

# MINT EDITION

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## EXECUTIVE DIRECTOR'S MESSAGE

### ➔ CASH REMAINS KING IN TIMES OF RISING INFLATION AND GROWING UNCERTAINTY

I recently read an online article citing anecdotal evidence of University students *stuffing cash into their wallets* at the beginning of each week as a way of budgeting for the week's living expenses. This is somewhat paradoxical when you consider this cohort's extensive use of digital technology. This is just another example of how cash plays such a critical and often unrecognised role, particularly when the rising cost of living makes it very difficult to just get by.

But it's not only students who benefit from the demand for, and use of, cash. As we have so often reminded policy makers, other low-income groups are similarly in need of cash to help budget and make ends meet.

The tech-savvy student cohort would explain that while they are significant users of technology in their everyday life, it doesn't create the discipline that cash can i.e. *I withdraw a specific amount at the beginning of each week, allocate the cash to certain expenses and place it in my wallet with the 'forced' discipline that I can only spend what I have allocated and is available.*

While it is unlikely that policy makers are ignoring the needs of the different cash dependent groups within society, they must recognise that as pressure

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## LEGAL TENDER STATUS FOR CBDC & CASH – IMPLICATIONS FOR ACCESS & ACCEPTANCE

Martina Horakova, Managing Director, [International Mint Industry Association \(IMIA\)](#)

What unites the majority of plans and research into potential central bank digital currency (CBDC) across many jurisdictions is the repeated commitment that a CBDC would complement rather than replace physical cash. This is indeed the case with digital euro. "With cash, central banks already provide a means of payment that is risk-free, widely accessible and easy to use, and that leaves no-one behind. But the rapid digitalisation of our economies requires us to complement cash with its evolution in the digital sphere: a digital euro," said Fabio Panetta, Member of the Executive Board, European Central Bank, in an April speech to the European Parliament.<sup>1</sup>

Panetta addresses the legislators in regard to the legal tender status of a potential digital euro and further notes: "People would have no *obligation* to use the digital euro. But they should always have the *option* to use it. Just like they do with cash today. [...] But if we want the digital euro to replicate these cash-like features, we need a proper regulatory framework. Legislators assigned the legal tender status to euro banknotes in the Treaty, and this is why citizens can use them throughout the entire euro area. They are tangible proof that we share a single currency."

The IMIA is also of the view that for a retail CBDC to be a successful central

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## LEGAL TENDER STATUS FOR CBDC & CASH – IMPLICATIONS FOR ACCESS & ACCEPTANCE

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bank public money payment option, in terms of wide adoption by, and attractiveness for consumers, including convenient access to and mandatory acceptance of needs to be guaranteed. However, the IMIA also cautions that in order for the retail CBDC indeed not to replace cash and governmental bodies not to be seen as unequally pushing citizens to adopt CBDC as displacement of physical cash, both types of central bank public money need to be equally supported and provided with a level playing field in terms of regulatory measures.

Legal tender status of euro cash needs to be consistent with the related initiative on the digital euro.<sup>2</sup> Euro cash is central bank public money that is already known, trusted and adopted by citizens with infrastructure in place. While preparing and dedicating new resources and new investments for developing and then maintaining digital euro infrastructure, it is equally of important to do so for euro cash infrastructure. To take measures to preserve sustainable and future resilient level of cash infrastructure, as well as invest in re-development where cash services have already, or are at risk of, deteriorating beyond secure and sustainable levels, and so rectify absence of oversight.

Panetta notes that “Individuals and merchants will expect to be able to obtain digital euro at their banks, just like they do today with cash. [...] While the main objective of legislative measures related to cash is to preserve its widespread use and availability, for the digital euro the goal would be to establish its use and availability from scratch.” Yet, what citizens and merchants are increasingly facing in several eurozone countries is deterioration of cash services ‘at their banks’, in terms of both distances and



fees, impacting not only access to cash, but also acceptance of cash by merchants.

Euro cash as a type of central bank public money payments product possesses unique attributes not replicable with digital euro: cyber-resilient personal data safety and privacy, universal inclusivity, crisis-resilience, unlimited store of value function, and tangibility and physicality giving citizens self-reliant autonomy.<sup>3</sup> Physical cash also crucially already possesses off-line instant settlement functionality, while the most recent ECB report from the digital euro project notes: “The question remains as to whether an offline solution that fulfils the Eurosystem’s requirements and achieves the necessary scale can be delivered in the short to medium term with the existing technology.”<sup>4</sup> Retail CBDC is, in jurisdictions where launched, so far experiencing significant difficulties with consumer adoption. “Central banks that were first to roll out CBDCs have recently faced challenges that have hampered implementation. Additionally, recent instability in the global crypto assets market has amplified concerns and the need for a careful review of the innovation and technology risks,” the Central Bank of Kenya recently stated.<sup>5</sup> Policymakers need to ensure that consumers and citizens do indeed always have the democratic freedom and crucially individual decision-making autonomy to make their own payment method choices between the two types of central bank public money – digital and physical. This means equal treatment in terms of legal underpinning for wide access and acceptability of both euro cash and

digital euro. Failure to do so could be seen by citizens and taxpayers as both imprudent and undemocratic.

Cash as the type of central bank public money already utilised and trusted by the public needs to be granted equal, if not superior, legal tender status to a potential digital euro. So, that indeed, people do have a guaranteed *option* to use cash today in a reliable and uniform way across the eurozone, as they might one day with a *potential* cash-like digital euro.

<sup>1</sup> ‘A digital euro: widely available and easy to use’ - Introductory statement by Fabio Panetta, Member of the Executive Board of the ECB, at the Committee on Economic and Monetary Affairs of the European Parliament Brussels, 24 April 2023 [https://www.ecb.europa.eu/press/key/date/2023/html/ecb.sp230424\\_1~f44c7ac164.en.html](https://www.ecb.europa.eu/press/key/date/2023/html/ecb.sp230424_1~f44c7ac164.en.html)

<sup>2</sup> “Appropriate regulatory measures, including granting the digital euro legal tender status, should be considered in order to ensure consistency with cash and to make digital central bank money widely accessible for retail use to all end-users in the euro area, whilst taking into account the distribution of the costs and required technologies.” <https://www.consilium.europa.eu/en/press/press-releases/2023/01/16/eurogroup-statement-on-the-digital-euro-project-16-january-2023/>

<sup>3</sup> Digital euro can only achieve, depending on design, cash-likeness, but not cash equivalence.

<sup>4</sup> ‘Market research and prototyping exercise confirm feasibility of technical solutions and user interfaces for a digital euro’, 26 May 2023 <https://www.ecb.europa.eu/paym/intro/news/html/ecb.mipnews230526.en.html>

<sup>5</sup> ‘Issuance of Discussion Paper on Central Bank Digital Currency: Comments from the Public’, Central Bank of Kenya, 2 June 2023 [https://www.centralbank.go.ke/uploads/press\\_releases/103592893\\_Press%20Release%20-%20Issuance%20of%20Discussion%20Paper%20on%20Central%20Bank%20Digital%20Currency%20-%20Comments%20from%20the%20Public.pdf](https://www.centralbank.go.ke/uploads/press_releases/103592893_Press%20Release%20-%20Issuance%20of%20Discussion%20Paper%20on%20Central%20Bank%20Digital%20Currency%20-%20Comments%20from%20the%20Public.pdf)