



BANK FOR INTERNATIONAL SETTLEMENTS

CPMI - MC report on **Central Bank Digital Currencies**

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Overview

- CPMI-MC (2018) report: summary of current thinking of the central bank community on the implications of issuing a CBDC
- Provide a definition and taxonomy of CBDC
- Analyse motivations / potential effects of two CBDC archetypes (wholesale and retail) in **three core central banking areas**:
 1. **Payments**
 2. **Monetary policy**
 3. **Financial stability**

Key aspect from monetary policy / financial stability perspective:
CBDC allows **broadening access** to digital forms of CB money



Broadening access to *digital* central bank money is not an entirely new idea ...

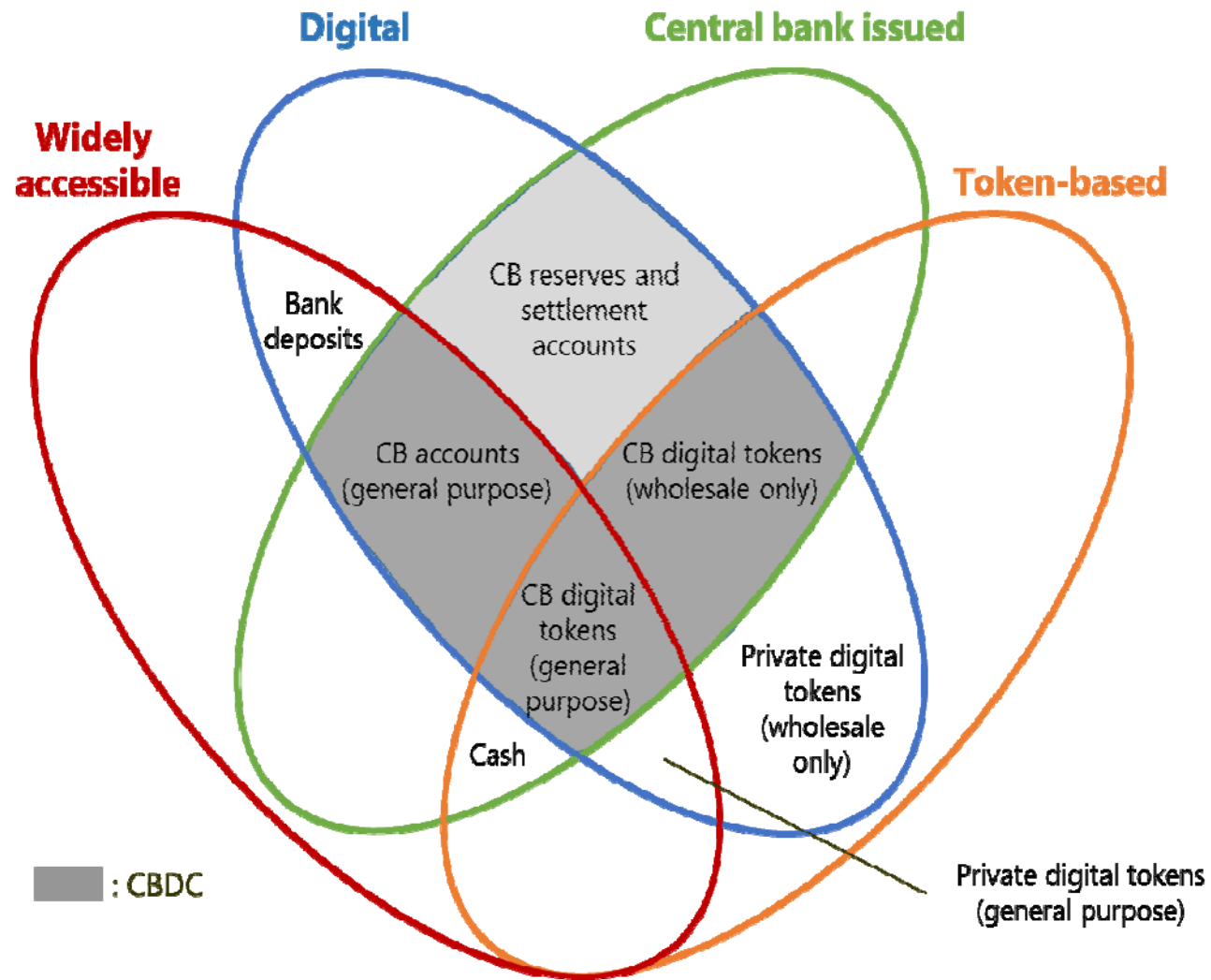
- Early days of central banking: not uncommon to provide accounts to non-banks ...
- Occasional calls for broadening access (eg Tobin, 1982)

Why revisit this old question at the current juncture?

1. Cash usage declining in some countries (Scandinavia)
2. Rise of private digital tokens (like bitcoin): Poor imitations of money, but technology (DLT), is here to stay ...
3. Enhancing monetary policy toolkit (effective lower bound)
4. Other arguments (financial stability and soundness, financial inclusion)



The money flower



Issuing CBDC is not a binary choice ...

Key design features of central bank money

Table 1

	Existing central bank money		Central bank digital currencies		
	Cash	Reserves and settlement balances	Retail token	Wholesale accounts	Wholesale only token
24/7 availability	✓	✗	✓	(✓)	(✓)
Anonymity vis-à-vis central bank	✓	✗	(✓)	✗	(✓)
Peer-to-peer transfer	✓	✗	(✓)	✗	(✓)
Interest-bearing	✗	(✓)	(✓)	(✓)	(✓)
Limits or caps	✗	✗	(✓)	(✓)	(✓)

✓ = existing or likely feature, (✓) = possible feature, ✗ = not typical or possible feature.

Monetary policy and financial stability implications would be a function of the CBDC design choices by the central bank ...



Payments aspects

- Area of potential promise for CBDC may be for **wholesale** (or interbank) payments related activity ...
 - Enhance efficiency of securities and FX settlement
 - Further work and experimentation in this area needed to substantiate the benefits
- Benefits of a **widely accessible CBDC** may be limited
 - Especially if fast (even instant) and efficient private retail payment products are already in place or in development
 - Conditions will differ country by country



Monetary policy aspects

- **Basic mechanics** of m.p. implementation **unchanged**
- CBDCs can enrich monetary policy toolkit:
 - Strengthen pass-through (money markets, deposit rates)
 - Addressing the ELB (negative rates or conduct helicopter drops)
- Challenges on asset side of CB B/S if inflows are large
- Important to take into account side effects and bigger picture
- Central banks' **footprint in financial system** likely to expand (bigger question: central vs decentralised allocation of credit)



Financial stability aspects

- Widely accessible CBDC (in particular if also interest-bearing) could be an attractive asset to hold ...
- It may compete with other money-like assets, such as T-Bills, reverse repos, CPs and commercial bank deposits
- Financial stability risks:
 - Commercial banks' deposit funding may become less stable and more costly ...
 - Digital runs could occur more easily in times of stress ...
- In the extreme, this could challenge the current two-tier architecture of the financial system



Conclusion

- Depending on design features, structural shifts in the financial system and m.p. transmission can occur
- Possibility of unintended consequences ...
(CBDC designed for payments could emerge as attractive asset)
- CBDC raises many big questions (eg on the role of the central bank in the economy and society as a whole)
- CPMI-MC report a first step to kick off the debate and encourage further research in this area ...



Many thanks for your attention!



Main CBDC references

- CPMI-MC (2018): Central Bank Digital Currencies
<https://www.bis.org/cpmi/publ/d174.htm>
- Bech and Garratt (2017): Central bank cryptocurrencies
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