Digital Currencies and the Challenges for Central Banks

Maria Soledad Martinez Peria
Assistant Director
Research Department
IMF

World Bank Europe and Central Asia Office of the Chief Economist Talk Series
March 17th, 2022
Challenges for CBs from CBDC

From domestic use of own CBDC

From domestic use of foreign CBDC

Appropriate CBDC design and well-crafted policies can help mitigate challenges
Challenges from domestic use of own CBDC

• Balance privacy and integrity
• Balance integrity and inclusion
• Limit disintermediation and deposit runs
• Minimize cyber risks and ensure resilience
Balance privacy and integrity

**Privacy**

- CBDC can protect privacy without undermining integrity if...
  - Limits on size of anonymous transactions exist
  - Appropriate customer due diligence in place & transactions recorded but identity revealed only if illicit activity suspected

**Financial integrity**

- CBDC can undermine integrity if ...
  - Full anonymity and large-value transactions allowed
Balance financial inclusion and integrity

• Financial inclusion is an important motivation for CBDC
  ➢ In 2021 BIS survey, inclusion was a key objective for CBDC among EMDEs.
• Globally, 30% percent of adults are unbanked according to World Bank
• Lack of documentation is a significant barrier to inclusion
• CB needs to facilitate inclusion while protecting integrity
  ➢ Developing digital IDs
  ➢ Providing access to CBDC without full documentation setting limits on size of holdings and transactions
• Issuing a CBDC alone might not suffice to increase inclusion.
  ➢ Factors such as access to financial infrastructure, internet and mobile phones as well as financial literacy will also have to be addressed.
Limit disintermediation and runs

To limit disintermediation

- Set limits on holdings of CBDCs to avoid deposit drain
- Remunerate CBDC at a lower rate
- Help banks maintain ties with customers (two-tier CBDC)

To reduce run-risk

- Deposit insurance
- LoLR
- Limits on holdings of CBDC
Minimize cyber risk and ensure resilience

- Trust in money and the central bank is key for the functioning of the payment system and the conduct of monetary policy

- Central banks have large reputational risks at stake when issuing a CBDC

- Choosing the appropriate technology and designing an infrastructure for CBDC that is secure and resilient will be critical
Challenges from domestic use of foreign CBDC

- Currency substitution & loss of monetary independence
- Capital flow volatility
- Faster transmission of global financial conditions
- Shifts in reserve configurations

Several conditions need to be met for these challenges to materialize
Addressing challenges from domestic use of foreign CBDC

• To curb currency substitution countries could explore:
  ➢ Feasibility of limiting CBDC in circulation (issuer)
  ➢ Desirability of imposing restrictions on the use of foreign CBDC
  ➢ Implementing robust legal tender provisions to ensure that the national currency is favored
  ➢ Strong local currency and robust monetary framework
  ➢ Issuing own CBDC might not be the solution

• To ensure the stability of the international monetary system, cooperation among CBs to provide backstops will be critical in case currency substitution increases
Conclusions

• CBs are increasingly exploring CBDCs

• There could be challenges from the domestic use of own CBDC and of foreign CBDC

• Appropriate design and regulations could mitigate some of the challenges

• Cooperation across countries will be key to minimize negative cross border implications
IMF Digital Money Strategy

CAUSES

- Digital money
  - CBDCs
  - Stablecoins & eMoney
  - Cryptoassets
  - Others...

- Forces of change
  - Technology & infrastructure
  - Services & service providers
  - Entrepreneurs
  - Consumer behavior & expectations

IMPLICATIONS

- IMS stability
  - Currency substitution & policy independence
  - Capital flows
  - Payment integration
  - Reserve currencies
  - Backstops

- Domestic stability
  - Narrow
    - Consumer protection, safety & soundness, integrity...
  - Broad
    - Innovation, credit and banking, competition, inclusion, climate, fiscal...

- Others
  - Technology choices
  - Development
  - Standards...

POLICY RESPONSES

- IMF
  - Key mandate
    - International monetary cooperation
    - IMS stability
    - Domestic stability
  - Core competencies
    - Wide membership
    - Macrofinancial focus
    - Diverse expertise
    - Link to members
  - Activities
    - Surveillance
    - Capacity development
    - Lending
    - Policy development
  - Skills and resources
References


The views expressed in this presentation are those of the author and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.”

Disclaimer: The views expressed in this presentation are those of the author and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.”