



BANK OF ENGLAND

Unconventional monetary policy and CBDC

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The views expressed here are my own and do not represent the views of the Bank of England





Outline

- CBDC and the need for UMP
 - CBDC and existing UMP
 - Negative rates
 - QE
 - “Where we’re going, we don’t need roads...”
 - Paying differentiated interest rates
 - Direct transfers
 - Others
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CBDC and the need for UMP

- One view of the world, CBDC eliminates the need for UMP
 - Removes the effective lower bound
 - Bordo and Levin (2017), Bordo, Levin, Sinha (2021)
 - Requires the death of cash – or at least some restrictions
 - **Alternative view 1: it makes UMP more necessary**
 - Non-interest bearing CBDC hardens and raises the lower bound
 - More of an issue for CBs with negative rates
 - **Alternative view 2: it reduces the need for the UMP**
 - More effective transmission reduces vol. of rates over cycle
 - **What happens to r^* ?**
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CBDC and negative rates

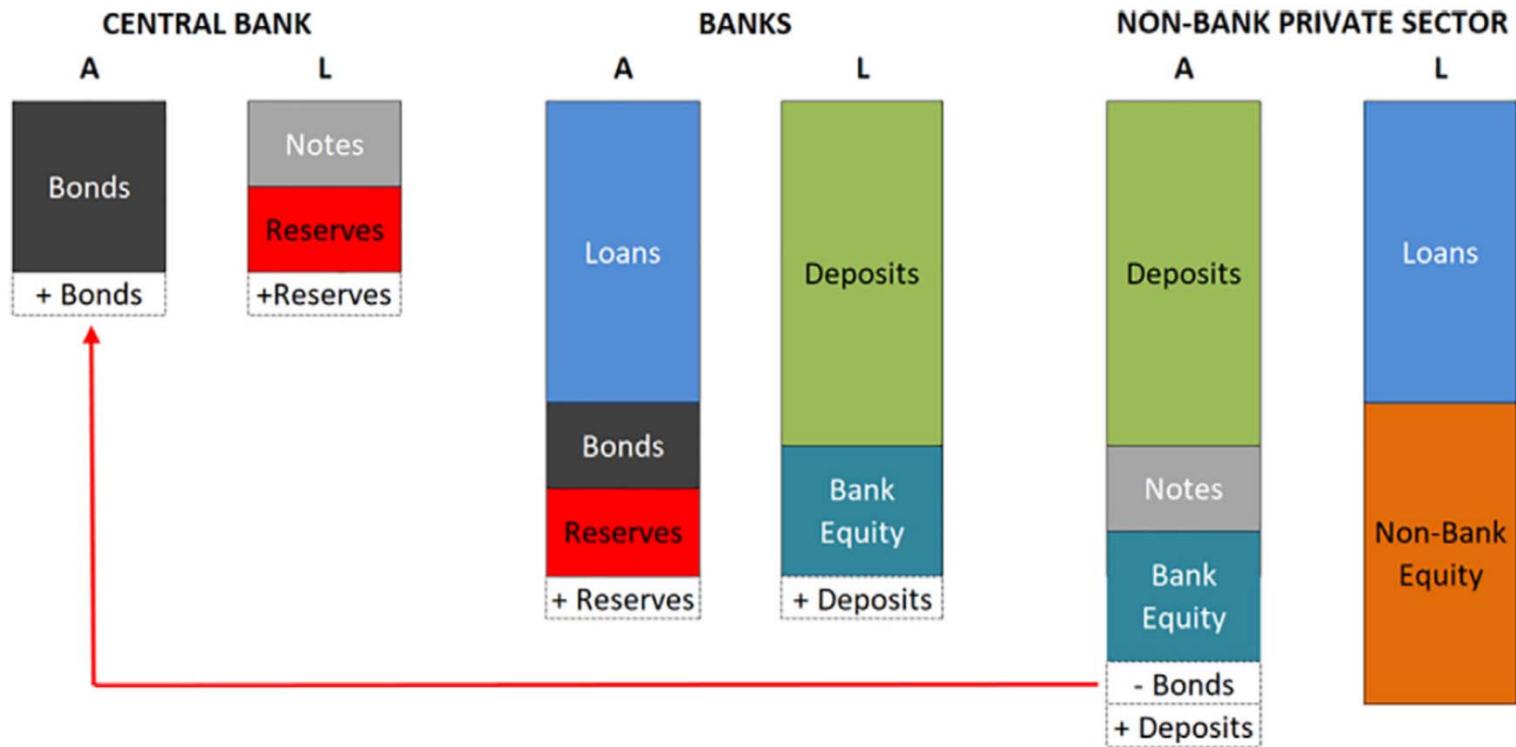
- CBDC may facilitate negative rates
- However, crucially, the constraint is about a zero yielding asset, so requires cash to be restricted, disincentivised or dominated
- Conversion/exchange rate between CBDC and cash
 - Requires two parallel currencies – which is the unit of account?



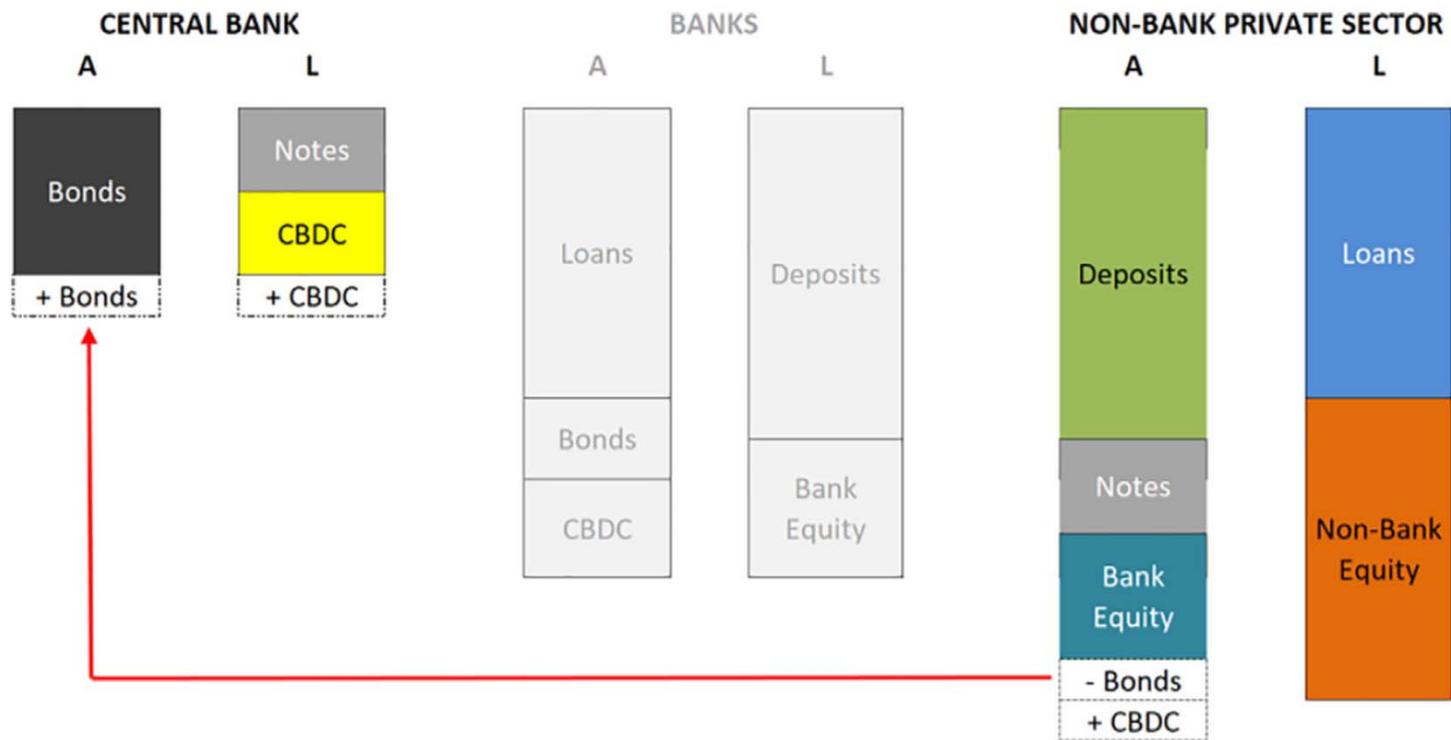
CBDC and QE

- CBDC would allow asset sellers to be paid directly in central bank money
 - By-passes the need to go through the banking system

QE currently



QE with a universally accessible CBDC



CBDC and QE

- CBDC would allow asset sellers to be paid directly in central bank money
 - By-passes the need to go through the banking system
- Macro impact of this is ambiguous
 - Reduces offset of bank rebalancing away from gilts [more effective]
 - Reduces incentive for banks to leverage safe assets [less effective]
- How much would it increase #counterparties in practice?
 - Gov securities are held predominantly by institutional investors

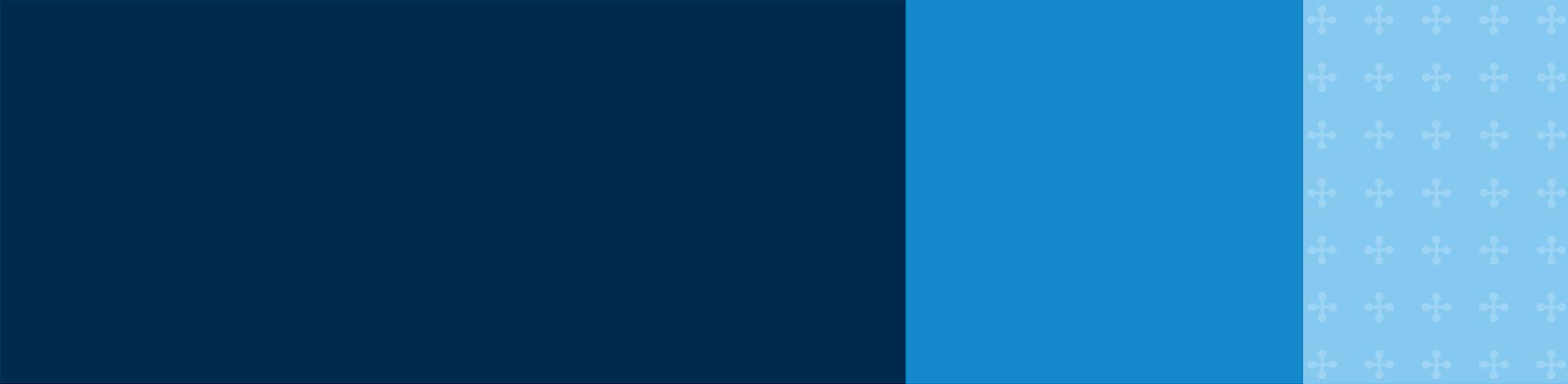
CBDC and new tools

- Differentiated rates
 - By user group (Meaning et al, 2021)
 - By balance (Davoodalhosseini, 2021)
- Direct transfers
 - Helicopter money (Harrison and Thomas, 2019).
 - Still carries issues around fiscal dimension.
 - More innovative options?



Conclusions

- CBDC will change the nature of UMP in ways we haven't yet fully understood or researched
- It could be used to tweak around the edges, and maybe that is where to begin
- But it may represent a big enough shift that it brings along some more radical change as well



Thank you