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ECB warns the future of money is at stake as Facebook preps January crypto launch

27 November 2020

As news leaks out about a possible 2021 launch for Facebook's digital currency Libra, a senior European Central Bank official warns: "What is at stake is nothing short of the future of money".

Facebook’s Libra cryptocurrency is readying to launch as early as January, the Financial Times reported on Friday, citing three unidentified people involved in the project.

The Geneva-based Libra Association that will issue and govern Libra plans to launch a single digital coin backed by the dollar, a significant scaling back from its recently revised plans to to issue a series of stablecoins backed by individual traditional currencies, as well as a token based on the currency-pegged stablecoins.

The news has alarmed central banks, which are currently at a minimum of two years out from creating their own digital alternatives.

ECB board member Fabio Panetta, speaking today at a Bundesbank-convened future of payments conference, argues that the impending revolution in payments "requires us to stand ready to reinvent sovereign money".

Speaking directly to Facebook's stablecoin strategy, Panetta warns: "Stablecoin users are likely to bear higher credit, market and liquidity risks, and the stablecoins themselves are vulnerable to runs, with potentially systemic implications."

He says the risks could be mitigated if the stablecoin issuer were able to invest its reserve assets in the form of risk-free deposits at the central bank, as this would eliminate the investment risks that ultimately fall on the shoulders of stablecoin holders.

"This would not be acceptable, however, as it would be tantamount to outsourcing the provision of central bank money," Panetta states. "It could endanger monetary sovereignty if, as a result, private money - the stablecoin - were to largely displace sovereign money as a means of payment. Money would then be reduced to a 'club good' offered in return for the payment of a fee or membership of a platform."

The ECB is mustering support for the creation of a a digital euro, with multiple experiments underway across EU markets and around the world.

In Europe, the ECB and the national central banks have started preliminary experimentation through four work streams.

"First, we will test the compatibility between a digital euro and existing central bank settlement services (such as TIPS)," outlines Panetta. "Second, we will explore the interconnection between decentralised technologies, such as distributed ledgers, and centralised systems. Third, we will investigate the use of payment-dedicated blockchains with electronic identity. And fourth, we will assess the functionalities of hardware devices that could enable offline transactions, guaranteeing privacy."

Speaking at the same conference, German finance minister Olaf Scholz urged the central banking community to pick up the pace.

"On the digital euro, I think we should work very hard. It is nothing where we should wait and see," Scholz remarks. "(We) should be able to decide at any time that now we should do something with a digital euro."

"What is at stake is nothing short of the future of money," Panetta concludes. "As private money goes digital, sovereign money also needs to be reinvented. This requires central bank money to remain available under all circumstances - in the form of cash, of course, but also potentially as a digital euro."

Finextra’s The Future of Payments report explores how new business models, new operating models and new forms of collaboration are the catalyst for the 2020 payments ecosystem. Click here to download.

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Comments: (9)

Christopher Williams - RTpay - Winchester Uk
27 November, 2020, 14:32 1 like

While any increase in dollarization (via vehicles such as Libra's stablecoin) is bad for the market overall, including for Euro-based countries, the impact on currencies under greater stress is far more important.

Countries in Central and South America, Eastern Europe (including Poland and Hungary), along with all of Africa and non-China Asia, are at high risk of currency turmoil if Libra is able to be bought by their citizens. The loss of control of their government's money supply will be hard to reverse - and even more convoluted if and when China opens up yuan-based CBDCs.

As being said here, urgent action is needed - not in number of years but numbers of weeks - but mainly by central banks in the most at-risk countries - starting with remittances and aid payments.

Action to block Libra is needed this year, not later. The ECB could be critical in protecting the non-Euro EU 27 countries and currencies.

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Peter Minev - DGLegacy - Berlin
28 November, 2020, 20:10 0 likes

Kind of predictable to see ECB "surprised" again. But definitely this might turn into a monetary revolution that destabilizes the countries' currences, as we know them, in many geographies.

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A Finextra member
30 November, 2020, 10:10 1 like

The Facebook Libra is not a "currency", it is prepaid value in USD where the holder would have a transferable claim on the FB Libra

Christopher Williams - RTpay - Winchester Uk
30 November, 2020, 10:43 0 likes

If you see the ECB as solely responsible for euro-based countries, then 'stability' is a reasonable target, although against what? The role of the USD is under some pressure - and could be further undermined by PBOC actions now or in the future.

But the role of the ESCB is broader; do you suggest it remains unconcerned about potential instability of the non-euro currencies? My comments above refer to these currencies, rather than the euro, but I agree the real concern is farther afield, where African, LatAm and Asian currencies are more in danger.

Do you not agree that the Facebook/ Whatsapp membership, of over 2 billion worldwide, could be enticed (by incentives, discounts etc.) to switch to the Libra structure from their domestic fiat currencies, if they get the option? Particularly if the recession continues in its current form - with its greater impact on LMICs and their currency values?

To bring it back to where you seem to be looking at this in solely euro-based countries interests, what do you see as the likely impact on migration from the Middle East and North Africa if those countries have currencies in freefall?

Am I being over-dramatic? Can Facebook be expected to behave in a manner that fits with the compliance structure you propose? Who knows - but should we be taking the chance?

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A Finextra member
30 November, 2020, 12:55 0 likes

All the non-Euro member states in the EU have an obligation to join the Euro except Denmark who has an excemption. Unless they have more stable national currencies they should join! Denmark has however pegged its DKK to the Euro so they are half-in. If you have your income and assets (for instance real-estate) and liabilities (mortgage) in a stable "fiat" currency like the Euro it would for risk management reasons be ill-advised to exchange your bank account holdings to a copy-cat "fiat"(USD) make believe asset that is backed up by the promises of unliable FB owners on the stock exchange. The only reason for EU area users would be for smooth payments in a FB/Libra closed loop environment if the payment industry does not offer convenient and secure instant payments. Many of the ME and African countries are already failed states in multiple ways on top of the currency issue and people already seek a better future in Europe and that difficult issue is to be managed by the EU Council and Commission where there is room for much improvement. Cannot see anything more "fiat" than libra.

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Mark Sibthorpe - msba - Pointe-Claire
30 November, 2020, 19:07 0 likes

Awesome comments. Thanks!

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Yahya Mohamed Mao - MiSANTO AG - Switzerland
01 December, 2020, 22:08 0 likes

Great read! Despite the ECB's readiness to respond with a digital solution to Facebook's efforts, it shows again that innovation is happening somewhere else and that classic banks are rather having a passive strategy which consists in reacting rather than pushing ahead the future of banks and fostering fintech innovation. As it's said in the article "the impending revolution in payments "requires us to stand ready to reinvent sovereign money"." When will banks start being the ones that revolutionize an outdated system rather than the ones being revolutionized?

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Christopher Williams - RTpay - Winchester Uk

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Yahya Mohamed Mao - MiSANTO AG - Switzerland

03 December, 2020, 13:49 0 likes

Wonderfully clarified, dear Christopher! It definitely makes sense. Thank you very much!

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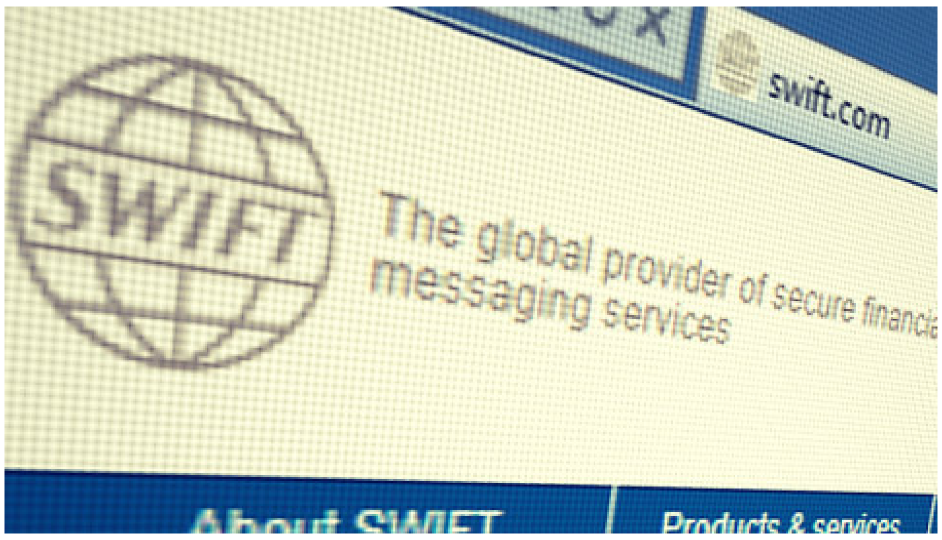

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