

* CBDC *

Policy Objectives

Tommaso Mancini-Griffoli

Monetary and Capital Markets Department, IMF

CBDC: La Moneda Digital del Banco Central. Volumen II, May 18, 2022



CBDC exploration is widespread and increasing

Chart 1. Status of retail CBDC projects
Number of countries

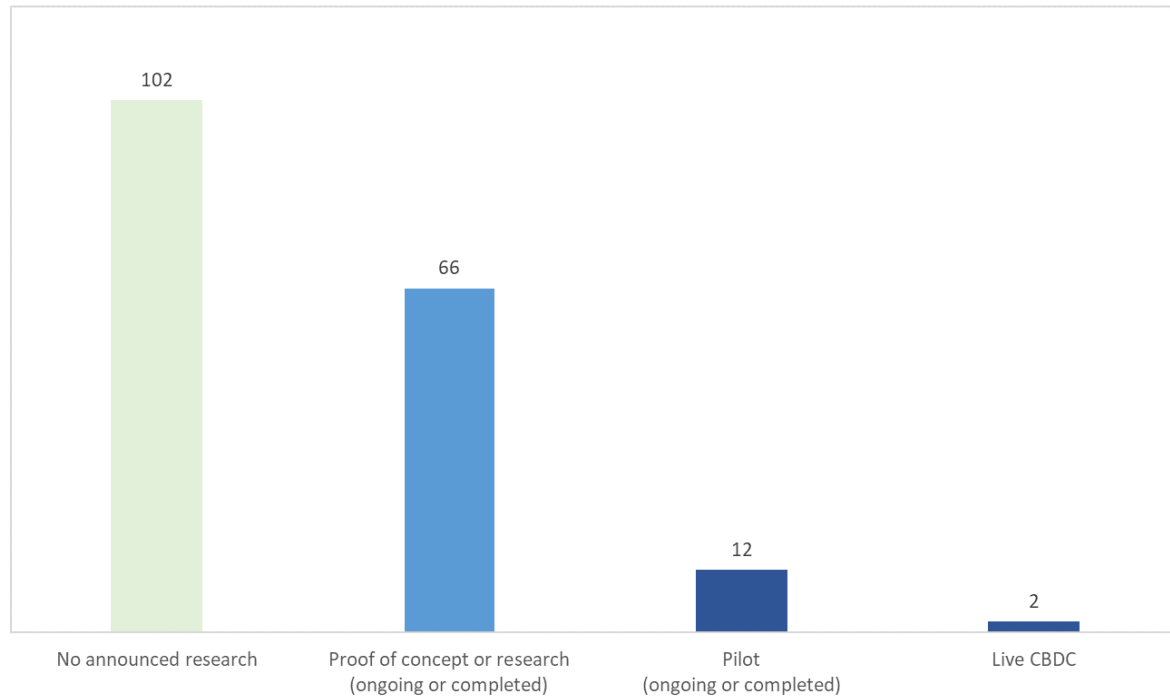
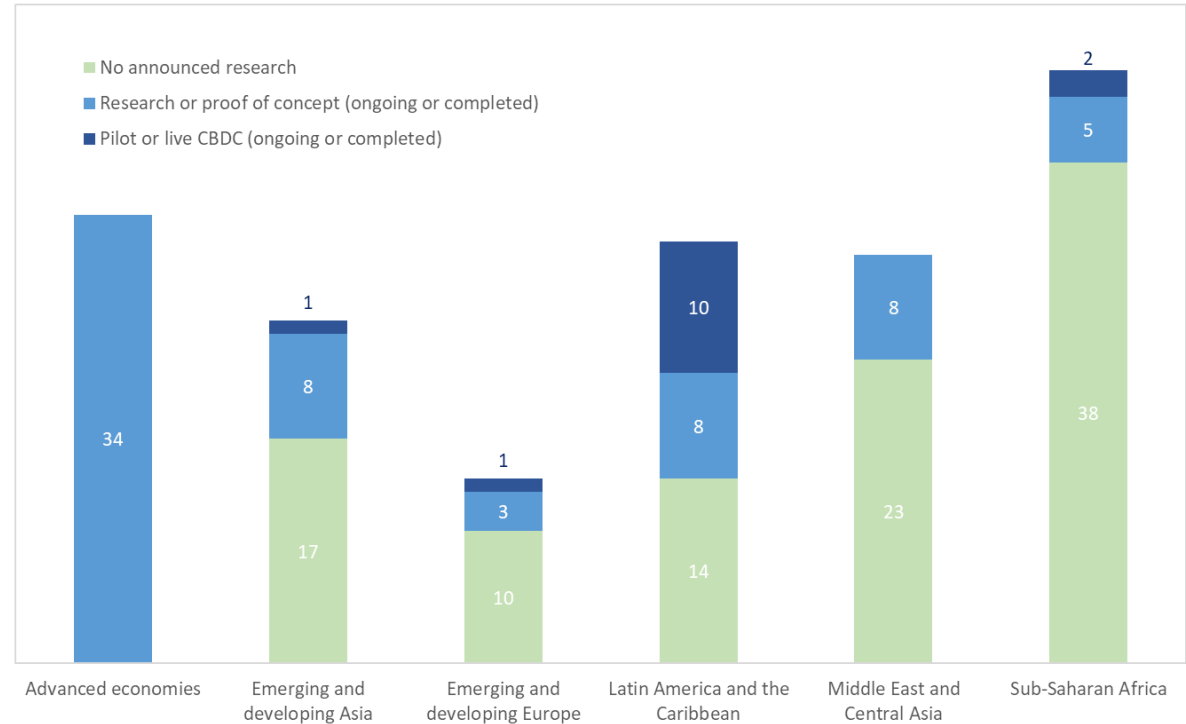


Chart 2. Status of retail CBDC projects, by region
Number of countries



Sources: Central banks' websites; Kiffmeister Chronicles; Auer, Cornelli and Frost (2020); CBDC Tracker, Atlantic council

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In progress –
do not cite



Projects span all “advanced” phases



Canada

Building capacity

Sweden

Government inquiry

China

Multiple provinces
140 million users
Open ended

Bahamas

Live in October '20
20'000 users

ECCU

12 month pilot (to
March '22)
7 countries

Uruguay

6 month pilot '17-18
Max 10K users
Possible sequel



CBDC offers potential benefits...

Safety, market discipline

Efficiency of public policy

Rights of citizens

Financial inclusion

Catalyst for innovation & growth

Cross border payments

Defense against cryptos?

Interoperability?

Not the only solution



... as well as risks...

Banking sector disintermediation

Operational resilience

Reputation

Crowding out private sector

Can be managed? But at what cost?



... and wider policy challenges and opportunities

Domestic

Privacy & data

Legal frameworks & treatment

Public – private partnerships

Banking and credit provision

Climate

International

Currency substitution

Monetary policy independence, Control of financial conditions, FX regime

Capital flow management & effects

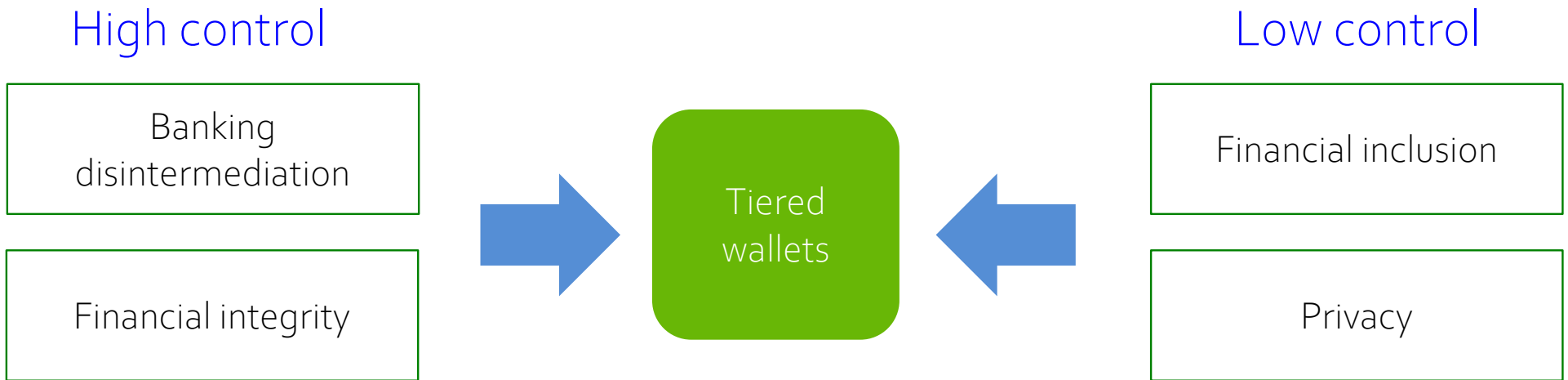
Payment fragmentation/ integration

Digital divide

Backstops and reserve currencies

Spotlight on open questions

Some policy tradeoffs can be managed...



... and some are harder to manage: Adoption sweet spot?

Less

- Private innovation
- Minimize public footprint
- Contain disintermediation

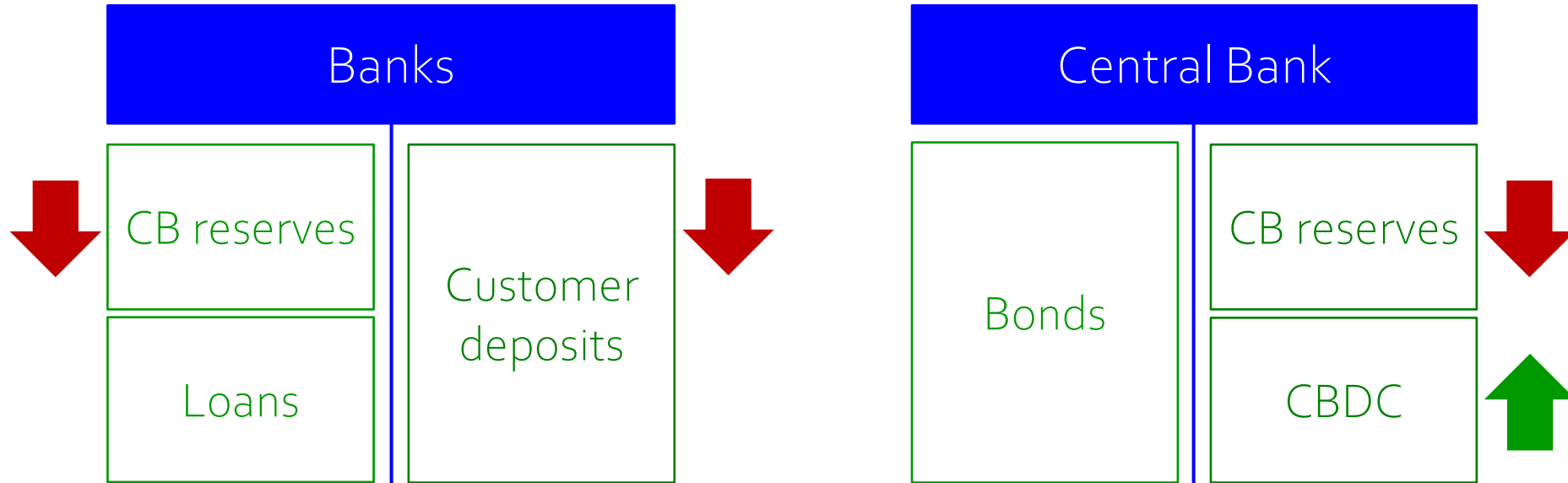
More

- Counter monopolies
- Discipline the market
- Ensure resilience

Can adoption really be micro-managed?



CBDC could disintermediate the banks?



Runs

- Deposit insurance
- Run *to* banks

Shifts

- Endogenous response
- CBDC design

“Current wisdom” suggests risks are manageable

1

Disintermediation may not be large (at least in short-medium run)

Banks can fight back: better services, higher deposit rates, partnerships

2

Central bank can recycle funding to banks

But politically sensitive (viable during crisis, not extensively in normal times?)

3

Price limits: CBDC bears (increasing) penalty rate beyond certain wallet size

See Bindseil (2020)

4

Quantity limits: wallets capped, and surplus is swept into bank accounts

See Bahamas Sand Dollar Project

Urgent need for general equilibrium models

Private sector involvement?

	Public A-Z	Private distribution	Private integration	Private functionality	Synthetic currency
Distribution		X	X	X	X
Apps			X	X	X
Functions				X	X
Technology					X

Private functionality blurs lines between retail and wholesale...
CBDC as a platform? New notion of public good?



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