

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

September 12, 2023

**Closing remarks by Governor Prof. Amir Yaron, Project Sela Launch Conference, Sep. 12, 2023**

Good afternoon,

About one year after I came into office, the Bank of Israel had set a long term strategic work plan. One of its most important pillars was to prepare for the effects of advanced technologies on the financial infrastructures in the digital era, and to explore how to promote innovation in the financial system. Specifically, Israel's payments ecosystem was lagging behind in several aspects. We've since then taken many steps to advance the system, some that have already matured and others that will mature in the near future. Another component of the program was to think about the longer term. In that context, the CBDC project that we had launched shortly after that plan was formulated is one of the most important elements, and definitely most interesting. As the economy is digitizing so rapidly, and with the massive changes that the financial system is undergoing, we could not go by without asking ourselves seriously whether the Bank of Israel must issue the money that it provides the general public also in digital form, and if so, how, and what would be the implications.

CBDCs are a relatively new concept. While there are some earlier examples, the term was apparently coined for the first time in 2016 by Ben Broadbent, the Deputy Governor of the Bank of England. That's only seven years ago! Being such an unchartered territory, on the one hand, and with so much at stake in terms of both risks and opportunities, on the other hand, it is imperative that we do a good job in studying and analyzing the implications, design choices, and risks. For that, international cooperation is a crucial key.

The Bank for International Settlements has been at the forefront of the research on CBDCs, and its Innovation Hub has been leading some of the most cutting edge projects in the field. We are privileged to have had the chance to work with the Innovation Hub on this project, as well as on Project Icebreaker, where together with the central banks of Norway and Sweden we offered an innovative model for efficient, safe and accessible cross border payment with CBDCs. For CBDCs to be successful, interoperability is key, and this is another reason why it is so important for us to cooperate with other central banks. Benedicte, please pass on my appreciation to General Manager Carstens, for our joint work so far as well as in the future.

Hong Kong has been a pioneer in innovation and a global financial center for many years, and we could not have chosen a better partner for Project Sela than the HKMA. Howard, Thank you for coming here today, and please send my gratitude to my dear friend Eddie – or more formally - Chief Executive Yue , for the excellent cooperation and openness our teams have enjoyed together. I look forward to get a close impression at the work all of you are doing when I will visit Hong Kong Fintech Week next month.

Central bankers' job description used to be focused on doing economics, finance, market operations and regulation. Traditionally, we viewed technology as a tool – something we need to harness in order to fulfil our job. The digital revolution is completely changing how we view technology, and our CBDC project is a unique opportunity in which policy and technology explorations go hand in hand. This is part of what makes this topic so fascinating.

Our thinking about a digital currency must be as open minded as possible. CBDC is not instead of cash or instead of commercial bank money. It is another option for the end user – be it an individual or a merchant - to choose his optimal way to pay. We are not just trying to digitize cash, which - and I emphasize this – we have no intention to stop issuing, nor are we focusing only on offering a central bank alternative to existing payment systems, which we intend to continue to develop, support, and innovate. We must try to reap the best of both worlds. Combine between the reliability, stability, risklessness, immediacy and full liquidity of central bank cash, together with the convenience, efficiency, and innovation that are offered by digital means of payments. If we're able to do that, we would bring real value to households and businesses in Israel. But as we all know well, innovation does not come without risk. Mitigating cybersecurity risks is key to any critical financial system, and if CBDCs are to be successful we must pay special attention to cybersecurity. The fact that Project Sela focused on this topic in the context of an open and competitive ecosystem of service providers is therefore very important.

Around the world, there is recently an ongoing debate following concerns that were raised regarding the effect CBDCs may have on people's privacy, or the ability of authorities to interfere with people's economic choices. While I do think many of these concerns were based on misconceptions and wrong information, I guarantee here today:

* Although CBDC can never be as anonymous as cash - because that would pose significant money laundering and tax evasion risks - if we choose to issue a digital shekel, it will provide at least as much privacy as digital means of payments. For some payment scenarios, the digital shekel may provide an even higher level of privacy than that available today in digital payments. The main design decisions we've taken in this regard were presented earlier today, and we will ensure these principles not only in regulation or procedures, but also in design. For example, as you saw earlier, Project Sela suggested a model in which the ledger is run in the central bank, but no one at the central bank has visibility to individual balances or transactions.
  + The Bank of Israel, or any other authority, will never abuse the digital shekel system. The fact that the digital shekel system would be managed by the Bank of Israel, would not limit the public's economic choices in any way, other then what would be needed to oblige with AML policies and the like.

At the bank of Israel we strive for excellence in every field we operate in. Our CBDC journey began a little bit later than that of several other central banks, but we have closed the gap relatively quickly. Our excellent connections with the central banking community and our ability to share knowledge with others were key in this. Whether or not we will issue a digital shekel is still an open question, as it is in most if not all other advanced economies. Either way, we remain committed to be at the frontier, and more than that, to support the effort of pushing the frontier, in our CBDC explorations, as well as in our efforts to modernize and advance our payment systems in particular and the financial system in general. As always, we will do this in a sound, careful, and responsible manner.

Thank you very much.