one in ten citizens are in favour of anonymity).
- **Security** and **usability** throughout the euro area also rank highest
- **The absence of additional costs and usability offline** come next.



3. Digital-Euro-project

2. What people say about the digital euro

Other evidence from the report

- *Tools to avoid macroeconomic implications*

Almost half of respondents mention a **need for holding limits, tiered remuneration, or a combination of the two**, to manage the amount of digital euros that would be in circulation.

- *Provision of digital euro payment services*

Most respondents recognize the importance of intermediaries **providing innovative services that allow access to a digital euro** and indicate that **these services should be integrated into existing banking and payment systems**. They would like **additional services to be provided on top of basic digital euro payments**. In addition, the majority of respondents indicate that those **intermediaries should be licensed and subject to oversight**.

- *International payments*

Citizen respondents value the **speed, cost and transparency of exchange rates**. Professional respondents focus mostly on the **issue of interoperability** (around one third of respondents) and the role of intermediaries (one fifth of respondents).

Thank you all