

Open Economy CBDC

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Preliminary – do not
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Potential advantages of cross-border CBDs

Fewer intermediaries

Greater competition

Greater transparency

Common standards ; clean slate

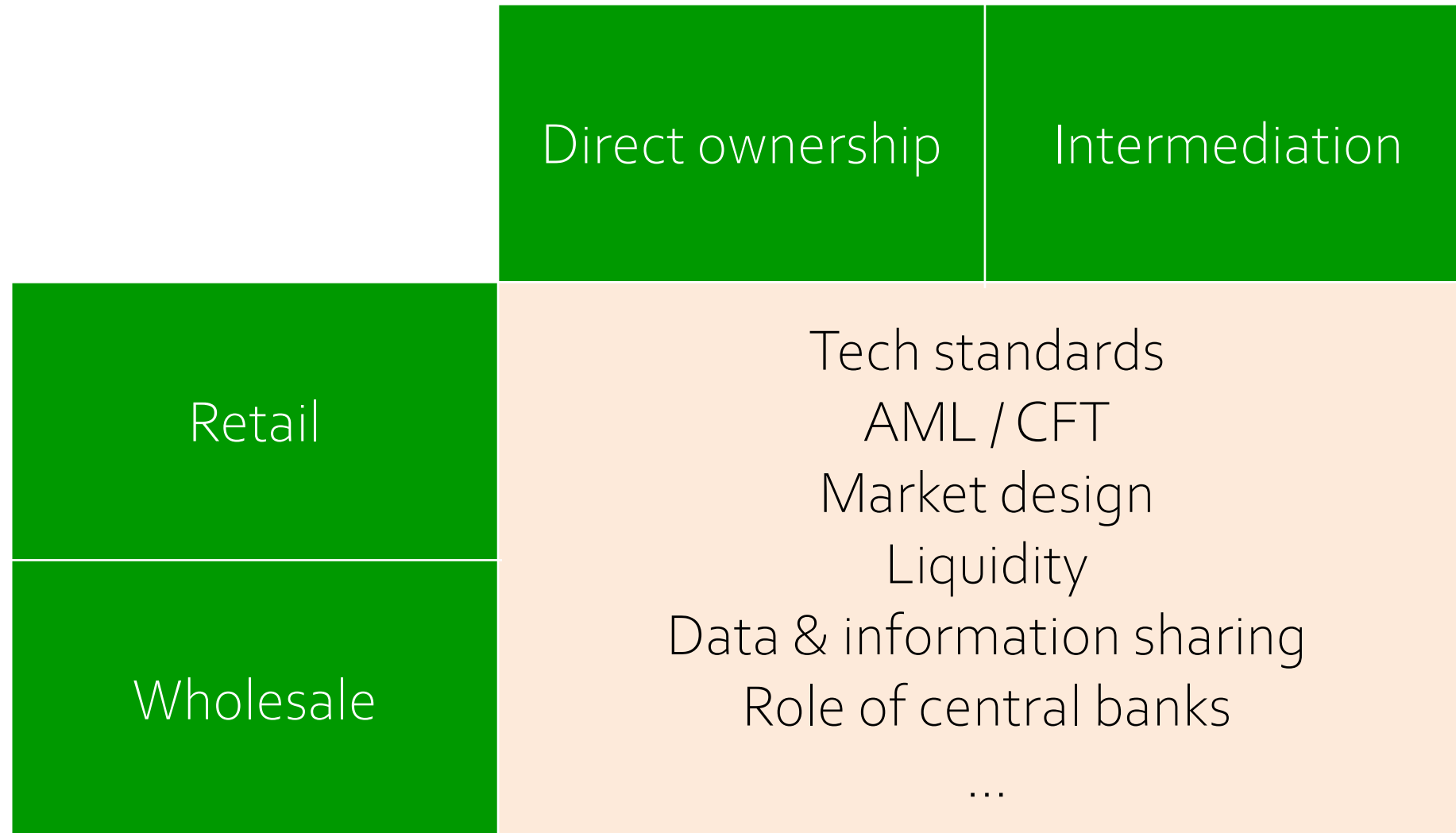
Safety and integrity

24 x 7 hours

Cheaper, faster, more transparent & accessible ?



Cross-border CBDC raise design & technical challenges



Macrofinancial challenges must also be addressed

Larger gross flows → more leverage & greater valuation changes

Circumvention of capital flow management measures

More widespread currency substitution

Monetary policy and foreign exchange intervention effectiveness

Lender of last resort

Faster transmission of global financial conditions

Loss of information / tax revenue

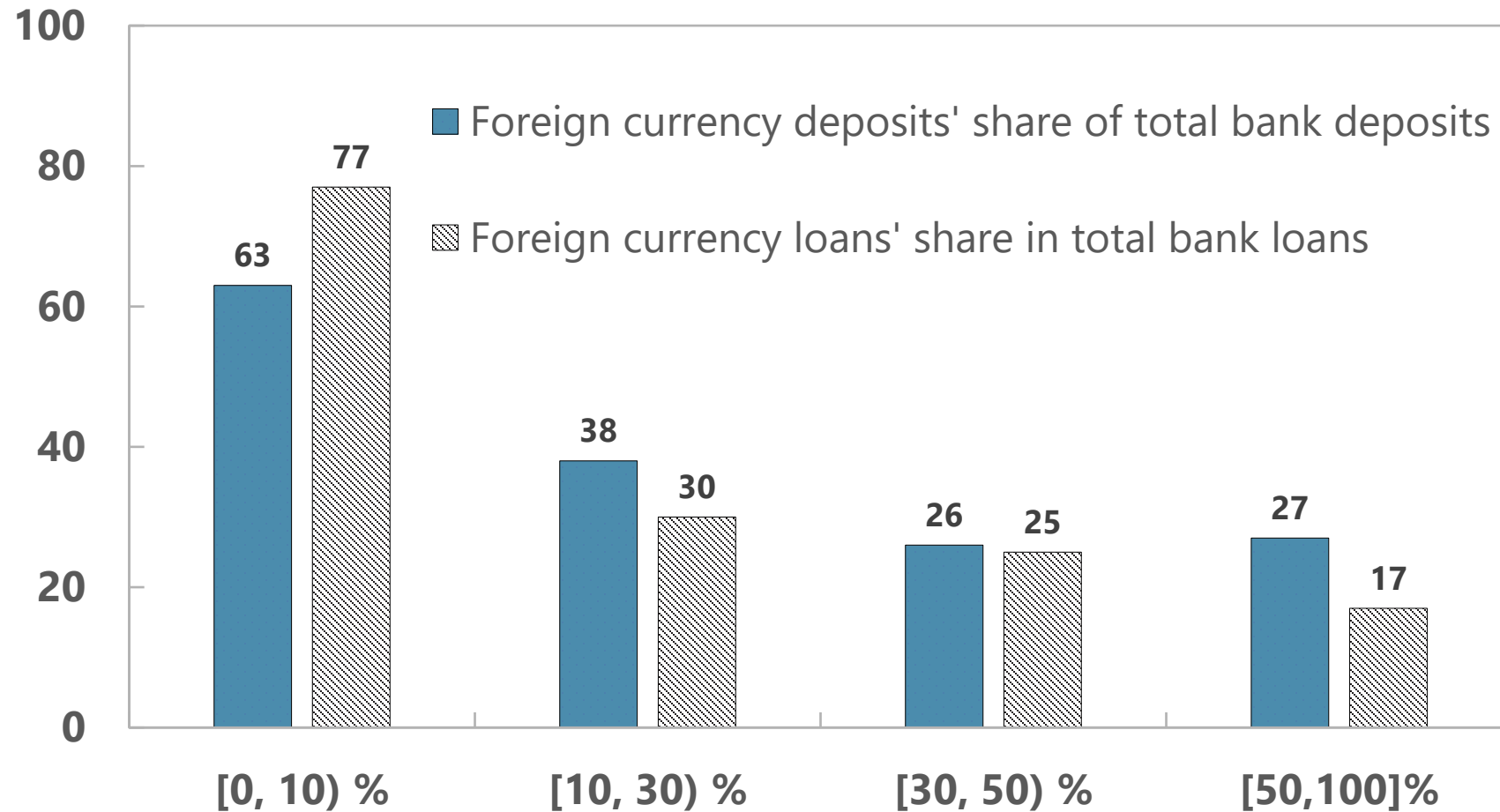
Configuration of reserve currencies and backstops

Payment system fragmentation

Digital divide

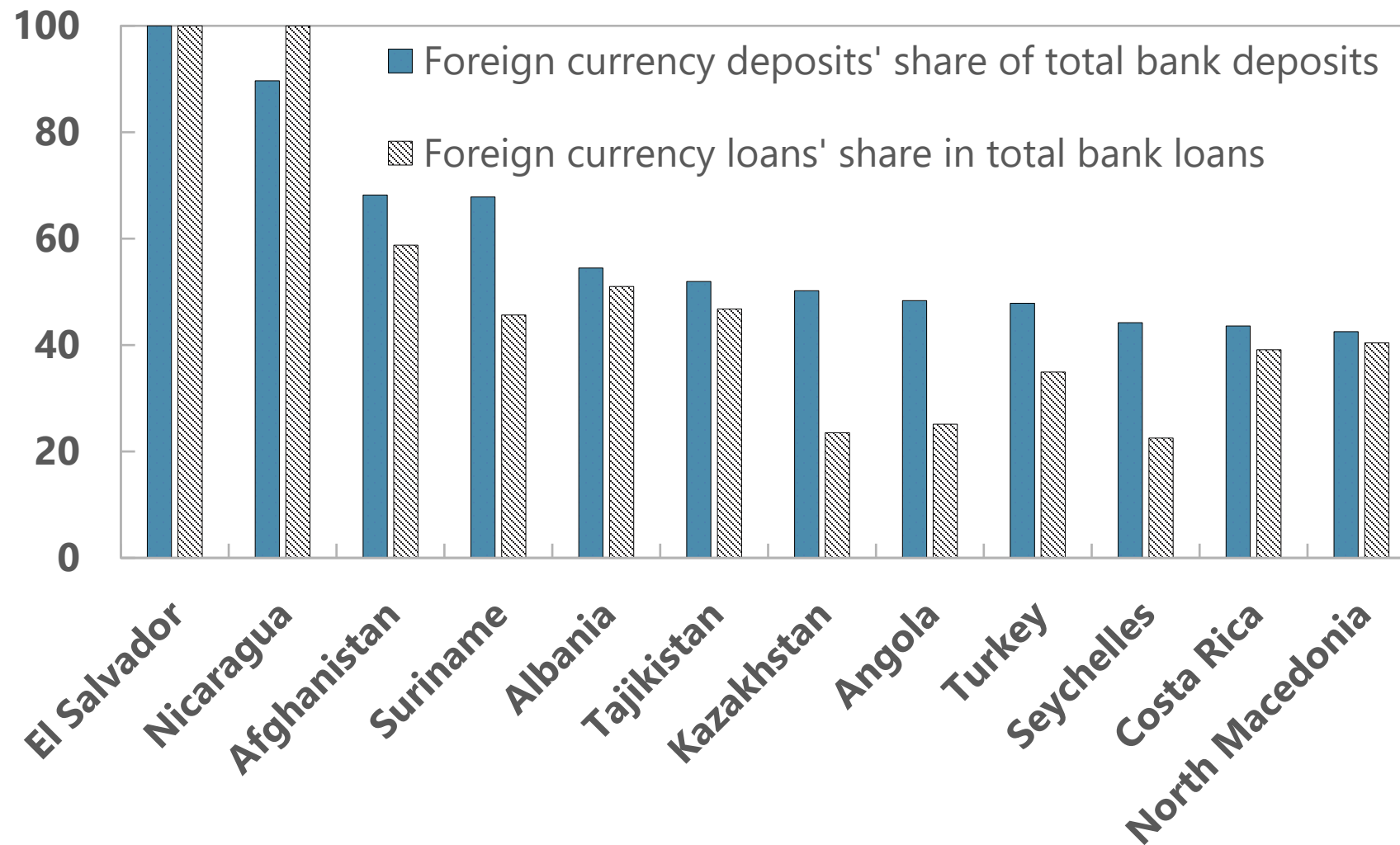


Chart A: Currency substitution around the world
(number of countries in given ranges)



Sources: Bannister et al. (2018), IMF SRF, and author calculations. Includes all SRF-reporting countries: 11 advanced economies and 143 developing countries.

Chart B: Currency substitution in selected countries (in percent)



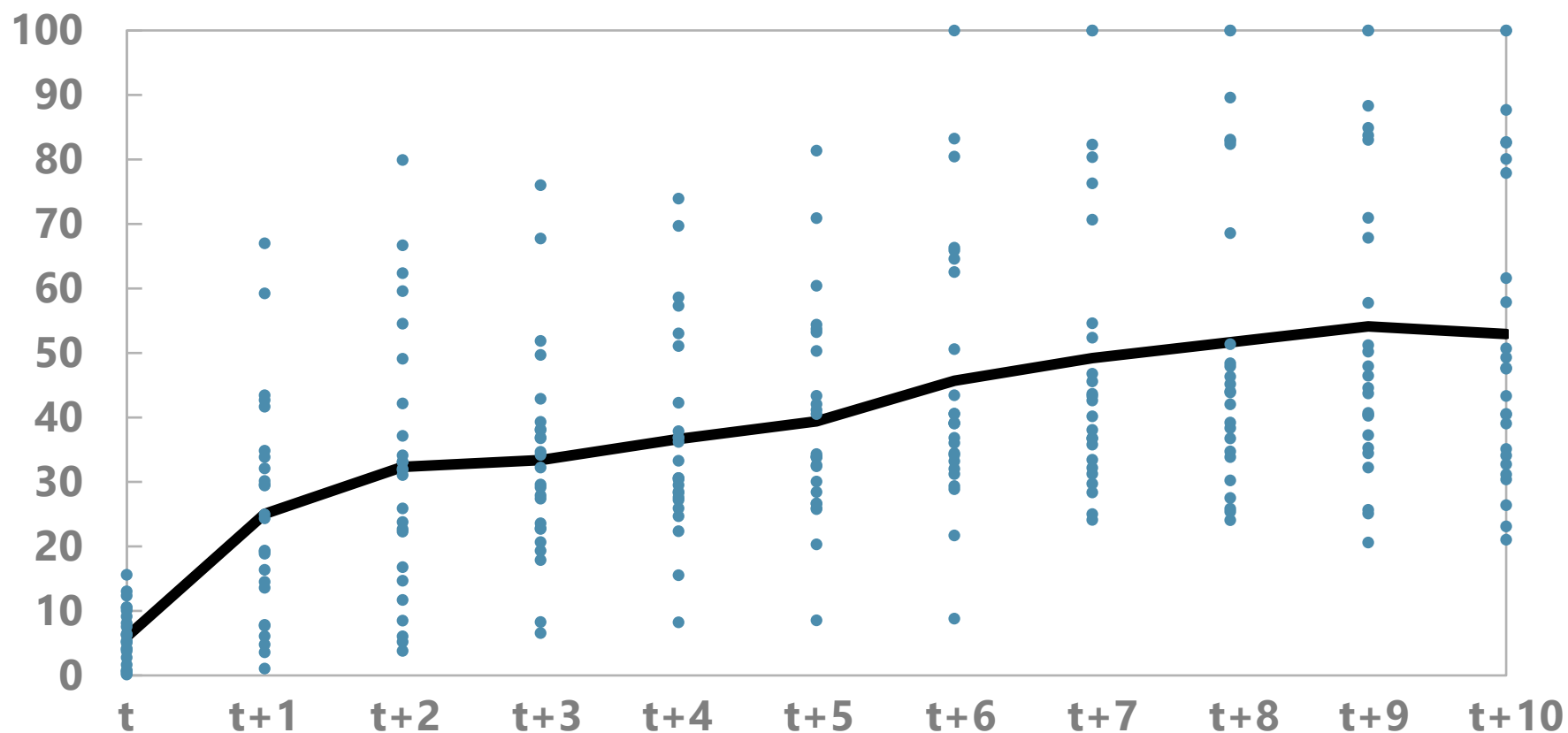
Sources: Bannister et al. (2018), IMF SRF, and author calculations.



Chart D: Currency substitution: adoption dynamics

Line: Average foreign currency deposits in percent of total bank deposits.

Dots: country observations.



Note: Includes 25 country cases of currency substitution since 1975, with starting year normalized to t . Sources: Bannister et al. (2018), IMF SRF, Levy Yeyati (2006), and author calculations.

Two forms of substitution

Runs



Capital flight
Capital flow volatility
CFM effectiveness

Shifts



Currency substitution
Monetary policy, LOLR
Balance sheet risks

Demand: Better policies
Demand: Protections (CFMs)
Supply: Design requirements



Two relevant questions

CAN central banks really control who holds their CBDC?

- Shell accounts?
- Synthetic CBDCs?

WILL central banks want to control who holds their CBDC?

	Cooperation	Non-cooperation
Wallet	Limit (standard?) parameters	
Exchange		Controls (but will exchanges cooperate?)

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