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PRESS RELEASE

Digital currencies: threats and opportunities for monetary policy
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The Bitcoin price is hitting fresh high after high, and it is not the only one: other digital currencies are also on the move, both as medium of payment and as investments. Meanwhile, some central banks are discussing the option of offering an electronic variety of banknotes to the broader public alongside issued paper notes (a so-called central bank digital currency – CBDC). In short: technological innovation, monetary policy and central banks are becoming increasingly interlinked. Against this background, the article reviews the threats and opportunities of digital currencies for monetary policy.

It is shown in the article that any threats to monetary stability caused by digital currencies issued by private players are rather limited at this point. Many of these alt-coins are typically – and often only – used as a medium of exchange, restricting their impact on the economy's financial conditions. Moreover, their intrinsic volatility is not making private digital currencies very attractive as stable stores of value to help shift purchasing power to the future. This volatility is caused by an absence of fundamental value, a big difference from selected commodities or central bank money whose value is underpinned by its legal tender status and predictable purchasing power. Finally, privately issued digital currencies do not currently enjoy any status as units of account in the economy – after all, it is the Bitcoin price that is adjusted for the exchange rate in shops that accept payment in both euros and Bitcoin – and it would appear that things will stay that way. With euro prices and the financial conditions of euro-denominated contracts continuing to anchor economies, there would appear to be little threat to monetary policy from recent innovations in private electronic currency.

Technological innovations within the payments system also offer opportunities for monetary policy, the most frequently mentioned being the possibility of central banks issuing an electronic type of banknote. This article argues that such a set-up could open up several attractive perspectives for monetary policy, as it could get around limitations currently dogging monetary policy when it comes to making interest rates even more negative without eroding the rights of households and businesses to hold exposures to central banks. After all, that is exactly what would happen if banknotes were removed from circulation without an electronic alternative on offer. Although such electronic banknotes and related ampler opportunities to run stabilising monetary policies look attractive for central banks as the parties in charge of monetary policy, this issue begs a lot of questions that deserve careful investigation. For instance, it is first and foremost uncertain whether negative interest rates are acceptable to households. Furthermore, the article particularly highlights what competition from a CBDC for deposits with commercial banks might mean for bank lending and financial stability.

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