

Denis Beau: The future of central bank money in the coming digital age of wholesale and retail payments

Keynote speech by Mr Denis Beau, First Deputy Governor of the Bank of France, at the Singapore Fintech Festival, Singapore, 6 November 2024.

* * *

Ladies and Gentlemen,

I am delighted to be here with you at the Singapore Fintech Festival today to open this second session on the future of money in a world of growing digitalisation in finance. I would like to take this opportunity to share our perspective at the Banque de France on this topic.

While wholesale and retail payment processes are being shaped by different drivers and trends, they raise a common challenge for us at the Banque de France, given our monetary and financial stability mandate: namely to safeguard and promote their safety and efficiency in a digitalising financial system. To meet this objective, we at the Banque de France are focusing our efforts on three key levers: first, adapting central bank money services; second, supporting industry initiatives that align with our policy objectives; and third, helping to shape an appropriate regulatory framework.

Today, I will primarily focus my remarks on our use of the first lever – the adaptation of central bank money services – and on the importance we grant to that end to cooperating and experimenting with other public and private stakeholders, exemplified by the partnership we have established with the Monetary Authority of Singapore.

1. Wholesale digital payments

The safety of financial transactions depends to an important degree on the type of settlement asset chosen. This has led policymakers and market participants for decades now to favour central bank money as the preferred settlement asset in the wholesale space.

This preference is well reflected in Principle 9 of the CPMI-IOSCO's Principles for Financial Market Infrastructures (PFMIs).

Our conviction at the Banque de France is that, in an increasingly digitalised financial system, where tokenised assets and DLT-based infrastructures may gain an important role, central bank money should be maintained as the predominant settlement asset between financial intermediaries. Private settlement assets, particularly stablecoins, are being used and, in the absence of central bank money on DLT-based infrastructures, could be widely used going forward to settle tokenised assets. But stablecoins do not have the safety, liquidity and stability of central bank money. In addition, the lack of coordination in the development of private settlement solutions, could lead to increased market fragmentation.

This is why we think we need to adapt our central bank money services if we are to address the settlement needs of an increasingly digital financial system. As such, the Banque de France was one of the first central banks to launch an ambitious experimental programme on wholesale CBDC.

The MAS and the Banque de France have been travelling companions on this journey for some years now, and our partnership has proved very fruitful. We have been, and continue to be, close partners working on BIS Innovation Hub projects involving cross-border payment processes. Let me just highlight a few of those projects here. In the wake of Project Mariana, where we tested the cross-border exchange of CBDC, we are currently working together on Project Rialto to improve the FX layer of instant cross-border payments. We are also exploring on-chain compliance checks for cross-border transactions with Project Mandala, and are collaborating, with a group of financial institutions, on the *Les gardiennes* Project, to implement a cross-border and cross-currency repo on-chain solution for tokenised financial assets issued in public permissioned blockchain infrastructure.

Within the euro area, as it is likely that traditional infrastructures will coexist with new DLT systems for quite some time, I believe that the availability of central bank money, irrespective of the infrastructure used, and the interoperability within and between those infrastructures, will be crucial to preventing market fragmentation and ensuring a safe settlement process.

This is why, since May 2024, the Banque de France has been deeply involved in the Eurosystem's ongoing exploratory work to test different interoperability solutions for the settlement of tokenised financial assets in central bank money.

Looking further ahead, the BIS's vision of a unified ledger is promising and could start with the development of regional unified ledgers, such as a European shared ledger. Building on a public-private partnership, we could thereby establish a more integrated, efficient, and resilient wholesale payment infrastructure, which could host wholesale CBDCs and private settlement assets as well as tokenised deposits in commercial bank money. This perspective lead the Banque de France, as a representative of the Eurosystem, to take part in BIS Innovation Hub's Project Agorá, in order to explore the possibilities of this type of programmable platform.

2. Retail digital payments

In the retail space, the digitalisation of payments offers numerous benefits for consumers, by making payments more convenient, faster, and more innovative. However, in Europe, it also creates challenges, particularly if we become increasingly reliant on a few dominant non-EU players, such as international card schemes and global tech giants. These companies leverage network effects and control proprietary standards in retail payments, hampering competition and innovation in payments. Ultimately, this increased reliance on non-EU providers raises concerns about the operational resilience and strategic autonomy of the European payment ecosystem.

To help address those challenges, the Eurosystem is preparing an important evolution in the central bank money services it provides to the general public, in the form of what

is called the "digital euro" – a retail CBDC. And the Banque de France is actively contributing to the preparatory work for what is intended to be akin to a "digital banknote" that will be available across the euro area, have legal tender status, be governed by European standards, and be distributed by banks and other financial institutions, to highlight just a few of its key foreseen characteristics, in addition to privacy.

Let me just stress here that in this retail space our action goes well beyond adapting our central bank money services. It also includes supporting the development of pan-European payment solutions, such as EPI's digital wallet, the Wero, and pushing for an ongoing adaptation of regulatory and supervisory frameworks to support innovation.

To conclude, let me share two convictions regarding the conditions under which the path towards the digitalisation of payments, including settlement assets, may lead to sustainable benefits.

First we need a regulatory framework that does not stifle innovation but that is sufficiently demanding to ensure that stakeholders are protected and that the stability of the payment system, and the financial system more broadly, is guaranteed.

Second, we must complement this "confidence-prone" framework with central bank money services adapted to the coming digital age of payments, built on strong dialogue and comprehensive experimentation with other central banks – as we are doing with the MAS – and with market participants. In the wholesale space, our objective at the Banque de France is to adapt those services to ensure that central bank money remains at the heart of settlement processes. In the retail space, our objective is to widen the payment solutions and choices available to include a "digital banknote".