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Podcast: The future of central bank digital currencies

This week, ING Teunis Brosens took part in a podcast together with Jonathan Dharmapalan (eCurrency) and Bhavin Patel (OMFIF) to discuss the future of Central Bank Digital Currency. Here's our key takeaway from the discussion

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Although peer-to-peer cryptocurrencies such as Bitcoin have often been indicated as one of the possible drivers behind the disruption of the existing monetary order, we have long been arguing that central banks and regulators will not sit on the fence and watch. Indeed, our base case scenario is that central banks, together with private sector parties, will issue their own digital currencies within the next five to 10 years. But one of the key questions we have been asking ourselves more recently is what shape and form a central bank digital currency will take. In the podcast (which you can listen to here), we have two key takeaways.

1

A CBDC has a number of advantages from a monetary policy perspective, especially in the context of the next global recession

Assuming a low circulation of cash into the economy, a central bank digital currency could help policymakers to break through the zero lower bound, lift inflation expectations and sustain GDP growth. Having said that, we also note that some countries are more sensitive to negative interest rates. In a 2015 ING survey of 13,000 consumers across Europe, the US and Australia, a remarkable 77% said they would take money out of their savings account in response to the question "what would you do if interest rates on savings accounts fell below 0%, for example to -0.5%, so that you would receive less money in the future than you originally saved?".

> *"A central bank digital currency could help policymakers to break through the zero lower bound, lift inflation expectations and sustain GDP growth"*

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2 The future of CBDC – and its impact on the private sector, notably commercial banks – really depends on how it will be implemented

The central bank could do this all by itself but we think it is more likely to develop in the form of public-private partnerships between central banks and commercial banks. Finally, one key misconception of this debate is that central banks could replace all functions of existing commercial bank organisations. The reality is that the latter already have the expertise and the infrastructure to cope and comply with all applicable regulations on e.g. KYC and AML.