Digital Currencies and the Challenges for Central Banks

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Disclaimer

Views expressed are my own. They do not necessarily represent the views of the World Bank Group or those of its Executive Directors or the governments they represent.
Retail CBDC is a promising public good, but not a panacea and without consensus it always add value

1. What problem or market failure is CBDC meant to solve?

2. Are there potential risks and unintended consequences?

3. What are the practical implications for design and implementation?

4. What else can be pursued to achieve similar objectives?
1. What problem or market failure is CBDC meant to solve? CBDC is a promising public good, not a “silver bullet”

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<tr>
<th>Strengthening financial inclusion</th>
<th>Bigtech challenges</th>
<th>Risks stemming from new private forms of “money”</th>
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<td>• Address limited private sector competition</td>
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<td>• Overcome geographical barriers</td>
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<td>• Strengthen cross-border payments, remittances</td>
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<td>• However, binding constraints remain that CBDC can not address alone</td>
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<td>• Network and scale effects…</td>
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<td>• …compounded by data monopolies and data centrality</td>
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<td>• Privacy concerns</td>
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<td>• Smooth functioning of payments</td>
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<td>• “Digital currency areas”</td>
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<td>• Provide liquid and safe settlement asset in the context of a rise in (global) stablecoins, crypto assets, and DeFi</td>
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Value added depends on country features, including economic conditions and the prevailing financial and payments landscape
2. Are there potential risks and unintended consequences? Much remains unknown and depends on design

- Bank funding & intermediation
- New concentration risks
- “Oneness” of money
- Complex privacy / illicit finance tradeoffs
- Checks and balances on new central bank powers
- Resource constraints
3. What are the practical implications for design and implementation? Some broad considerations

- “First, do no harm”
- Limited footprint (e.g., ceilings, remuneration)
- Co-exist with physical cash
- Domestic and cross-border interoperability
- Distribution through intermediaries
- Account based, linked to digital ID
- Privacy protected / tiered KYC and SDD
- Public buy-in: commercial viability and trust

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4. What else can be pursued to achieve similar objectives? A few examples, with a focus on financial inclusion

**Transaction accounts**
- Build on fintech successes
- Devise inclusion strategies
- Raise awareness & financial literacy
- Promote e-KYC & digital ID
- Leverage recurrent payment streams

**Access points**
- Promote entry of non-banks
- Enhance agent-based models for “last mile” delivery
- Leverage fintech solutions (e.g., QR codes)

**Domestic infrastructure**
- Consider fast payments systems
- Support “open banking” and “open data” initiatives and APIs

**Cross-border payments (G20)**
- Coordinate on regulatory, supervisory and oversight frameworks
- Strengthen existing infrastructures
- Increase data quality