Joachim Nagel: Introducing a digital euro - the cross-border dimension

Speech by Dr Joachim Nagel, President of the Deutsche Bundesbank, at the RBI@90 High-Level Conference on "Central banking at crossroads", organised by the Reserve Bank of India, New Delhi, 14 October 2024.

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1 Introduction

Dear Governor Das,

dear colleagues,

ladies and gentlemen,

I am delighted to be here with you today, at this wonderful location, visiting this wonderful country – one of the cradles of world civilisation and culture.

The Reserve Bank of India is currently celebrating its foundation 90 years ago. My heartfelt congratulations to all members of staff on this anniversary! Last year, Indian real-time payment systems processed about 129 billion digital transactions.[1] This means that 84% of electronic payment transactions took place in real time. During the same period, only about 19% of electronic payments worldwide were real-time transactions. In my view, this is impressive evidence of the excellent work the RBI has accomplished over the last few years.

Payment systems and their cross-border interaction are also an important topic at this conference. This is because cross-border payments are an integral part of our globalised world. Historically, from the Renaissance to modern times, correspondent banks have acted as the bedrock for cross-border payment transactions.[2] However, even today, transferring funds by means of correspondent banking is often slow, involves many steps and may result in high and non-transparent fees.

Moreover, in the last two decades, correspondent banking has been subject to a downward trend, mainly due to increasingly strict compliance requirements. Between 2011 and 2022, the number of active correspondents decreased by roughly one third, while the value of cross-border payments increased by almost 40%.[3] Obviously, this is an alarming trend in terms of market competition.

To some extent, technical progress might be able to compensate for a tighter correspondent banking market. In particular, in the last decade, a number of FinTech companies have provided new opportunities to streamline cross-border payments using innovative methods like blockchain and digital wallets. The FinTech revolution focused

on private money. However, it now appears there may be another revolution on the horizon – this time involving payments in central bank money: the introduction of central bank digital currencies (CBDC).

In my talk, I would like to address CBDC developments with a particular focus on cross-border payments. First, I will outline some general points about the potential impact and benefits of the introduction of CBDC for processing cross-border transactions. Second, I will aim to highlight this topic in the context of the Eurosystem's work on a digital euro – the envisaged European retail CBDC.

2 CBDCs and cross-border payments

Given that there are correspondent banks and FinTechs working on digital innovations as well, let me begin with a question. What would be the additional benefits of CBDCs in the area of digital payments? The introduction of CBDCs would facilitate a setup of new infrastructures for digital payments. On the one hand, this makes high initial investment necessary. On the other hand, once a CBDC is established with its new infrastructure, it could catalyse broad improvements in payment systems, including cross-border transactions – by introducing new message standards and shorter process chains, for example.[4]

Starting on a green field may be one major advantage of CBDCs. Experience shows that, in particular, implementing common standards is not an easy task. Take ISO 20022, for example.[5] The International Organisation for Standardisation proposed this common standard for financial messages in cross-border payments in 2004. It will be probably more widely used in payment systems on a global level next year – 21 years after the initial proposal. This period feels even longer when you think of all the innovations that have taken place in the meantime – the first iPhone was presented in 2007, the concept of a decentralised blockchain in 2008.

However, to be able to reap the benefits for cross-border payment, interoperability between CBDCs must be ensured early on. To this end, central banks should already begin to consider the best ways for interaction in the planning phase. In my view, we have a historic opportunity to vastly improve cross-border transactions by making different CBDCs interoperable from the very beginning.

Indeed, a number of projects are already researching the best ways of making CBDCs interoperable. For instance, the Bank for International Settlement (BIS) Innovation Hub in Singapore and a number of national central banks in the Indo-Pacific region set up *Project Dunbar* to explore how a common platform for CBDCs could enable cheaper, faster and safer cross-border payments.[6]

I am strongly in favour of a multilateral approach in this area, because this best serves the interests of all participants. If central banks proceed in a largely unilateral way instead, we not only risk inefficiencies, but also undesirable interferences. Consider a scenario in which a CBDC is made available for holders abroad in a unilateral way. In such a case, we could see currency substitution or appreciation pressure for the domestic currency. Also, the balance sheet of the CBDC emitting central bank could strongly expand. A knock-on effect may be that domestic monetary policy in countries

that suffer from increased currency substitution becomes less effective. By contrast, a multilateral approach including reasonable holding limits could mitigate these risks.

Meanwhile, the RBI has made valuable contributions to the topic of retail CBDC. The digital rupee based on blockchain technology was launched on 1 December 2022. It is issued by the central bank and distributed by commercial banks. As I understand it, the RBI intends to tap the potential for using CBDCs in cross-border payments as well.

3 A digital euro: The cross-border dimension

In the Eurosystem, we expect a digital euro to be launched in just a few years' time. The primary goal of a digital euro is meet the domestic needs of the euro area. To some extent, however, this goal already includes a significant cross-border dimension. Let me explain what I mean by that. A quarter century on from the introduction of the euro, there is still no single pan-European solution for digital payments when people go shopping in stores or online. This means there is a risk that traditional cashless payment solutions offered by private European payment service providers will not match customer needs.

To be fair, some euro area Member States have successfully implemented innovative digital solutions in the area of payments – I am thinking, for example, of the online payment system iDEAL in the Netherlands or Bizum Wallet in Spain. However, such payment solutions by themselves usually only function within national borders. Promising initiatives have been underway in recent years to widen the scope of these solutions. For example, iDEAL was successfully acquired by the European Payments Initiative, a company founded by several European banks and financial services companies. This initiative seeks to create a truly pan-European payment solution in the near to medium term.

This shows that the European payments sector has made meaningful progress; however, there are challenges further ahead. International payment providers, particularly those offering credit card schemes, still heavily dominate the European market for payment services – and even more when it comes to payments abroad.

A digital euro would be a major step forward in this context. It would provide a standardised digital means of payment for day-to-day transactions throughout the euro area. Despite the need for a more integrated payment system, we are determined to prevent the Eurosystem's footprint in the European financial system from becoming too large. We are therefore planning to issue a digital euro, but not to distribute it. This means that banks and other payment providers should assume the role of the CBDC interface between the Eurosystem and the customers.

The euro area currently consists of 20 Member States, each of which has its own banking system with its own unique features. Against this background, I am sure you can imagine the overall complexity of our task. Therefore, our current focus is on making the digital euro accessible for all users within the euro area. We are investing great effort in our work on this, and we are constantly explaining what we do and why we do it, not least because a number of people are sceptical of CBDCs.

Once we have accomplished a digital euro for all users within the euro area, it will, in my view, be worth considering making it accessible to users outside the euro area as well. Rules for geographical access to a digital euro will be set down in legislation. If European legislation allows, access to a digital euro can also be granted to consumers and firms in the Member States of the European Economic Area outside the euro area. Selected non-EU countries can be included as well.[7]

Ideally, the D€ would be interoperable with other CBDCs from the very start, for example, for person-to-person payments or commercial payments from or to firms outside the euro area. However, this is currently a vision for the future, since, as already mentioned, we first have to overcome numerous challenges to establish a retail digital euro that works within the euro area.

4 Concluding remarks

Let me conclude. So far, CBDCs are newcomers to the world of payment systems. We can only estimate how large a role they will end up playing in payment transactions. This is all the more true when it comes to cross-border payments.

The scepticism about CBDCs in many quarters is not uncommon for many technological innovations. For example, in the early 1980s, "computerphobia" was a widespread phenomenon.[8] This took a wide range of forms, even fear of physically touching a computer or feeling threatened by those who worked with them. Today, this may seem very strange to us. Computers have since become an essential day-to-day tool for us.

And so we will continue our efforts to implement CBDCs. I am confident that this will ultimately make our payment systems better, faster and more efficient.

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[1] ACI Worldwide Inc., It's prime time for real-time: Real-time payments adoption and growth around the globe, Payment report 2024.

[2] Lothian, J. R. (2002), The internationalization of money and finance and the globalization of financial markets, Journal of International Money and Finance 21, Vol. 6, p. 699-724.

[3] Garratt, R., Wilkens, P. K. and H. S. Shin, Next generation correspondent banking, BIS Bulletin No. 78, 30 May 2024.

[4] Deutsche Bundesbank, Cross-border interoperability of central bank digital currency, Monthly Report, July 2022, p. 59-75.

[5] ISO 20022 | ISO20022

[6] Project Dunbar - International settlements using multi-CBDCs (mas.gov.sg)

[7] International aspects of CBDCs: update on digital euro (europa.eu)

[8] LaFrance, A., When People Feared Computers, The Atlantic, 30 March 2015.