



Should the US Issue a Central Bank Digital Currency? Lessons From Abroad

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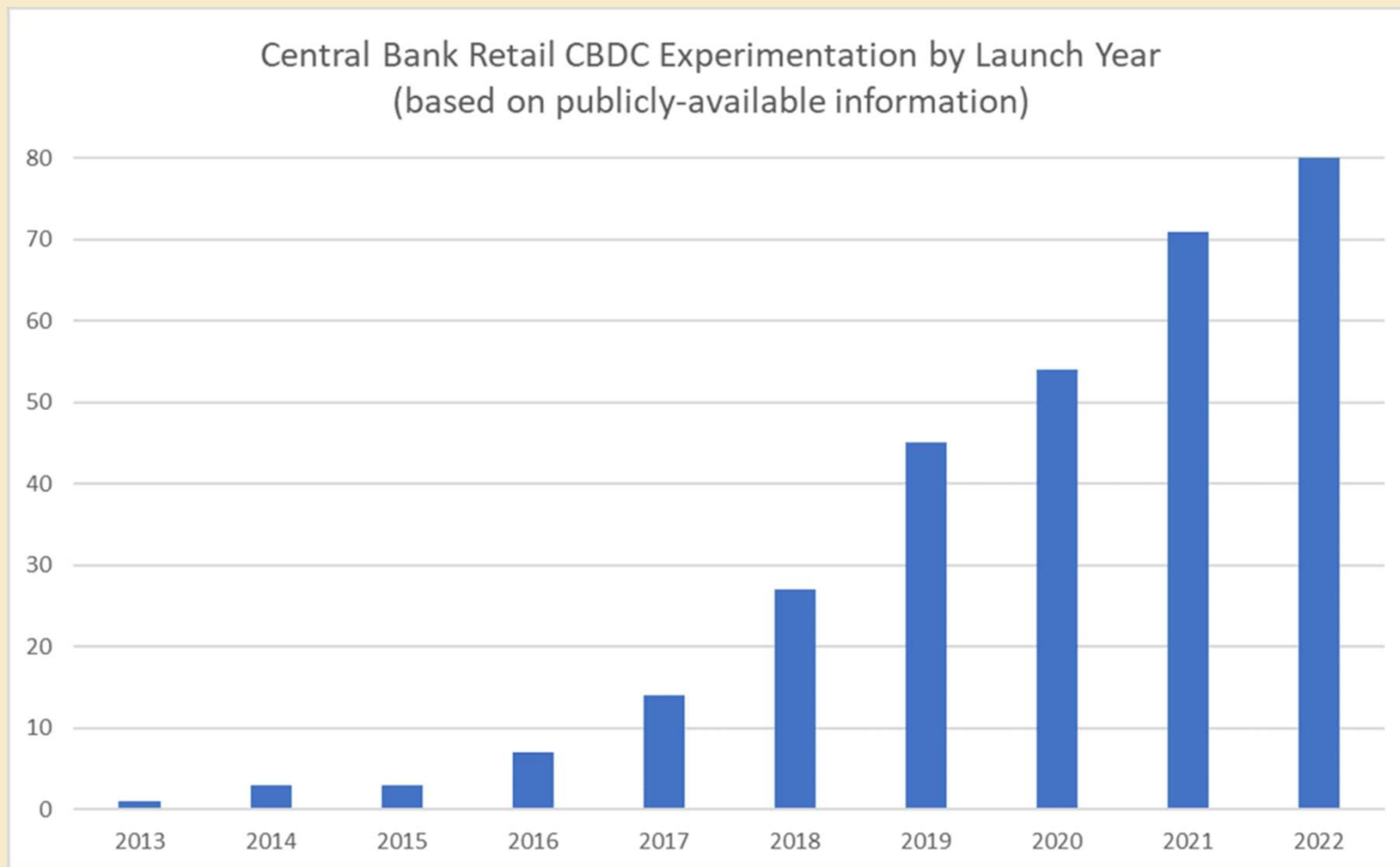
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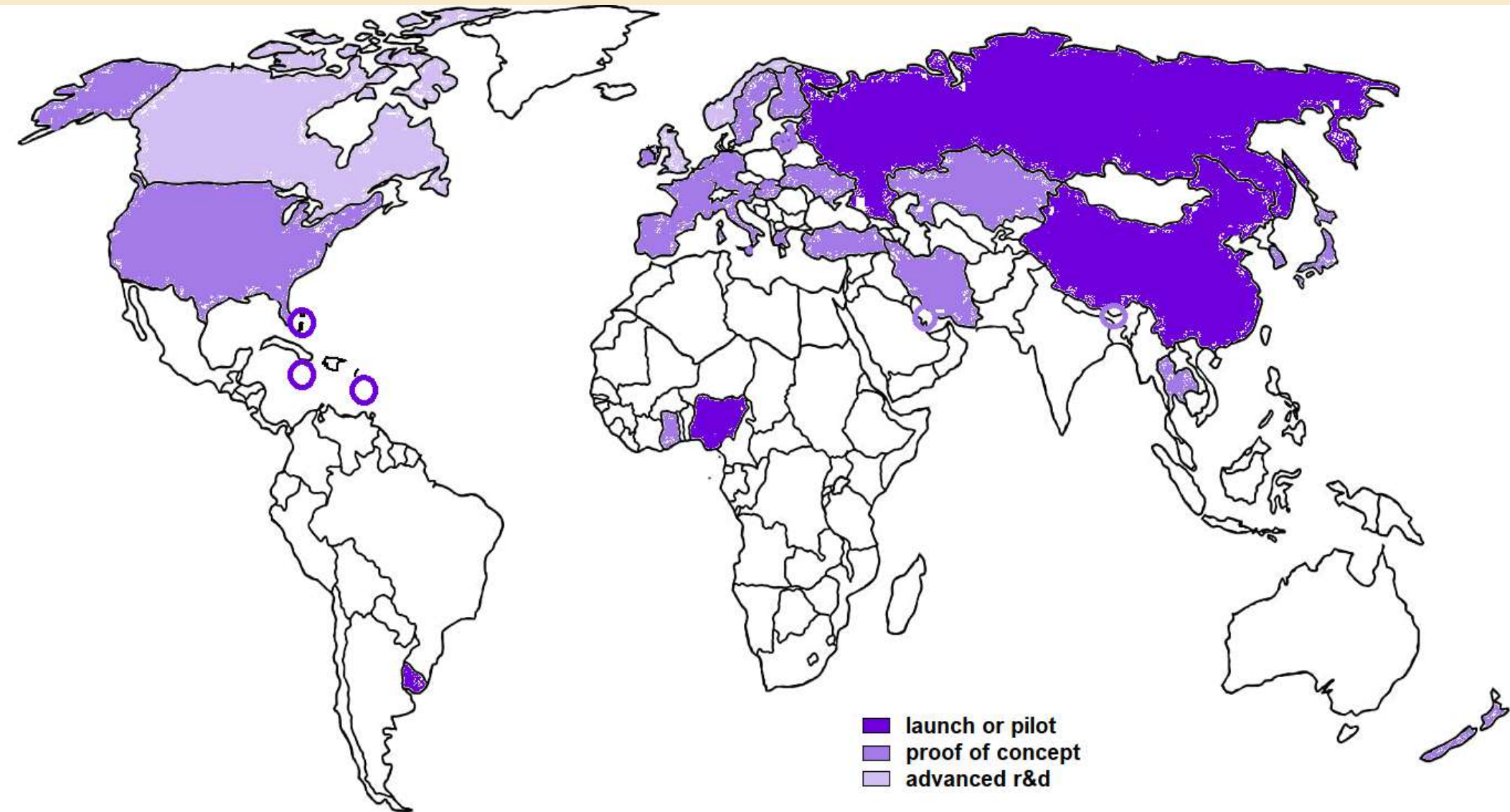
- Digital Payment: A Hot Topic for US regulators
- Interagency Working Group “Report on Stablecoins” (November 2021)
- Board of Governors “Money and Payments” (January 2022)
- Boston Fed/MIT “Project Hamilton” (February 2022)
- Executive Order on Digital Assets (March 2022)

International Jurisdictions Where Retail CBDC Is Being Explored (as of April, 2022)

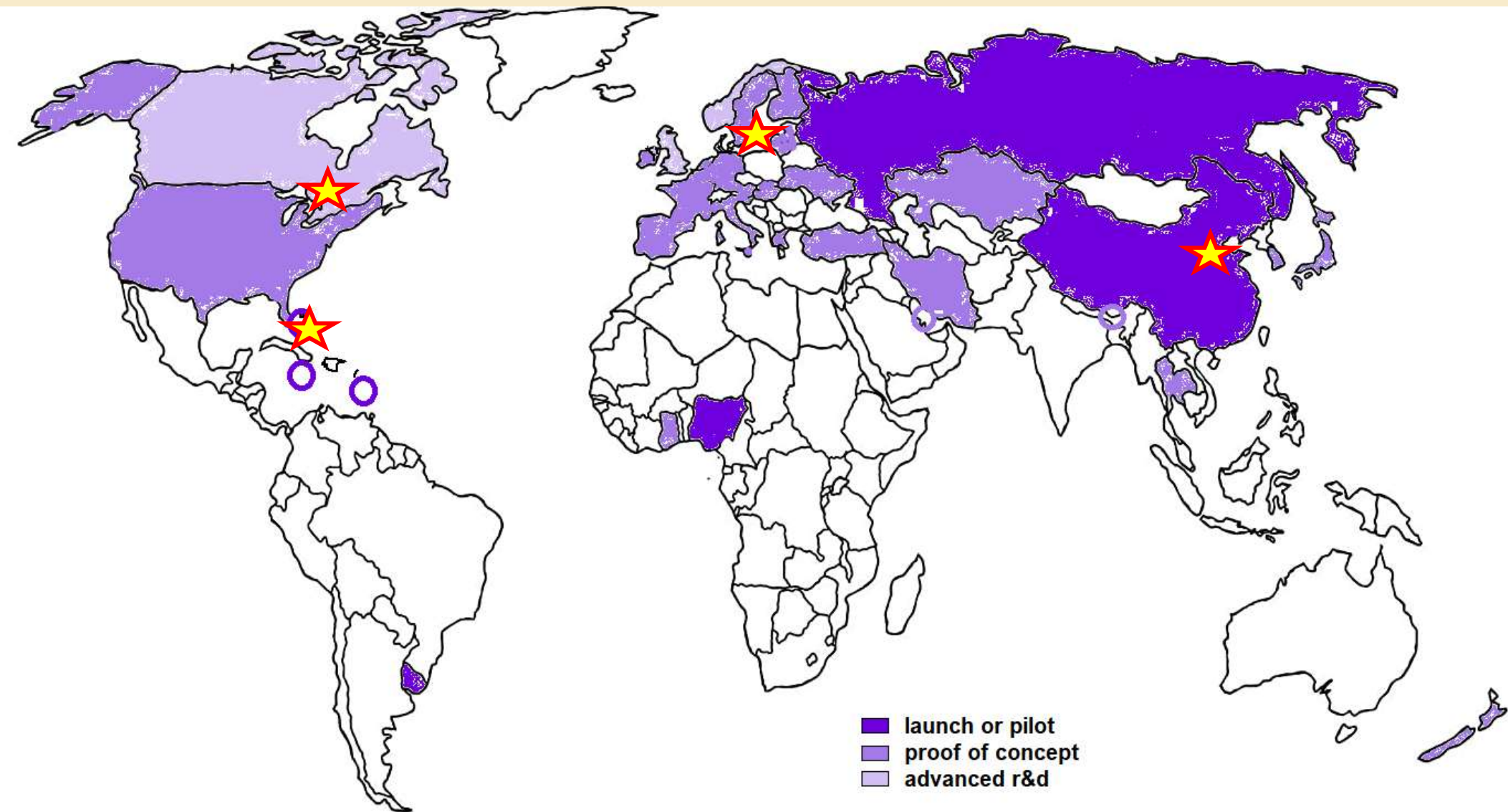


Source: John Kiff <https://kiffmeister.com/jurisdictions-where-retail-cbdc-is-being-explored/>

Jurisdictions Where Retail CBDC Is Being Explored (as of April 2022)



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Central Bank Digital Currency (CBDC)

- A digital payment instrument, denominated in the national unit of account, that is a direct liability of the central bank [BIS 2020]
- ...A digital form of central bank money that is different from balances in traditional reserve or settlement accounts [CPMI 2018]

Central Bank Digital Currency (CBDC)

- Wholesale CBDC: special-purpose asset restricted to financial market payments
- Retail (“General Purpose”) CBDC: asset intended to be used by the public for day-to-day payments

Choices, choices

- Interest bearing or not
- Direct or delegated
- Centralized/Decentralized ledger
- Token/Account
- Interfaces
- Extra features

Motivations for CBDC

- In relation to Cash
 - Improve upon physical cash
 - Prepare for the demise of physical cash
- In relation to Bank Payment
 - Encourage financial inclusion
 - Spur innovation
 - Ensure interoperability and stability

- Other Motivations
- Improve large value and international payments
- Protect monetary sovereignty



A key political motivation: Fear of Irrelevancy

Will the central bank lose connection to the payment system?

(And possibly its link to the unit of account?)

Note difference in central banks' responses to Bitcoin and to Libra

Distinguish between motivations and side-benefits

- Is CBDC the right tool for a particular problem?

Example alternatives:

provide wider access to payment utilities

develop faster payments

- **Sweden: e-krona**
- Motivation: Early decline in use of physical cash
- Initial report, Sveriges Riksbank 2017
- Reports on proof of concept, 2021, 2022
 - Reports do not deal with scalability
 - Anonymity assumed limited
- Future steps under discussion

- **Canada**
- **Project Jasper: Is a wholesale DLT token feasible?**
Conclusions: feasible, but benefits are marginal
- **Contingency planning position (2020)**
 - No plans to launch general purpose CBDC
 - Build capacity should need arise
- **Potential motives: threat to monetary sovereignty or disappearance of cash**

- **Bahamas: Sand Dollar**
- Launched in 2020. 20,000 active wallets (out of population 400,000)
- Motivation: Geography
- Implementation: Phone or Card
- Different identity requirements for different wallet categories
- Offline functionality a problem

- **China: e-CNY**
- Currently in pilot with approximately 1.5 million wallets. (vs approximately 1 billion wallets each for Alipay and WeChat Pay)
- Testing payments processing and technology, plus add-on features –facial recognition, tap-and-go programmability, offline capability
- Current throughput small, but goal is to match resilience of existing dominant players

- **China: e-CNY**
- Electronic card, or mobile wallets, either standalone or through Alipay and Tencent (WeChat)
- Among motives: maintain control of financial sector
- International potential, cooperation with m-CBDC bridge

- Lessons and Messages: Domestic Retail
- Many rationales do not apply to US
- Basic retail CBDC could provide access and a competitive spur
- But alternatives include opening Fedwire to broader class of financial institutions, alleviating interoperability and barrier to entry problems

- Lessons and Messages: Domestic Wholesale
- A solution looking for a problem
- Improvement of financial transaction settlement in the short run, clearing house improvements can be run with regulated stablecoins
- More radical proposals (bypassing existing settlement systems) are extremely speculative

- Lessons and Messages: International Payments
- CBDCs could eliminate one layer of complexity at the interface
- At the retail level regulated stablecoins might suffice

- Privacy
- The attitude toward privacy has changed
- Depending on design, CBDC alters the balance
- Our desire for privacy depends on who we are being protected from
- Divergent privacy standards will complicate international retail CBDC arrangements

- **Summary**
- Other countries' experiences provide a touch of realism to US discussion of CBDC
- Use cases best for basic service and for international payment
- Rules about the pipes through which payments flow more important than exact nature of payment asset flowing through them.



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