

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

September 12, 2023

**Project Sela Launch Conference – Opening Remarks By Deputy Governor of the Bank of Israel, Andrew Abir**

I am very pleased to make the opening comments at this event, which has been organized to share with you some of the findings from Project Sela, one of two international proof-of–concepts (POC) the Bank of Israel has been involved in over the last year to explore certain attributes for a central bank digital currency.

I would like first to commend the international cooperation involved in this project and its importance for the Bank of Israel's CBDC investigations. I particularly want to thank our international partners: the BIS Innovation Hub is a global leader in the technological explorations of CBDCs, and working with you has been extremely beneficial for us. Thank you, Benedicte, for all that you did to enable this. The Hong Kong Monetary Authority has been running CBDC experiments several years before we entered into the field, and we were lucky to work together with your team, Howard and learn together. I'd also commend the important role of the project vendors FIS/M10, Clifford Chance, and of course Checkpoint.

I would like to make some initial comments on why we are exploring the possibility of introducing a retail digital shekel. At the heart of the discussion on CBDCs, is the question of whether we need a retail digital fiat currency. We have today two types of central bank money: wholesale digital shekels in the form of commercial bank deposits at the central bank, and physical fiat currency in the form of shekel banknotes and coins. The relationship between the nation state and its fiat currency is a unique one, aimed at providing a stable means of payment and store of value for the nation's economy. Nation states are committed to ensuring the stability of their fiat currencies and the systems on which payments are made using the fiat currency, because of the primary role that money and payment systems play in the functioning of the economy. This commitment is implemented through monetary policy aimed at maintaining the purchasing power of the currency, through supervisory agencies that look to ensure the stability and integrity of the payment systems through which the currency is used for transactions, and through the central banks role – as the operator of the core payment systems, and of course, as the issuer of cash.

Over the last decade, the role of the state in issuing and regulating money and payments has been challenged, with the emergence of cryptocurrencies and the notion that they could replace sovereign money and regulated financial institutions. But cryptocurrencies don’t and will not enjoy the commitment offered by the national states. Even when nation states fail in their commitment and the local fiat currency loses credibility, one sees that often it is other fiat currencies that become used in a country as a means of payment or store of value, rather than cryptocurrencies and that is likely to continue.

But what problem is there in the existing system that we think we need to fix with CBDCs? As cash becomes less frequently used as a means of payment, it is likely that central banks will look to offer its citizens the possibility of enjoying the advantages of a retail fiat currency – money which is a liability of the central bank, like cash - in a digital version. More than being just digital cash, CBDC can, if designed properly, allow our citizens to enjoy the technological innovations that are being developed in the digital sphere.

Different countries may have different reasons for considering introducing a digital currency, depending on their particular circumstances. In Israel's case, one reason that I think is especially relevant is the potential to provide more competition in a financial system that is dominated by a few large banks and financial institutions. The CBDC can offer a level playing field on which new entrants can offer financial products. Events over the last year have demonstrated this need. As interest rates were rising, commercial banks did not fully pass on the interest rate increases to the balances of its customers, while on their loans the transmission was full and immediate. And there has been an understandable backlash by the public. Bank customers do have alternatives to deposits at their bank, for example money market funds that offer both better interest rates and liquidity. But take-up of these products has been relatively slow. When I have talked to people to understand why they don’t use these products, what becomes clear is the fear factor. While people are willing to spend time and effort to find a cheaper flight or hotel, when it comes to financial products, they are often paralyzed by the fear of making a mistake. This may be a place where a Bank of Israel digital shekel could also play a role – by giving people security regarding the product. In this context, I believe central banks should return to examine the possibility remunerated CBDCs – that is, for the central bank to pay interest CBDC directly to the end users who hold it, and enjoy the security provided by the central bank. This is a complicated topic with many implications, and we will need to consider them as the project progresses.

Competition and innovation require a flourishing and open ecosystem with many service providers of different types. This was our initial goal for Project Sela as a proof of concept to show that we can provide a platform that will be supportive of such an ecosystem. As you will see today, the project proved the feasibility of the model we had in mind.

Another aspect Project Sela looked at was security. Central bank money must be reliable. Israel's has enjoyed a significantly low rate of cash counterfeiting, also due to advanced technologies featured in our banknotes. If central bank money is to go digital, cybersecurity is key. The project was an opportunity to discuss and study cybersecurity elements of CBDC together with our partners.

The Project Sela report reflects the joint thinking of the project partners, and does not reflect design decisions made by the BoI CBDC SteerCo. However, I can tell you that work on the project has been very influential on the design work currently being conducted by the project team which you will get a peak on at the second part of today's conference, and many elements of Project Sela will probably feed in to our

I look forward to hearing your views on some of the lessons from Project Sela in particular, and the topic of CBDCs in general.

Finally, let me also pay special thanks to the organizational committee – Ronit Cohen, Maayan Hendel, and Adi Schweig.

I wish us all an interesting and enjoyable conference.