Casting Light on Central Bank Digital Currencies

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Central banks are exploring CBDC

- Disappearance of cash
- Cost of cash
- Financial inclusion
- Monopolies in payments
What is CBDC?

- Central bank liability
- At par with cash, reserves
- Legal tender
CBDC: new form of money issued digitally by CB

- **Appearance**
  - CBDC: Digital
  - CASH: Physical
  - CB RESERVES: Digital

- **Accessibility**
  - All (domestic?)
  - All
  - Large banks

- **Usage**
  - P2P, P2B, B2B, any amount
  - P2P, P2B small
  - Interbank, large
Does CBDC create value?

1. Satisfy user needs?
2. Satisfy central bank goals?
3. Relative to other solutions?
User needs for money

- Efficient Means of payment
  - Max benefits
    - Liquidity
    - Acceptance
    - Scalability
    - Extra services
  - Min costs & risks
    - Transaction
    - Disclosure
    - Settlement
  - Max benefit, min risks
    - Returns
    - Theft & loss
    - Default
- Secure Store of value
Competition is diverse, changing rapidly

- Cash
- Bank deposits
  - Wrappers
  - Fast payments
- Narrow finance
  - Payment institutions
  - Narrow banks
- Cryptocurrency
Demand for CBDC could be slim, but not everywhere

Demand will depend on competing forms of money

Will differ by country

Key design features will be:

- Anonymity
- Security
- Interest
- Scalability
Central banks look to satisfy social goals of money

Central Bank
Design & regulate money to...

Satisfy social criteria

- Price stability
- Financial inclusion
- Cost efficiency
- Consumer protection
- Security

Favor public policy goals

Satisfy user needs
Potential effects of CBDC on:

1. **Financial integrity**
   Could help tradeoff between anonymity and integrity

2. **Financial stability & bank intermediation**
   Banks can respond; runs not necessarily more likely

3. **Monetary policy**
   Little impact on transmission; ELB remains, hinges on cash
Conclusions

• CBDC next milestone in evolution of money?
• Users’ perspective: adoption will depend on attractiveness of competition
• CB’s perspective: case varies by country, but alternatives exist
• Thus, no universal case for CBDC
• Risks to CBDC could be mitigated by appropriate design and policies
• Many questions remain (cross border)
• More work needed!