



FEDERAL
RESERVE
BANK *of*
ST. LOUIS

Central Bank Digital Currency

Yes or No?

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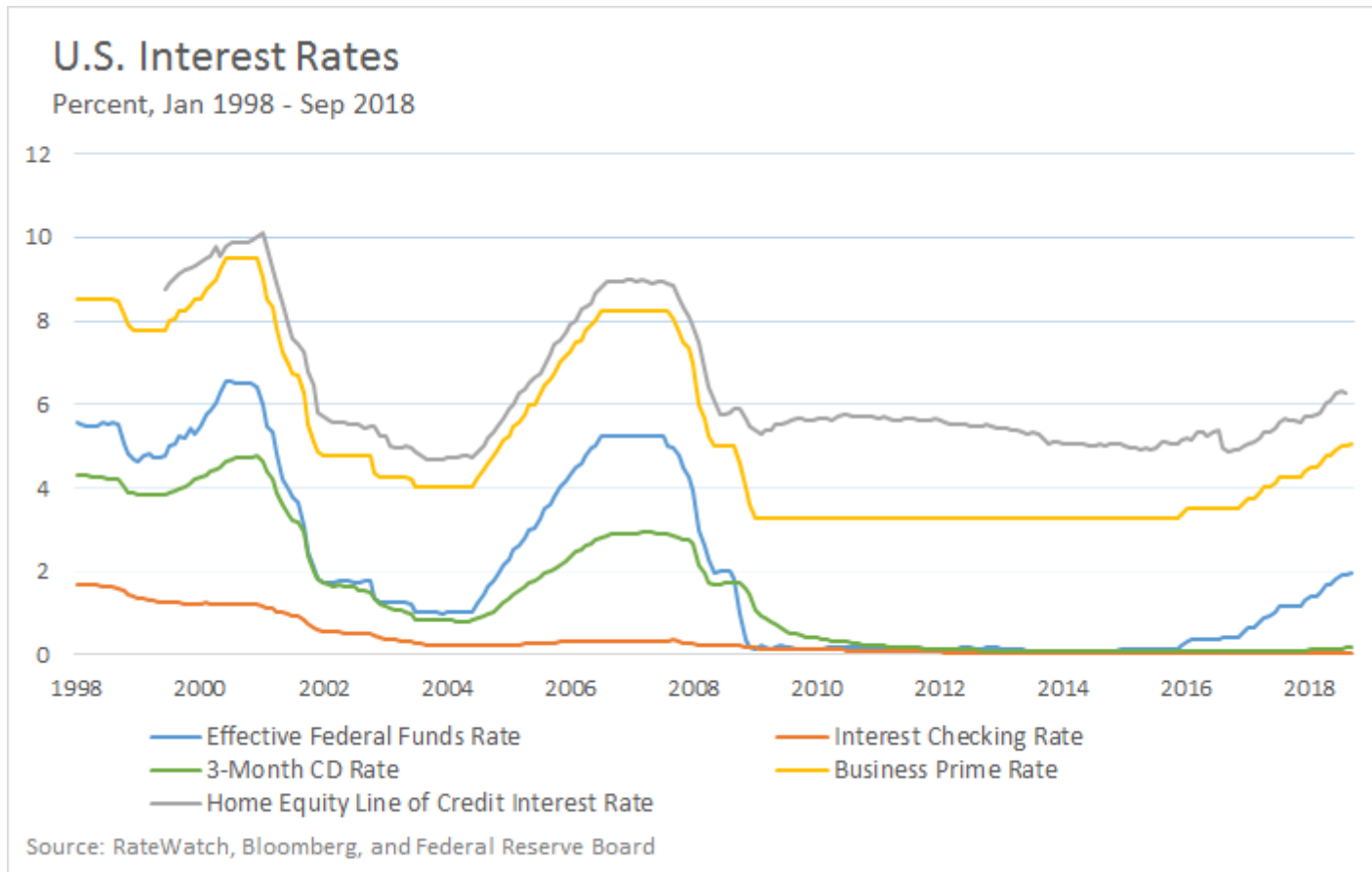
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The views expressed here are my own and should not be attributed to the Federal Reserve Bank of St. Louis or the Federal Reserve System.

Central Bank Accounts: An Exclusive Privilege

- Only depository institutions.
- Payments clear instantly (Fedwire = RTGS) unlike retail (ACH).
- Low-cost payment processing, unlike retail (ACH).
- Fully insured (\$250K limit for others).
- High interest rate (IOER = 2.2%) vs. typical deposit rate.

U.S. Interest Rates 1998 - 2018



Why Not Extend the Privilege?

- Conditional on U.S. banks upgrading to RTGS system, what is cost/benefit of permitting universal access?
- U.S. Treasury already permits online interest-bearing accounts (for all U.S. persons).
 - Why not let people make online payments with their Treasury accounts?
- Some worry about inefficiency of public sector, increased financial instability, expanded role for state banking. (Cecchetti and Schoenholtz, 2017).
- Others suggest increased financial inclusion, increased financial stability, improved monetary transmission mechanism (Ricks, Crawford and Menand, 2018).

My CBDC Model: Set-up

- I consider a Klein-Monti monopolist bank in HANC model.
- OLG model interest-bearing government debt and capital.
- Government debt and capital transformed by central bank into cash and CBDC, by private banks into deposits.
- Interest on reserves and interest on CBDC *separate* policy instruments.

My CBDC Model: Results

- Main effect of CBDC is to promote financial inclusion (reduce the demand for cash).
- Lowers bank monopoly profits, but potentially expands deposit base (if banks offer competitive interest rate).
- Bank lending unaffected if CBDC policy rate increased independently of IOR policy rate. (No disintermediation.)
- No reason to believe that CBDC encourages instability (at least, not with a proper LOLR facility).