

Digital Currencies and Monetary Policy Transmission

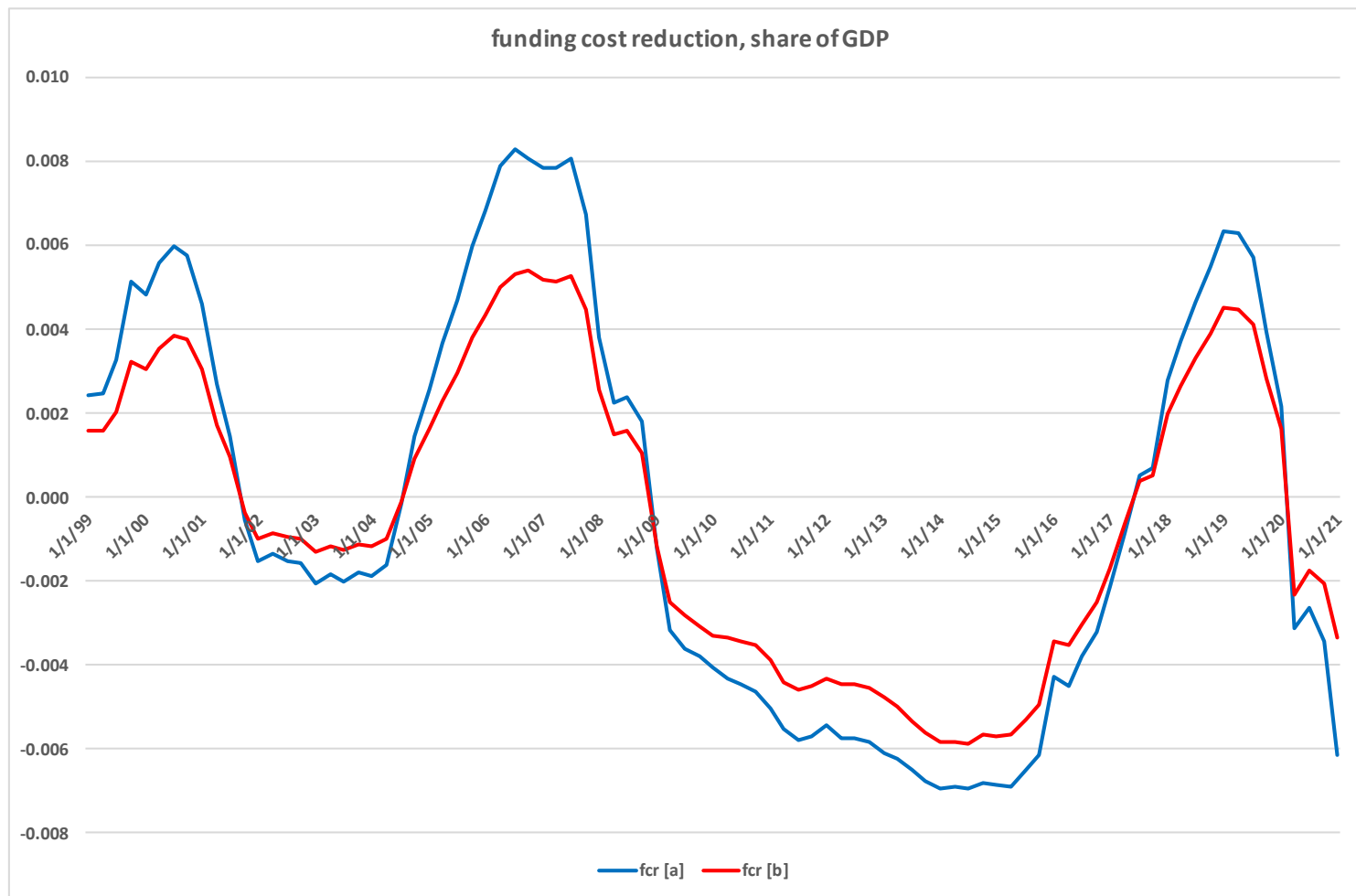
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Interest rate channel

- Retail CBDC affects bank funding costs
Neutrality (Brunnermeier and Niepelt, 2019)
Central bank policy
Politics
- Retail CBDC allows to bypass banks
More elastic transmission
More competition
- Retail CBDC facilitates strongly negative rates
Cash
Politics



Source: Niepelt (2020)

Exchange rate channel

- Digital currencies enhance currency competition
Attractive CBDCs or stablecoins reshuffle money demand
Seignorage, capital flows, Gresham's Law
More financial inclusion, less financial repression
- Digital currencies alter units of account
Fewer/other price adjustments, more/other quantity adjustments

Bank balance sheet channel

- Retail CBDC reduces bank “maturity transformation”
Fewer mismatches, less VaR?
- This reduces need for regulation
Banks respond with more VaR?

Foundations

- Wholesale CBDC and liquification of assets reduce money demand

Central bank's lever shrinks

- Absent retail CBDC, virtualization of money disconnects central bank and public

Anchoring of expectations, trust?



References

Brunnermeier, M. K. and Niepelt, D. (2019). On the equivalence of private and public money, *Journal of Monetary Economics* **106**: 27–41.

Niepelt, D. (2020). Monetary policy with reserves and CBDC: Optimality, equivalence, and politics, *Discussion Paper 15457*, CEPR.