Intelligence MEMOS

From: John D. Murray

To: Canadian financial regulators

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Re: **Central Banks and the Future of Money**

Policymaking circles and central banks around the world are now giving serious consideration to the pros and cons of making central bank digital currencies (CBDCs) available to the general public.

While the consensus view remains that such a move would be premature, opinion appears to be shifting. Indeed, developments in a number of advanced and emerging economies indicate that the CBDC model is receiving more serious consideration than it has in the past.

There is nothing new about the idea of central bank money. The $88 billion of banknotes currently on the Bank of Canada's balance sheet and circulating throughout the Canadian economy provide tangible evidence of this. Neither is there anything new about the idea of virtual central bank money.

Commercial banks have had digital accounts on most central banks' balance sheets since the early 1970s as part of the reserve settlement system.

What is new is the idea that central bank digital money might be made available to the general public and entities other than commercial banks.

The numerous speeches and research papers coming from central banks are testament to the growing interest in the concept. Moreover, some countries and central banks have moved beyond talking and have taken active steps to push the initiative further. In my new C.D. Howe Institute **Commentary**, I outline the implications of opening CBDCs to the public.

Proponents view the introduction of CBDCs as a potentially positive development rather than a purely defensive reaction. Indeed, they believe CBDCs could materially improve the role of central bank money in the financial system by providing a more stable unit of account, a more efficient medium of exchange and a more secure store of value. Moreover, the potential benefits go well beyond these traditional central bank money functions.

Proponents also suggest that CBDCs could temper financial instability, improve the implementation and transmission of monetary policy, raise productivity, help finance government deficits, reduce tax evasion and discourage a number of other costly and illegal activities.

These positive claims have not gone unchallenged. The most common concern raised is the destabilizing effect that CBDCs might have on the economy in times of financial stress. As a safe and convenient alternative to commercial bank deposits and other types of private financial assets, CBDCs might act as a dangerous accelerant in the context of a bank run, transforming an isolated concern about one bank's solvency into a system-wide crisis. Another source of concern is the disruptive effect that CBDCs would likely have on the competitive position of commercial banks, other financial institutions and key financial market infrastructures.

In the end, the best way forward for Canada and other countries may not involve the introduction of a CBDC. Some active government engagement now would nevertheless seem advisable to ensure the most promising ways forward are not precluded.

Simply leaving it to the market to sort out would be very risky. The disruption caused by any policy reversals that might be contemplated at a later stage could prove insurmountable, leaving us in a place we would rather not be. It is important to understand that maintaining the status quo is unlikely to be a practicable option, given the shifting financial landscape. The question is not whether central banks will need to react, but how they should react to these tectonic technological shocks.

John D. Murray served as Deputy Governor of the Bank of Canada from 2008 until his retirement in 2014.

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