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Article

Digital Currencies: a toolkit for central banks

The World Economic Forum (WEF) has just published a Central Bank Digital Currency Policy-Maker Toolkit to help central banks design and launch a digital currency. Here's our key takeaway from the report



Content

- Cross-border CBDC could be a game changer but regulatory and legal hurdles are likely to endure
- Cyber-security seen as the key primary risk for central banks

While business leaders and politicians are busy discussing climate change in Davos, the World Economic Forum (WEF) has just launched its first [Central Bank Digital Currency Policy-Maker Toolkit](https://www.weforum.org/whitepapers/central-bank-digital-currency-policy-maker-toolkit), a research report which aims to offer high-level guidance and a step-by-step framework on how to design and launch a central bank digital currency. From the background assessment to the implementation strategy, the key takeaway from the report is that a perfect Central Bank Digital Currency (CBDC) does not exist as such: each solution brings its own advantages and disadvantages and, if anything, CBDC – either wholesale or retail – should be tailor-made to fit each country's particular needs and purposes. Having said this, there are two key messages that stand out from the report.

<https://www.weforum.org/whitepapers/central-bank-digital-currency-policy-maker-toolkit>

1 Cross-border CBDC could be a game changer but regulatory and legal hurdles are likely to endure

Generally speaking, a cross-border CBDC (Wholesale and/or Retail) could bring significant advantages to consumers and/or financial institutions alike. On the one hand, Wholesale CBDC could be used to streamline and enable more efficient cross-border payment flows between financial institutions. On the other hand, Retail CBDC would allow consumers to transact and send

more efficient payments globally. However, there are still a number of issues to address. Firstly, for this to happen central banks would have to allow foreign entities to hold CBDC and this is not necessarily desirable from a financial and regulatory perspective. Secondly, frictions in the currency market are likely to remain as cross-border CBDC transactions require currency conversion.

2 Cyber-security seen as the key primary risk for central banks

Counterfeiting risk has always been a primary concern for central banks. For physical cash, many anticounterfeiting measures such as security strips have been taken over the years. The equivalent problem for digital money relates to transaction verification and the double-spending risk (i.e. the same digital money being spent multiple times). Whereas with Bitcoin the solution to this problem is achieved by reaching “consensus” across the validating nodes in the network, with CBDC, the validation could be done by the central bank itself, although the caveat is an increased risk of cyber threats because of the higher centralisation of the governance mechanism (“single point of failure”).

The Policy Maker Toolkit is a great contribution to the rapidly growing body of digital currency research and its taxonomy and framework vastly improves our understanding of digital currencies. Having said this, more research is needed in this area, arguably with a bigger focus on implementation challenges, financial market responses and consumer behaviour.

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