

Digital Currencies:
Impact on Financial Stability
-BCC 9th Annual Conference, Graduate Institute Geneva -

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COMPETITION BETWEEN
CBDC AND PRIVATE BANK DEPOSITS

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- ▶ CBDC can be perceived as safer than private bank deposits

⇒ **CBDC as a better store of value than private bank deposits**

CONSEQUENCES OF COMPETITION I

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- ▶ Risk of Disintermediation

* Fernandez-Villaverde, Sanches, Schilling, Uhlig, ‘CBDC: Central banking for all?’, Review of Economic Dynamics 2021

- ▶ Lack of expertise of CB regarding investment/loan screening
 - ▶ Who will lend to the real economy?
 - ▶ Who will conduct credit screening/monitoring ?

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- ▶ Risk of Runs on private banks

 - ⇒ Too-big-to-fail/ Global systemically important banks
 - ⇒ Bailouts necessary

CONSEQUENCES OF COMPETITION II

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- ▶ Central Bank as Deposit Monopolist
 - ▶ Risks inherent with Centralization of payment information**
 - ▶ attractive target for cyper attacks
 - ▶ CB payment information becomes interesting to political interests
 - ▶ conflicts of interest between inflation targeting and optimal interest rate policy for citizens***

** Schilling 'Risks involved with CBDC: On cash, privacy and information centralization' 2019

*** Schilling, Fernandez-Villaverde, Uhlig, 'CBDC: When price and bank stability collide',BFI 2020

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⇒ **Who pays?**
- ▶ Pass-through: CB redeposits CBDC funds in private banks
(Brunnermeier Niepelt, JME, 2019)
 - ▶ Again: **Why then issue CBDC at all?**
 - ▶ Hidden risk-shifts:
 - ▶ Reduction of risk exposure of individual citizens towards private banks
 - ▶ Increase in risk exposure of CB towards private banks
⇒ ultimately increase the tax payer's risk
 - ▶ **How is interest rate on pass-through determined?**

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- ▶ In countries with fast, cheap electronic payment system and stable currency:
 - ⇒ Data accumulation (privacy risk), but not dominant
- ▶ In countries with slow, expensive payment system or unstable currency:
 - ⇒ Private digital currencies may take over as national money

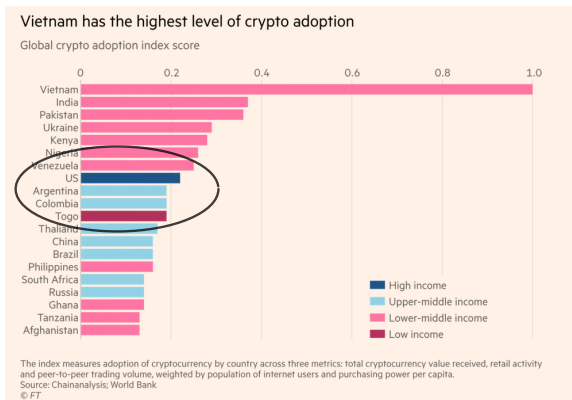
Linda Schilling (2021) 'Cryptocurrency vs. Central Bank Money' (youtube)
Benigno, Schilling, Uhlig (2020) 'Cryptocurrency, Currency Competition, and the Impossible Trinity, NBER

Crypto Adoption



source: Financial Times 'Cryptocurrencies: developing countries provide fertile ground', Sept 5th, 2021

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