

Monetary Policy in a Digital World

The challenges of digital currencies

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1. Why Central Banks should care about private DCs

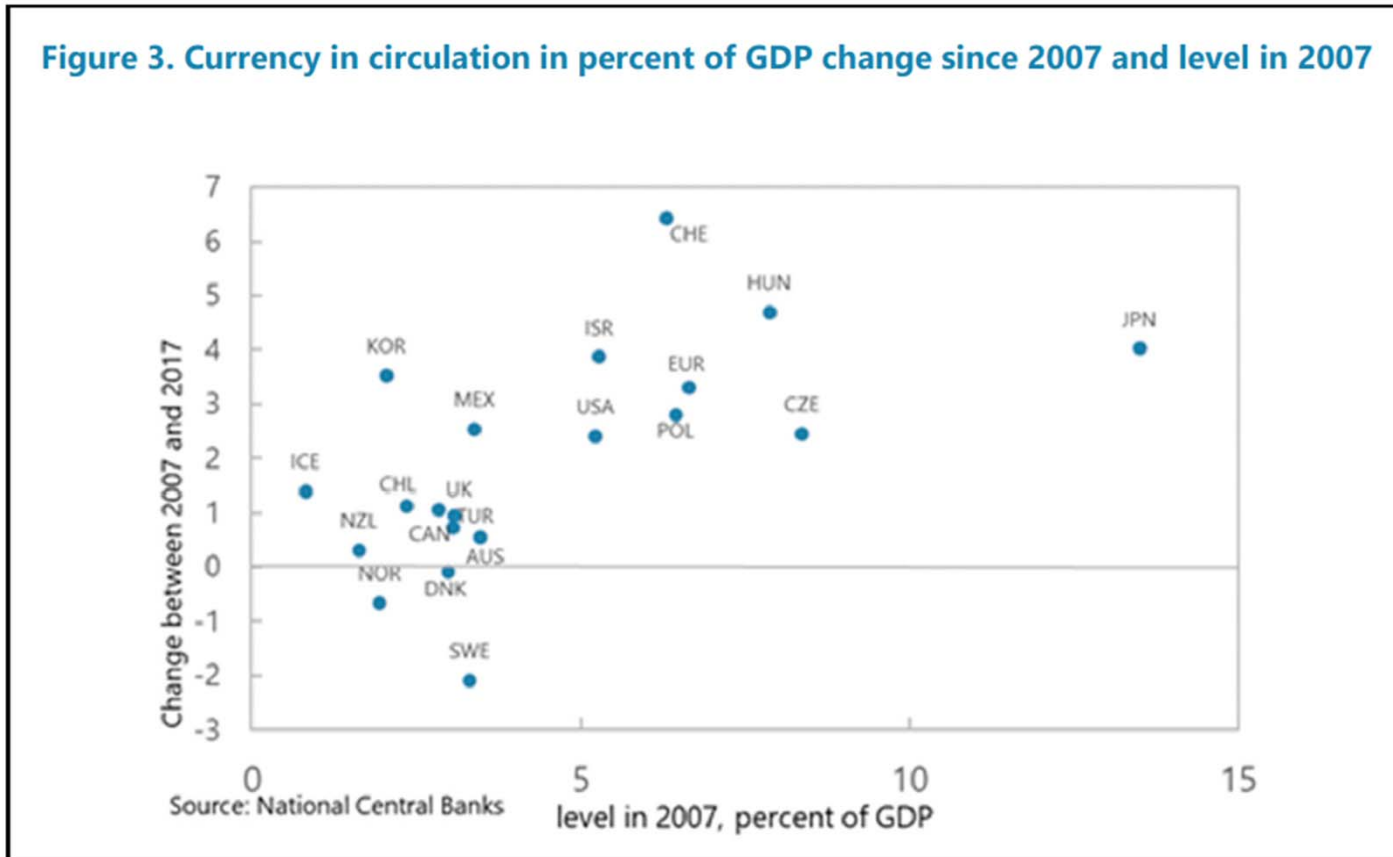
Gaining control – do it yourself

- Provide payments system, low cost, cross border
- Gain room at the ZLB, monetary policy
- Improve functioning of International Monetary System

Defensive motives - Loss of control

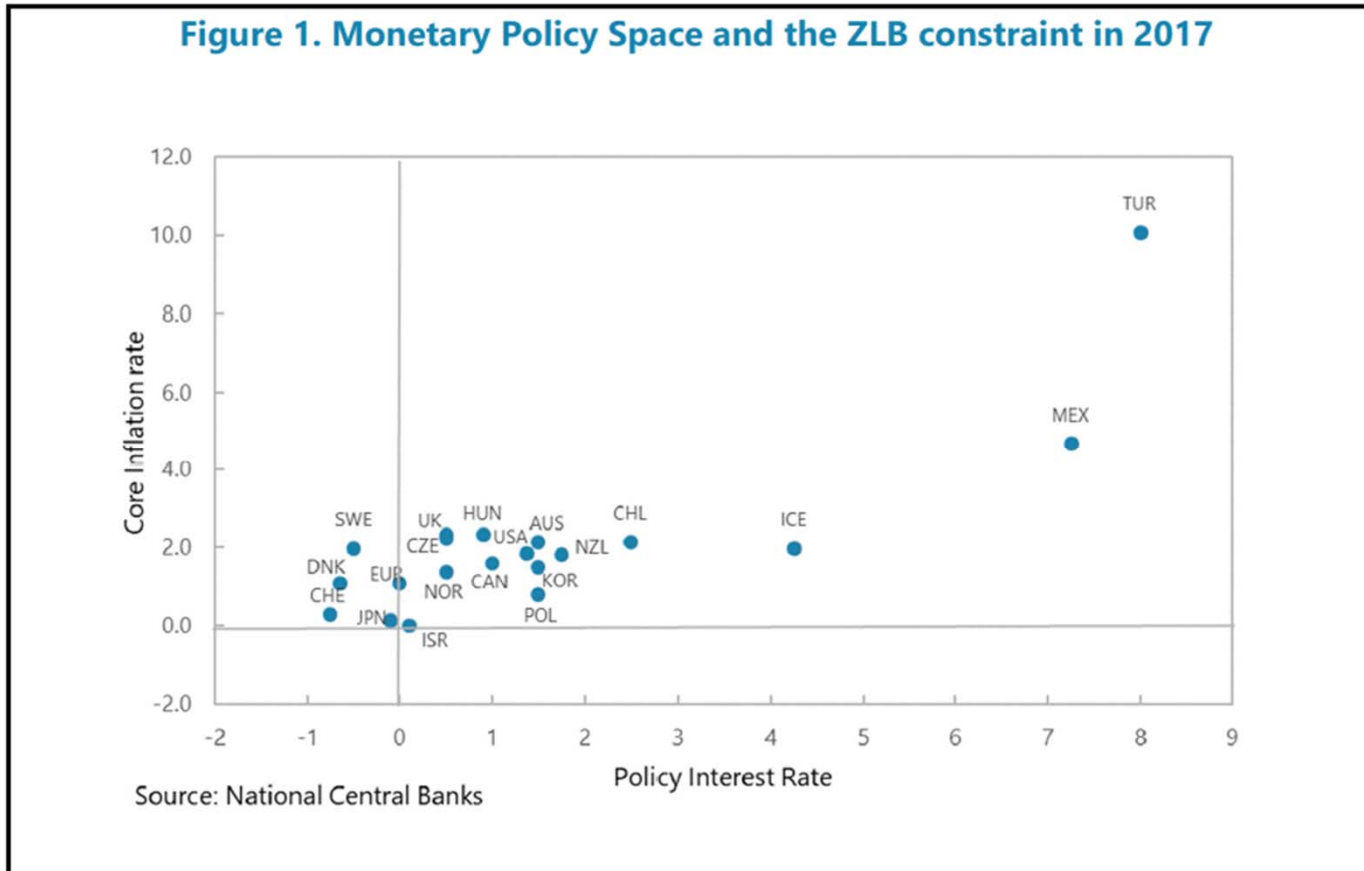
- Currency competition, loss of seignorage, loss of control of monetary policy, financial stability risks
- Creation of closed ecosystems
- Because it could happen.. Technology+ Big Tech + cross border retail payments

Competition for cash?



Source : Assenmacher and Krogstrup, IMF WP/18/191

How bad is the Zero Lower Bound?



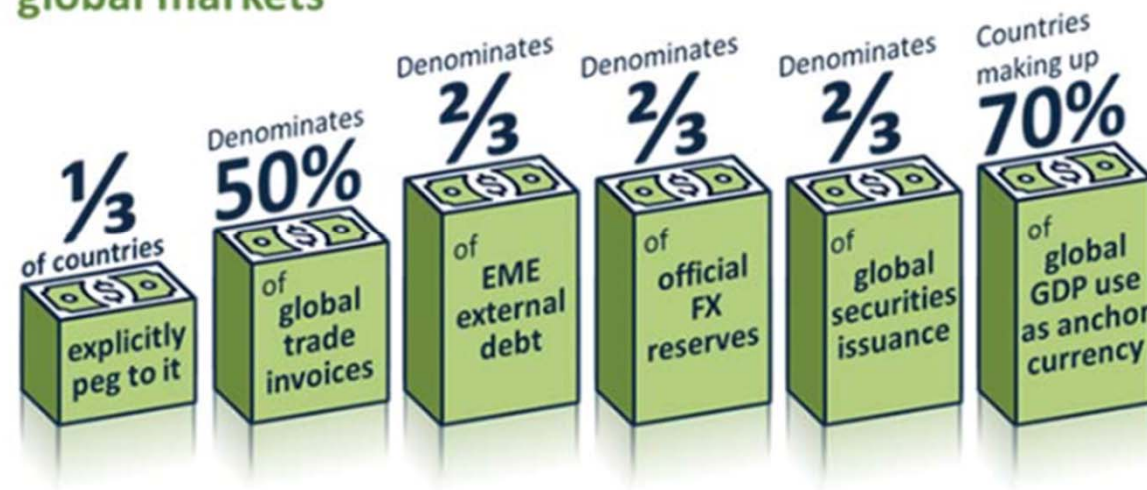
Source : Assenmacher and Krogstrup, IMF WP/18/191

How bad is the imbalance in the IMS?

US share of the global economy

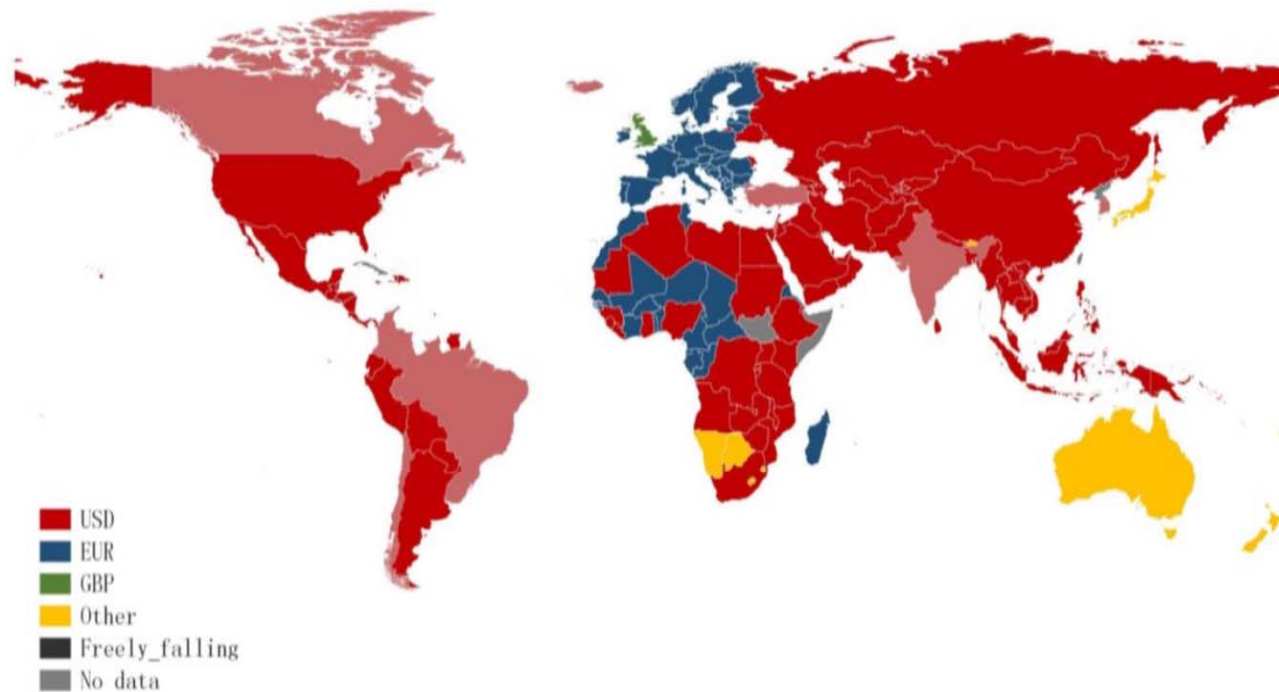


US dollar share of global markets



Source: Carney 2019

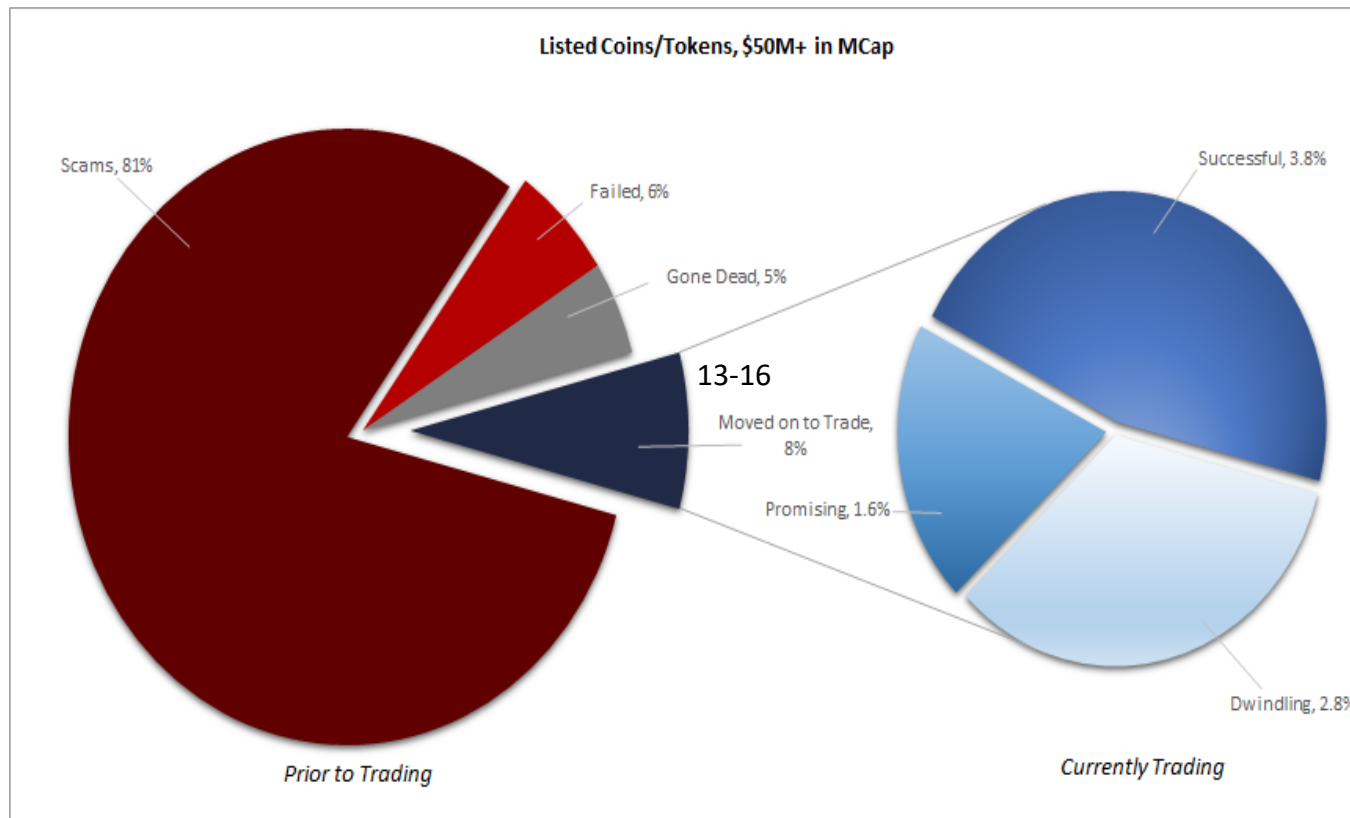
How bad is the imbalance in the IMS?



Source: Gourinchas 2019

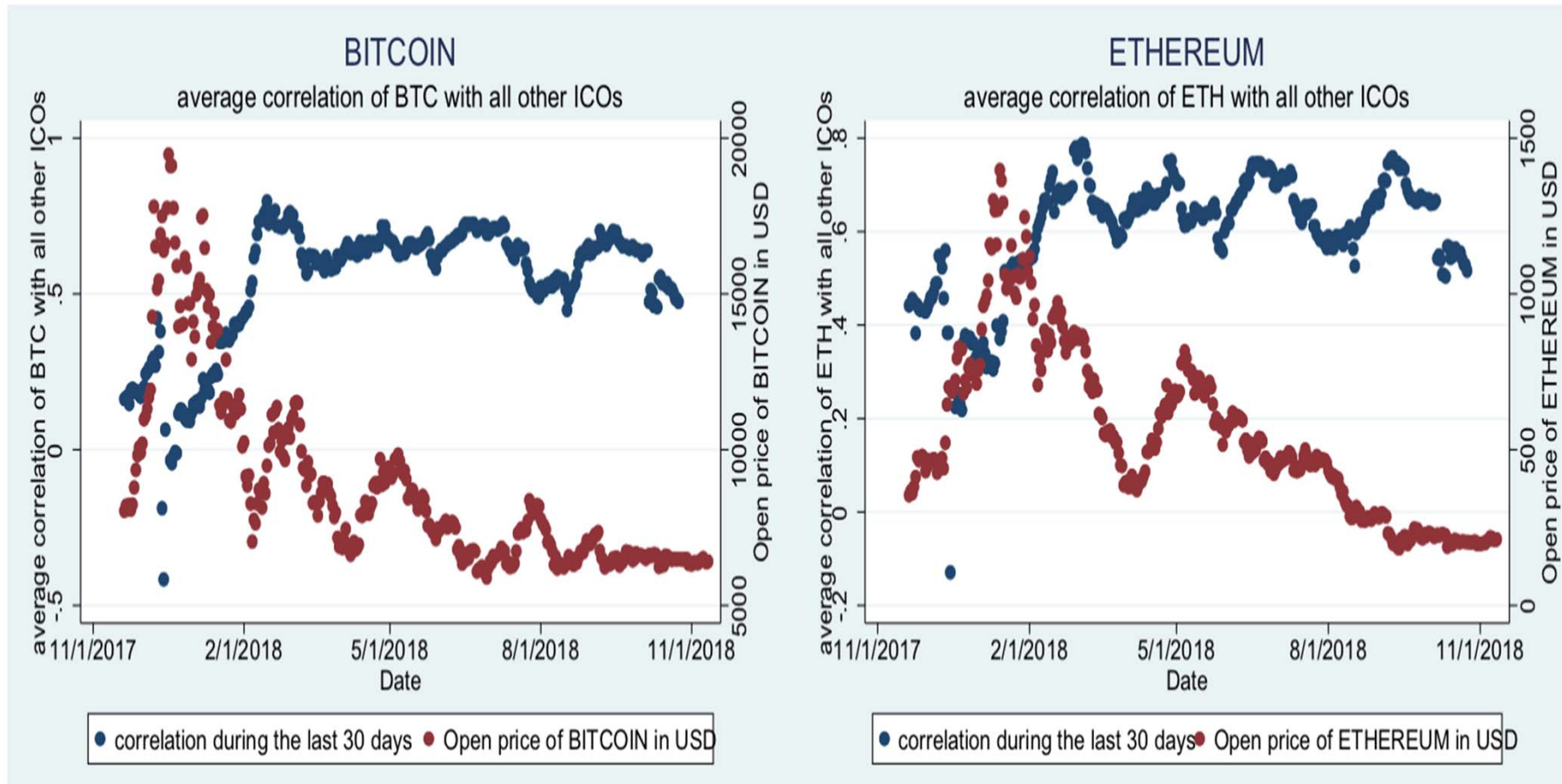
Sources: *Currency Yearbook*, various issues, International Monetary Fund, *International Financial Statistics*, Pick and Sedillot (1971), Reinhart and Rogoff (2004) and sources cited therein.

The early private crypto currencies and tokens : fraud and environmental disaster



Source: <https://news.bitcoin.com/80-of-icos-are-scams-only-8-reach-an-exchange/>

Bitcoin bubble and ICO tokens



Source : Allen, Fatas and Weder di Mauro 2020

2. Why stablecoins are a different challenge

Private money

- Stable in a currency (or a currency basket),
- Can be "safe", if fully asset backed (not algorithms)
- Use for payments / convenience / cross border
- Store of value / diversification benefits

Technology

- Facebook and co (yes they can)
- **Global (potentially)**

Regulatory challenge

Can a global currency “work”?

Would it be used for payments in DMs?

Question:

How large do the benefits in lower “transactions” costs have to be in order to compensate for the risk of holding a basket?

Exercise

- US is domestic economy
- Libra composition = SDR (vol 4-6% in USD)
- **Level of risk aversion**
- **Average holding of libra = volume of transactions , velocity of money =1**

Table 1 Required savings to compensate for risk of holding Libra

	Risk aversion			
	1	3	5	10
4%	0.16%	0.48%	0.80%	1.60%
5%	0.25%	0.75%	1.25%	2.50%
6%	0.36%	1.08%	1.80%	3.60%

(Fatas and Weder di Mauro 2019)

Source: Authors' calculations, based on historical data for IMF SDR.

Libra will probably not happen but what about other private Stablecoins?

The regulatory challenge

How to handle new risks from technology

- Interoperability / competition
- Cyber risks

How level the playing field: FINMA (Amstad 2019)

- Focus on function , not institution
- Technology neutral
- Same risk, same rules

Same animal, same cage

Duck testing - national forms of Stablecoins

1. It could be a narrow bank , with access to the CB

Assets held at CB : de facto central bank money with a different name

Business model at 0 or negative interest rates? bundling, payments convenience, data

2. It could be a payments system, e-money

“Prepaid”, Deposits or Assets held in liquid form at bank

3. It could be a MMF

Assets on a very restricted set of bonds

4. It could be an ETF

Assets are more risky, trading continuously, intermediaries for pricing

Libra – but without the return ??

5. It could be a bank deposit

Regulating challenges with global Stablecoins

1. The stable coin in a different currency/currencies
 1. Currency competition ?
 2. Financial stability ?
2. Home/host issues in
 1. Who is regulating / holding the assets ?
 2. Who is regulating the tech company ?
 3. How do they coordinate ? Do they?
 4. The issue of trust **See global banking ..**

Conclusions

1. Central Banks have several good reasons to engage with stable coins.
2. A public/private partnership to provide a synthetic global coin could have benefits.
3. But all this requires multilateral cooperation and trust.

Thank you