

G7 central bank digital currency principles: tiptoeing around the elephant in the room

The G7 issued a solid set of public policy principles for retail central bank digital currencies. But while CBDCs are still being researched, privately issued stablecoins are already operating and are ready for broader adoption the moment proper regulation is in place



Today the G7 issued its [principles for retail central bank digital currencies](#). The principles reflect excellent ideas about how standards of sound policymaking should be applied to the novel and unknown area of retail-focused central bank digital currencies. The principles touch areas like monetary and financial stability, privacy, security, crime, competition, financial inclusion, energy use (quietly disqualifying bitcoin or other Proof of Work-based cryptocurrencies for the job of serving as CBDC). The need to make domestically focused CBDCs interoperable across borders is also mentioned.

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The setting out of such principles, to be applied by the G7 themselves and with an open invitation for others (China, for example) to follow suit, is helpful. Adherence to and further development of these principles should help central banks and policymakers worldwide. What struck us most though, is what is *not* in these principles. The word “stablecoin” is mentioned just one time in the report, and only to point out that CBDCs are “fundamentally different”. Yet to us, the elephant in the room is that the central banks of the G7 countries have only very recently started deep investigations into CBDC. As the G7 document points out, developing CBDC properly will take time. Indeed, the ECB now estimates that a [“digital euro” CBDC](#) will not arrive before 2026.

Meanwhile, Facebook and the [Diem association](#) (formerly Libra) have been working on their stablecoin project for over 2.5 years now. In cryptomarkets, stablecoins like Tether (USDT) and USD Coin (USDC) have been in use for years – though admittedly with usage largely restricted to trading on exchanges and in a regulatory grey zone.

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Policymakers have made it very clear that a “global” stablecoin (meaning, a stablecoin issued on a platform available worldwide, and not denominated in domestic currency of the country where it is used) is a no-go area. Yet this de facto ban is not extended to a euro-denominated stablecoin circulating in the Eurozone, or a USD-denominated one circulating in the US. On the contrary: while stablecoins today are operating more or less in a regulatory vacuum, policymakers are actively working to change that. The European Commission has launched proposals for stablecoin regulation as part of its [Digital Finance package](#). Once in force, there is little that stands in the way of a euro-Diem launch from a regulatory perspective. While it remains unclear when EU policymakers will conclude negotiations and stablecoin and other crypto-asset regulation can enter into force, it is very likely to be a few years before 2026, the currently foreseen earliest digital euro launch year.

With the important exception of China, by the time central banks get round to launching their own digital currencies, privately issued stablecoins may have been around for a few years. During that valuable time, their adoption has grown and stablecoin issuers have built valuable experience. In this scenario, CBDCs may face an uphill battle for user adoption. One could even go as far as to ask: have central banks already lost the race?

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