

CBDCs and central bank independence/accountability

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Independence as a cornerstone of central banking



Ulysses and the Sirens, by Herbert James Draper (ca. 1909)

Is it at threat by CBDCs?

1. Large societal effects
2. Affect issues for which Central Banks have no specific expertise or authority → privacy!
3. Success depends on CBDC uptake by citizens and firms
4. Central banks affected in all their different roles (monetary policy, banking supervision, banknote issuance)
5. Lack of clear-cut legal basis for its issuance...

Central bank independence and accountability

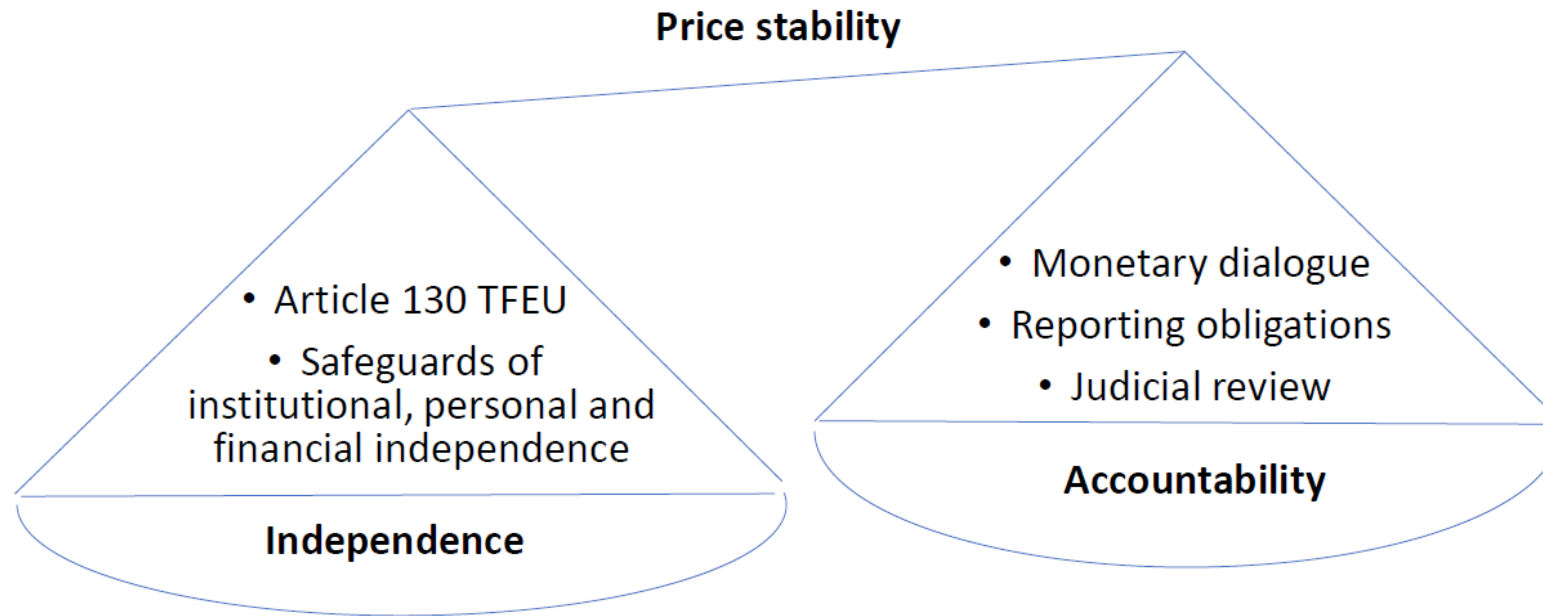
Elements of independence

- Institutional
 - Art. 130 TFEU; Art. 7 ESCB/ECB Statute
 - Art. 5 NBA
- Personal
 - Art. 14.2 ESCB/ECB Statute
 - Arts 43 and 45 NBA
- Financial
 - Arts 16, 28-30, 32-33 ESCB/ECB Statute
 - Arts 4, 25-28, 29-31 NBA
- Functional

Independence reaches beyond monetary policy

Monetary policy	Prudential supervision	Payment systems
<p>Highest possible protection</p> <p>Article 130 TFEU Article 99(2) Swiss Constitution; Article 6 NBA</p>	<p>“Operational independence”</p> <p>Basel Core Principles Article 19(1) SSMR</p>	<p>“Independent board”</p> <p>CPSS/IOSCO Principles for Financial Market Infrastructures</p>




“Accountable independence”



Assumes a clear (and limited) mandate...

Briefly: CBDCs (digital euro)

What CBDC is (meant to be)

	Cash	Bank deposits	Reserve accounts	rCBDC
 Accessible by citizens and firms	✓	✓		✓
 Central bank liability, i.e. risk free	✓		✓	✓
 Digital		✓	✓	✓

What objectives is it to serve?

- **Monetary anchor** for the financial system, preserving access of the public to central bank money
- Ensuring **monetary sovereignty** with use of non-euro denominated private digital money and CBDC potentially rising
- Support to the **digitalization** of the economy
- Financial **inclusion**...

For the digital euro...

“(…), since disruption of the transmission mechanism undermines the effectiveness of the measures adopted by the ESCB, that necessarily affects the ESCB’s ability to guarantee price stability. Accordingly, **measures that are intended to preserve that transmission mechanism may be regarded as pertaining to the primary objective** laid down in Article 127(1) TFEU.”

Case C-62/14, Gauweiler et al. v Deutscher Bundestag, para. 50

What design is it to have? (three ECB progress reports)

The digital euro *per se* (object of issuance)

- Limited to a mere means of payment
- Potentially remunerated
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The digital euro scheme (its distribution)

- Through “supervised intermediaries” (banks, payment institutions, e-money institutions)
- ECB without any direct user contact
- Rulebook to define standards for digital euro services

CBDs and independence

Independence assumes a clear mandate...

Objective	Tasks	Instruments/powers (selected)
Price stability (incl. monetary transmission) <i>Articles 127(1) and 119(2) TFEU</i>	Defining and implementing monetary policy <i>Article 127(2), 1st indent, TFEU</i>	Accounts for market participants <i>Article 17 ESCB Statute</i>
	Promoting the smooth operation of payment systems <i>Article 127(2), 4th indent, TFEU</i>	Facilities and regulations regarding clearing and payment systems <i>Article 22 ESCB/ECB Statute</i>
	Ensuring the availability of a monetary anchor in the form of public retail money <i>Implicit in Article 128(1) TFEU</i>	Issuance of banknotes <i>Article 128(1) TFEU, Article 16 ESCB/ECB Statute</i>

ECB depends on co-legislators

Article 133 TFEU

Without prejudice to the powers of the European Central Bank, the European Parliament and the Council, acting in accordance with the ordinary legislative procedure, shall lay down the measures necessary for the use of the euro as the single currency. Such measures shall be adopted after consultation of the European Central Bank.

New challenges: institutional independence

1. Dependence on user satisfaction
2. Dependence on intermediaries (tech firms!) in distributing CBDC
3. Dependence on international standards for cross-border interoperability

Article 130 TFEU

When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body. (...)

Article 5 NBA

In fulfilling its monetary tasks according to Article 5 paragraphs 1 and 2, the National Bank and the members of the Bank's bodies shall not be permitted to seek or accept instructions either from the Federal Council or from the Federal Assembly or any other body.

New challenges: financial independence

- Who bears the cost for making CBDC available?
 - End users?
 - Merchants?
 - Intermediaries?
 - Central banks?
- Will intermediaries get compensated? How?
- How is “seigniorage” from CBDC calculated and attributed?

CBDs and accountability

Many “accountability stakeholders”

- European Parliament
- Commission → joint contact group
- Member States → EU Council, Eurogroup, non-paper by individual Member States
- National Parliaments? → e.g., “political dialogue” of the Tweede Kamer (House of Representatives) in NL with the Commission
- Citizens
- Market stakeholders (banks, payment services providers...)

Ex ante consultation, not just *ex post* justification

- Regular exchanges between Mr. Panetta and ECON Committee already during investigation phase
- Public consultation and focus groups in all euro area MSs from October 2020 until January 2021
 - Further public outreach has been limited, except for a joint ECB-Commission conference on digital euro (7 November 2022)
- Digital Euro Market Advisory Group and engagement with Euro Retail Payments Board

Conclusions

Conclusions



- Independence is still important...
- ...but may evolve with CBDC
- Good stakeholder management (communication!) is key

Thank you for
your attention!



Extra slides

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Article 128(1) TFEU

The European Central Bank shall have the exclusive right to authorise the issue of euro banknotes within the Union. The European Central Bank and the national central banks may issue such notes. (...).

Payment systems

Article 127(2), 4th indent, TFEU

The basic tasks to be carried out through the [European Central Bank] shall be:

- to promote the smooth operation of payment systems

Article 22 ESCB Statute

The ECB and [NCBs] may provide facilities, and the ECB may make regulations, to ensure efficient and sound clearing and payment systems within the Union and with other countries.