bankenverband **Blog**

Beyond Libra: casting off the spectator role with the digital euro

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The heated debate about Facebook's plans to launch a digital currency called Libra is due to two fundamental perceptions. Firstly, any economic system needs a stable currency – it is a key element of democratically legitimated state sovereignty. It cannot therefore be the task of a private, profit-oriented company to introduce a digital currency. In economic crises, central banks' corrective instruments such as exchange rate or interest rate adjustments would lose their effectiveness. Many of the risks associated with issuing a currency – from exchange rate risk and liquidity risk to repayment risk – can only be shouldered adequately by the public sector. That is true particularly when it comes to effectively combatting cross-border threats such as money laundering or terrorism financing.

Responsibility for the monetary system must therefore remain in the hands of sovereign states and their central banks; any currency, whether provided by banks or other private companies, must therefore fit into the state-determined system. Nevertheless, the question arises of what the global monetary system will look like in the digital age and who will shape it in the future. European policymakers, but particularly the central banks, have a major responsibility and a key role in this respect so that we are not left behind by the US or China.

The second perception is that within the economy and society there is a need for crypto-based, digital money that makes the next stage in the evolution of digitalisation possible. Of particular interest in this context is programmable digital money that can be connected to so-called 'smart contracts'. The advantage: unlike with cryptocurrencies such as Bitcoin, payment transactions could in this way be automated under a defined and programmed contractual framework. It could be checked digitally whether instructions have been executed and payments are then automatically initiated. Interaction between man and machine or machine and machine in the 'Internet of Things' would be controllable.

To come now to the chances: what may this future look like and what conditions must a digitally programmable currency satisfy?

- A competitive payments system cannot consist of different insular solutions but must be based on a single standard and a single currency. In Europe, we believe that the only conceivable option is a programmable digital euro for which – in line with the current European Monetary Union structures – a common pan-European payments platform should be created.
- Both the highest regulatory standards have to be complied with and compatibility with current book money ensured, since the provision of crypto-based digital money must not endanger the stability of the existing monetary system.

- To create legal certainty and trust, we need a legally binding classification of programmable digital money and – particularly important for us Germans – a viable data protection strategy. In addition, the user of a digital euro – whether man or machine – must be clearly identifiable.
- Thanks to deposit guarantee schemes, deposits of bank customers enjoy a high level of protection. This level of protection should also be the benchmark for programmable digital money.

A digitally programmable euro has the potential to once again radically alter the way we pay and how we store value. This makes it all the more important to achieve a social consensus on how programmable digital money can be integrated into the existing financial systems.

The private banks in Germany will play their part in establishing a sustainable and innovative monetary system. It is up to lawmakers and regulators to enable digital innovation on a clearly defined legal basis – also and, in particular, in the banking sector. Competition law, for example, must establish binding force and fair rules so that all users and market players can safely rely on digital money.

For both the German and the European economy, it will be vital to keep pace with the global competition on intelligent payment solutions. This is the only way to prevent the next stage of digitalisation being monopolised by China and the US. Peking just recently underlined its determination to introduce a digital version of its currency, the renminbi, in the near future, and similar proposals are being discussed at length in the US as well. Europe should not settle for the role of spectator here.