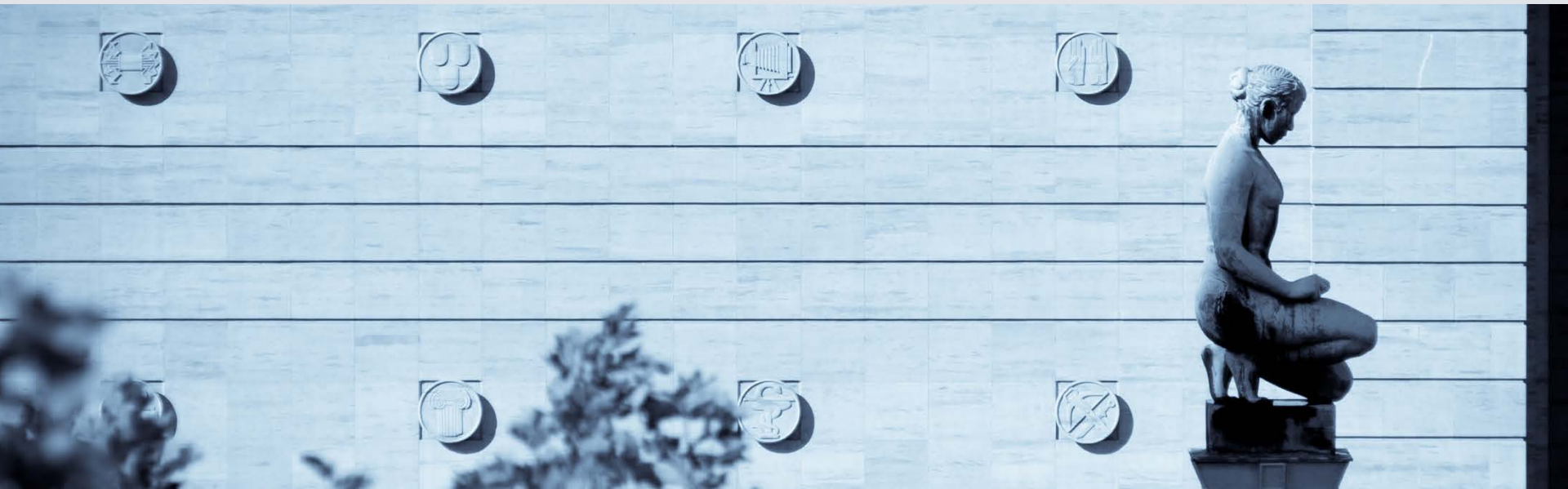


Discussion of “ Broadening narrow money: monetary policy with a central bank digital currency ”

Arnoud Stevens

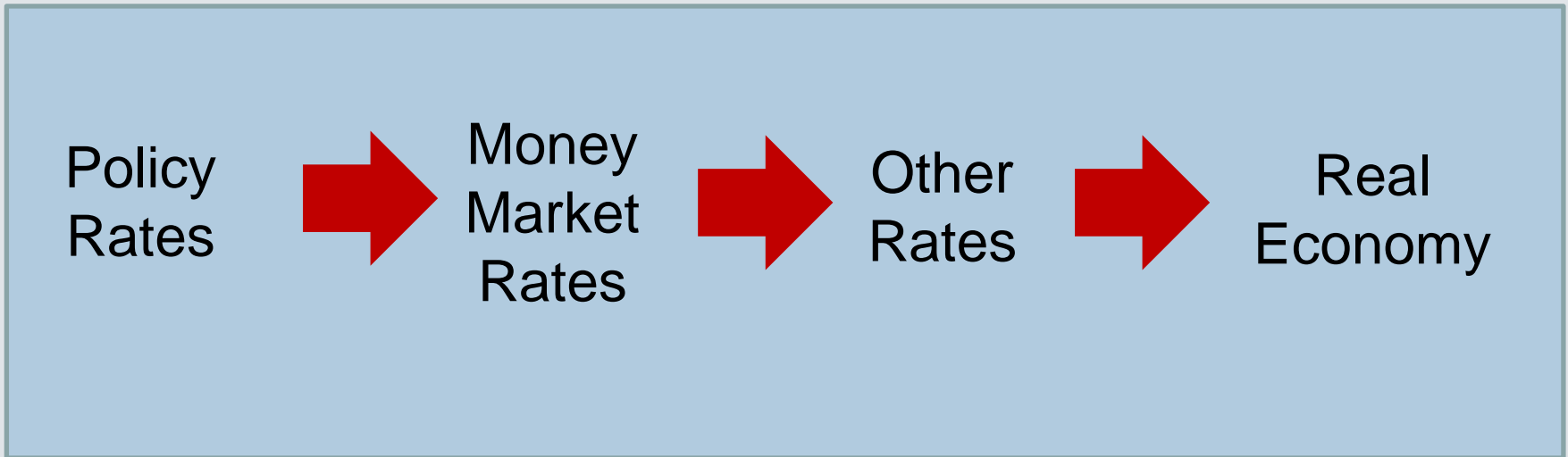
ECB workshop on money markets, monetary policy implementation and central bank balance sheets

Frankfurt, 6-7 November 2017



This paper: CBDC as a monetary policy instrument

➤ Monetary policy transmission:

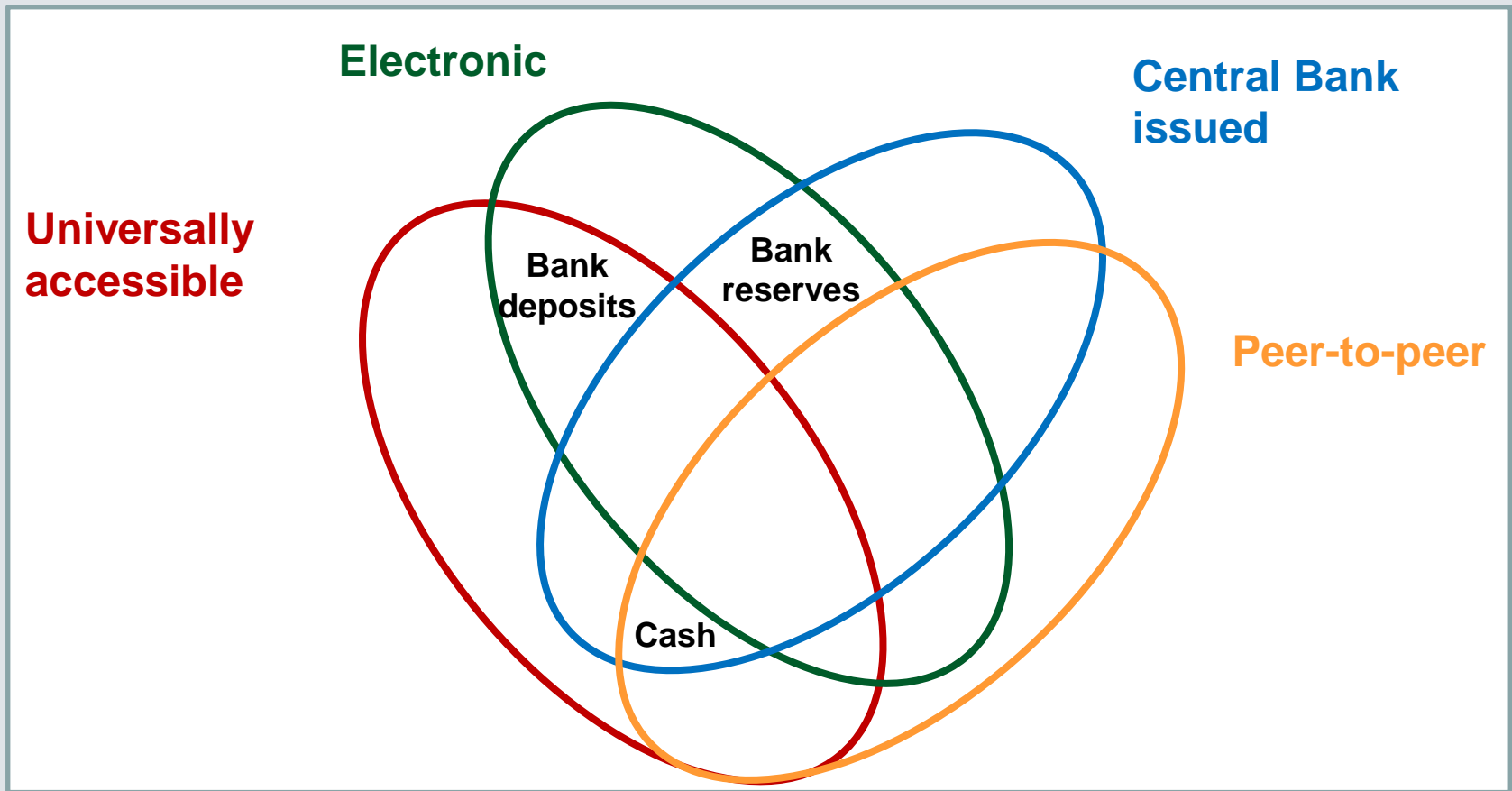


➤ Likely impact of CBDC on ‘’ ?



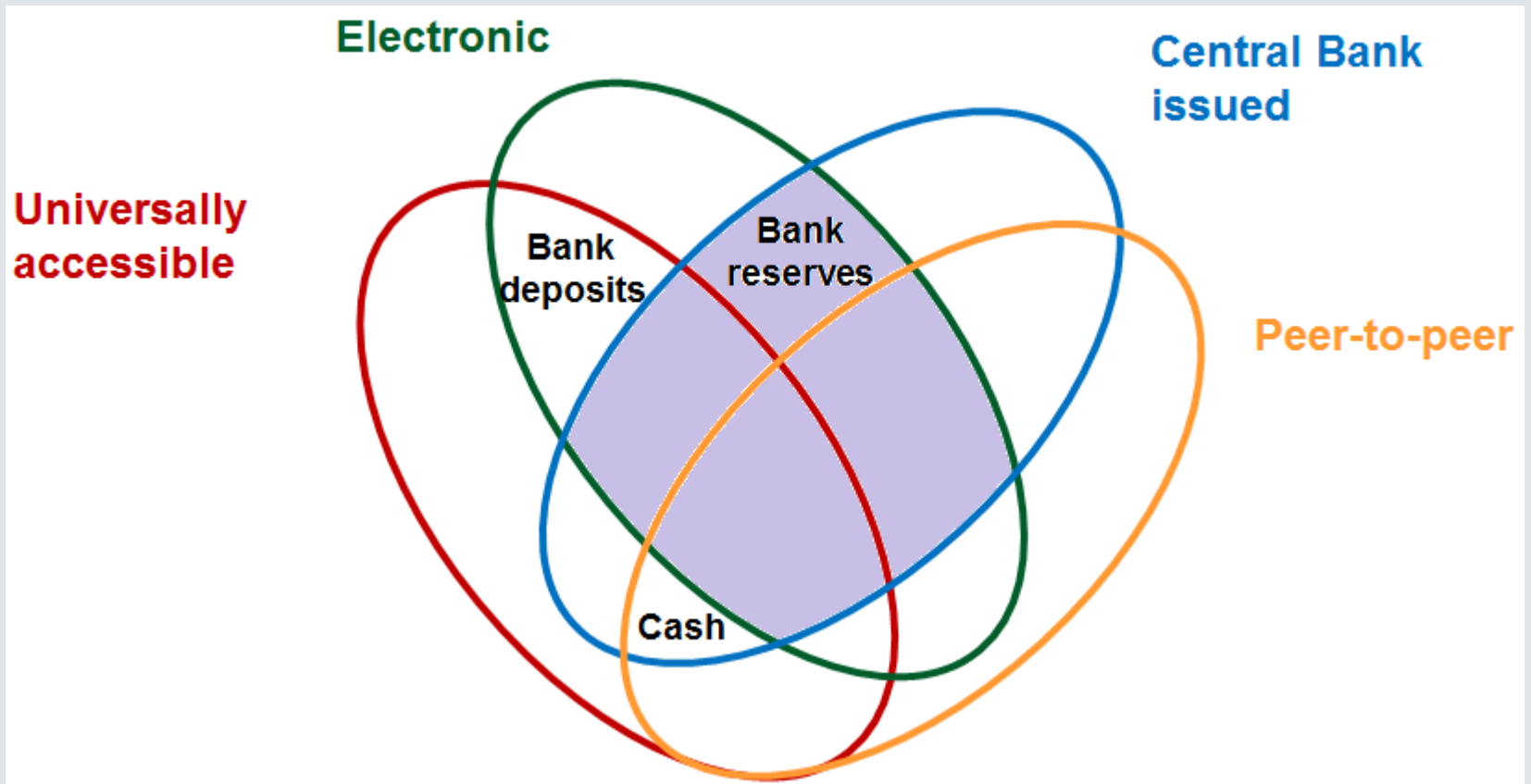
1) CBDC: what are we talking about?

- A new taxonomy of money (Bech and Garratt, BIS, 2017):



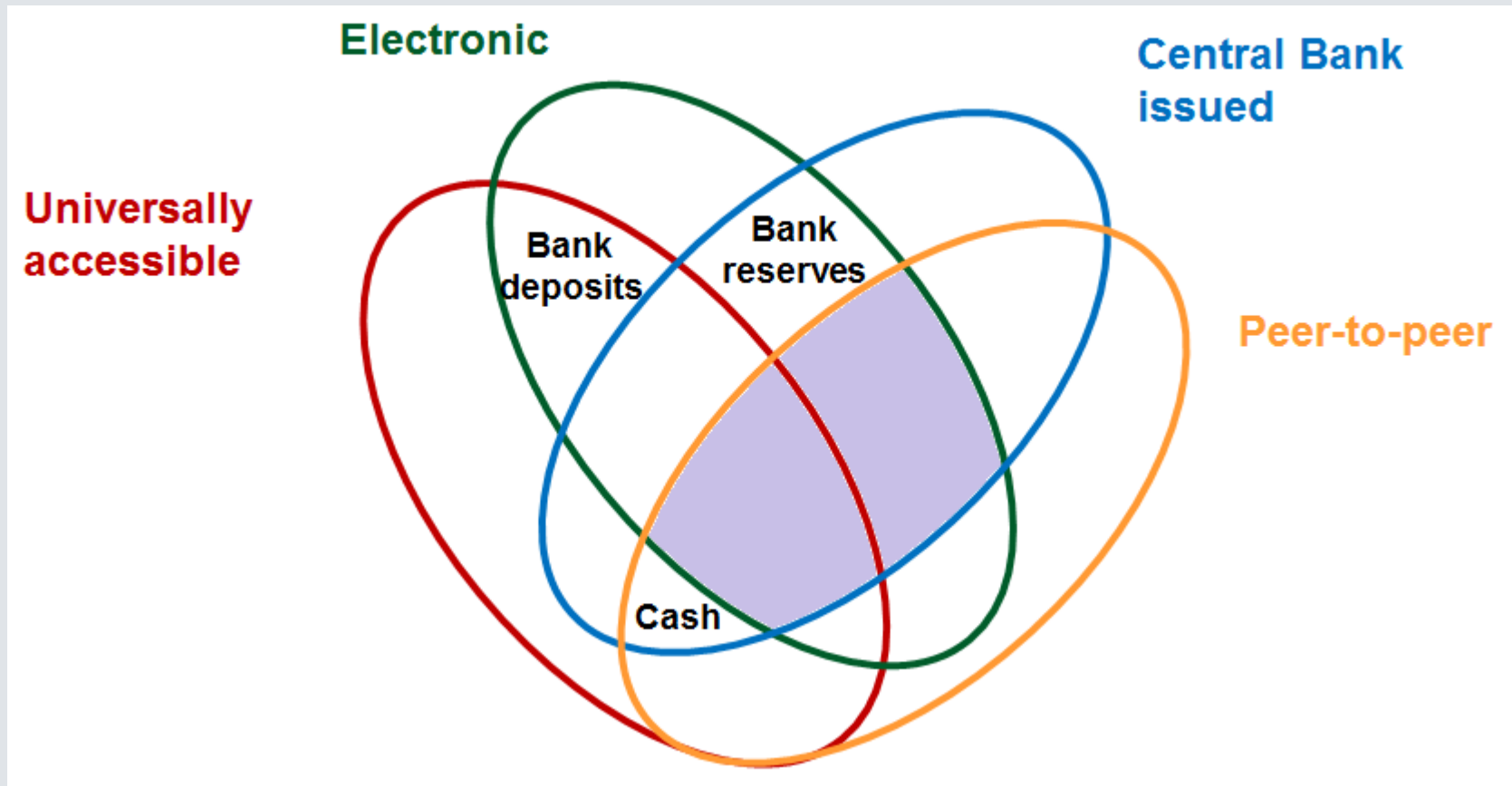
1) CBDC: what are we talking about?

➤ CBDC? ➡ This paper



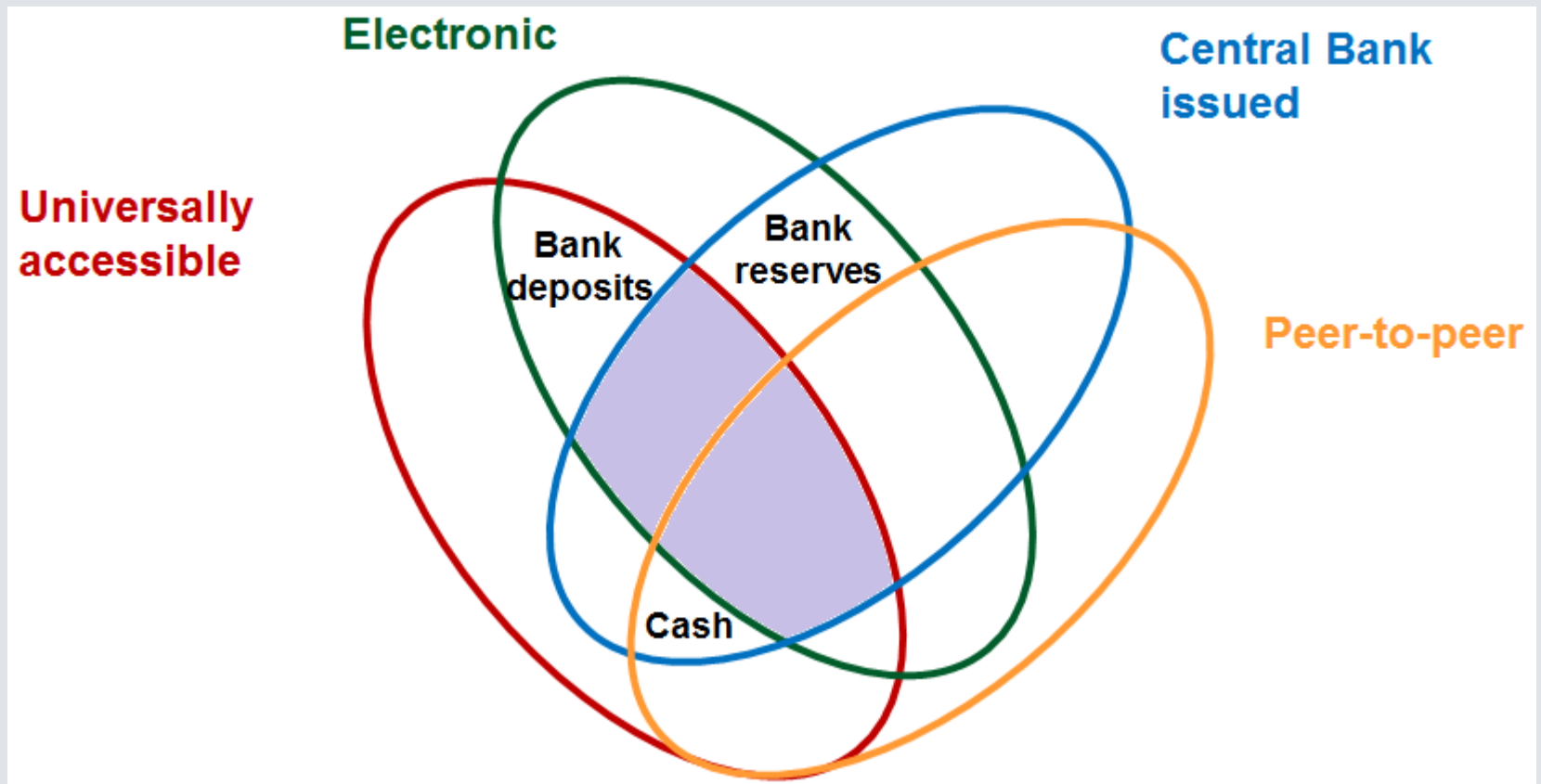
1) CBDC: what are we talking about?

➤ CBDC? ➔ **Bech and Garratt**



1) CBDC: what are we talking about?

➤ CBDC? ➡ This discussion

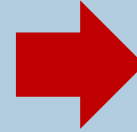


➡ Broaden access beyond CB's monetary counterparties to also include non-monetary counterparties and /or households and firms



2) Impact CBDC on

Policy
Rates



Money
Market Rates

➤ This paper:

Access to CB balance sheet would widen

⇒ This would $\left\{ \begin{array}{l} \text{put a hard floor under} \\ \text{cap} \end{array} \right.$ money market rates

➤ Issues for discussion:

1. How wide is a wide?

- Only broader access to the CB's liability side (deposit facilities) ...

➡ floor

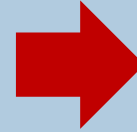
- ...or also to the CB's asset side (lending facilities) ?

➡ ceiling ?



2) Impact CBDC on

Policy Rates



Money Market Rates

➤ Issues for discussion (contd.):

2. Ceteris paribus, CBDC inflows drain bank reserves
→ impact on interbank rates ?



Corridor system (reserve scarcity):
Drains need to be compensated



How? (*Stevens, 2017*)

1. CB involvement: stepping up its open market operations
→ outright purchases or credit facilities
2. Com Banks: attracting additional/alternative private funding
3. Com Banks: deleverage

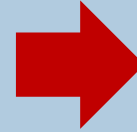


Each having uncertain effects on fin stability and MPT



2) Impact CBDC on

Policy
Rates



Money
Market Rates

➤ Issues for discussion (contd.):

2. Ceteris paribus, CBDC inflows drain bank reserves
→ impact on interbank rates ?



Floor system (excess reserves):

Drains only need to be compensated if reserves would become scarce



Unrealistic?

CBDC might facilitate digital bank runs

(e.g., Broadbent, 2016; and Dommerholt and Van Tilburg, 2016)

⇒ Imposing a threat to financial stability

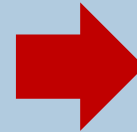
⇒ Hampering monetary policy transmission

⇒ CB might be forced to resort more often to liquidity-injecting OMO's



2) Impact CBDC on

Policy
Rates



Money
Market Rates

➤ Issues for discussion (contd.):

3. Broadened access to central bank liabilities may entail benefits for financial stability which, in turn, might support MPT.

(Stein, 2012; Greenwood et al, 2016 and Dyson and Hodgson, 2016)

CBDC acts as a perfectly liquid and credit-risk free asset facilitating final settlement.

- Granting non-bank financial institutions access to CBDC provides additional elasticity (i.e., liquidity) to the financial sector as a whole.
⇒ Minsky's survival constraint becomes less binding.
- Granting wholesale investors access to CBDC reduces the attractiveness of competing (but more expensive) short-term wholesale funding sources.
⇒ Limits associated roll-over risks.



3) Impact CBDC on



➤ This paper:

With the outside option a CBDC would provide, banks would have less scope to remunerate retail deposits below the policy rate and to delay their response to interest rate decisions.

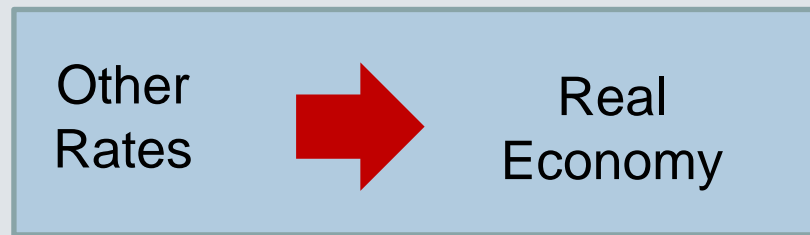
➤ Issues for discussion:

- 1. A CBDC could help to alleviate the ELB on nominal interest rates.**
(e.g., *Goodfriend, 2016; Dyson and Hodgson, 2016; and Bordo and Levin, 2017*)

- ⇒ Providing competition for cash creates the conditions to consider phasing out the largest banknote denominations.
- ⇒ Would increase the average carry cost of holding cash and, thereby, enlarge the scope for negative rates (*Rogoff, 2016*).



4) Impact CBDC on



➤ This paper:

Increased sensitivity of both funding costs and lending rates to changes in policy rates could strengthen the *'bank lending channel'*.

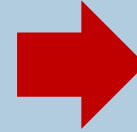
➤ Issues for discussion:

- 1. If a CBDC were to relax the ELB, it could act to strengthen the *'expectations/signaling'* channel.**
 - Alleviating the ELB could help to anchor inflation expectations, as it increases trust in CB's ability to maintain price stability.
 - Reducing the need to resort to QE-measures enhances the transparency of the CB's tools and operations (*Bordo and Levin, 2017*).



4) Impact CBDC on

Other
Rates



Real
Economy

➤ Issues for discussion (contd.):

2. Alleged pitfalls ?:

- Claim:

shifting lending to CBDC lending rather than lending by issuing deposits could disrupt the bank lending channel,

as

the former only shifts purchasing power, whereas the latter creates new purchasing power.

Is this 'necessarily' true? What if:

- a) CBDC is supplied perfectly elastically on demand, and
- b) any drain on bank reserves is perfectly compensated for?

What is more relevant?:

- a) Creating new purchasing power, or
- b) activating purchasing power?



Conclusions

- **Interesting paper on an interesting topic**
- **Offers a nice framework for thinking about the potential monetary policy implications of a CBDC**
- **That ‘thinking’ offers a good starting point on which advancing insight in the subject can be built.**
- **Today’s discussion might contribute to this.**

