

Roundtable on CBDC and Monetary Policy

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Outline of remarks

- What is CBDC?
- Implications for banks and shadow banks.
- Implications for monetary policy.
- Is a CBDC necessary/desirable?

What is CBDC?

- Fully-insured online checking account with the central bank, treasury, or post office (e.g., U.S. postal savings system 1911-67).
- Some design details (programmability, privacy, etc.) relatively less important because private sector can replicate.
- Two more important dimensions: (i) remuneration; (ii) safety/insurance.
- At the end of the day, what matters is how attractive depositors view CBDC relative to competing products, in particular, bank deposits, but also deposits of other MSBs and stablecoins.

Implications for banks

- To a bank, the CB now looks like another bank competing for deposit funding.
- Degree of competition depends on attractiveness of CBDC. Safety not likely a factor for retail depositors. Better deposit rate? If so, then expect deposit rates to rise, profit margins to fall.
- But CBDC rate likely to be kept below IOR rate; if so, then CBDC rate not the opportunity cost of lending. If IOR unchanged, then bank lending likely not affected much by CBDC rate. (Non-deposit funding also a possibility.)

Implications for shadow banks

- If no cap limits, safety and lack of counterparty risk may be attractive for corporate cash managers.
- Likely to disintermediate shadow banking sector?
- Given that much of the shadow bank sector was born out of regulatory arbitrage, is this necessarily a bad thing?
- If access granted to multinational firms, CBDC may discourage the emergence of large global stablecoins (as ways for firms to make payments more conveniently across the global supply chain).

Implications for monetary policy

- CBDC rate should replace the ON RRP rate as the floor of a channel system. Set below IOR, if desire is to insulate banks.
- CBDC rate should be made state-contingent; negative rate should be permitted (to stem possible runs and for normal monetary policy).
- Size of CB balance does not matter; let be as big as it needs to be to implement desired interest rate policy. Daily trading caps can be employed to smooth speed of quantity adjustments, if necessary.
- Liquidity backstops (discount window, SRF) should provide banks with federal funds they need to avoid disruptions in payments and credit activities.

Is CBDC Necessary/Desirable?

- Not necessary at retail level.
- May be desirable at wholesale level—disintermediate shadow banks and unregulated global stablecoins.