

# The future of money and monetary policy

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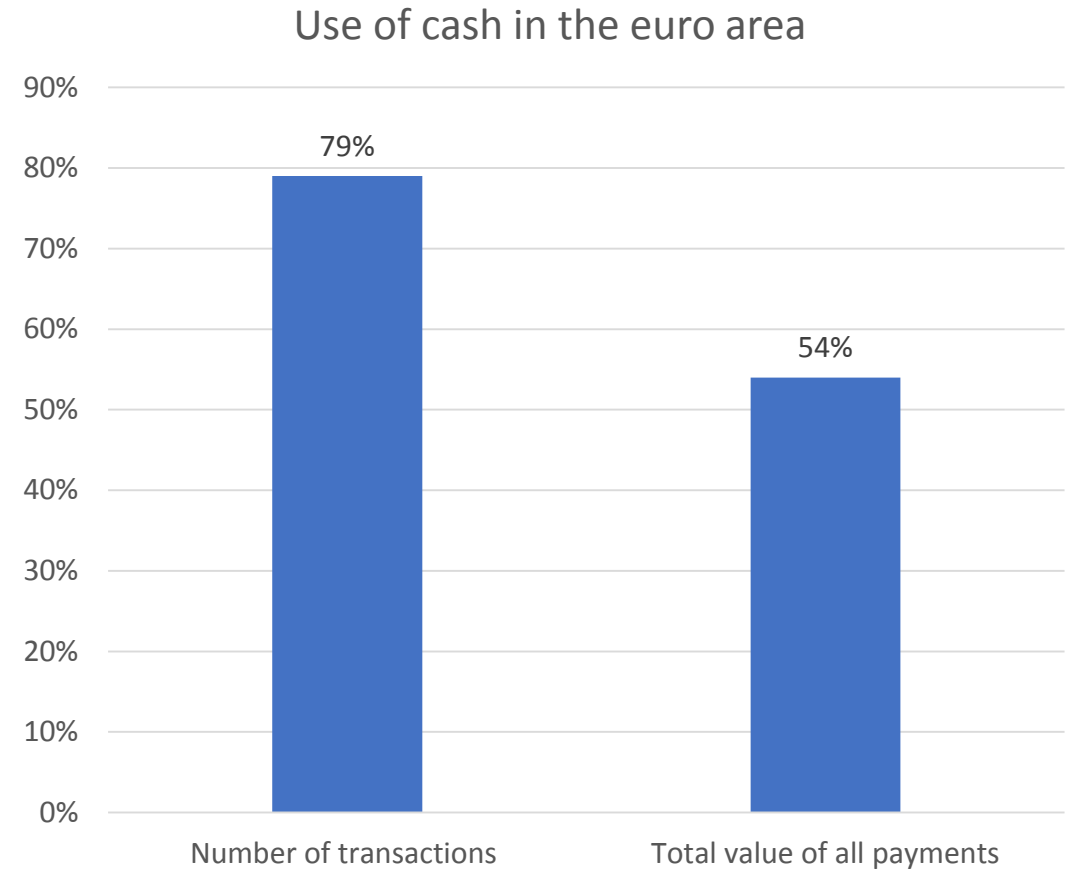
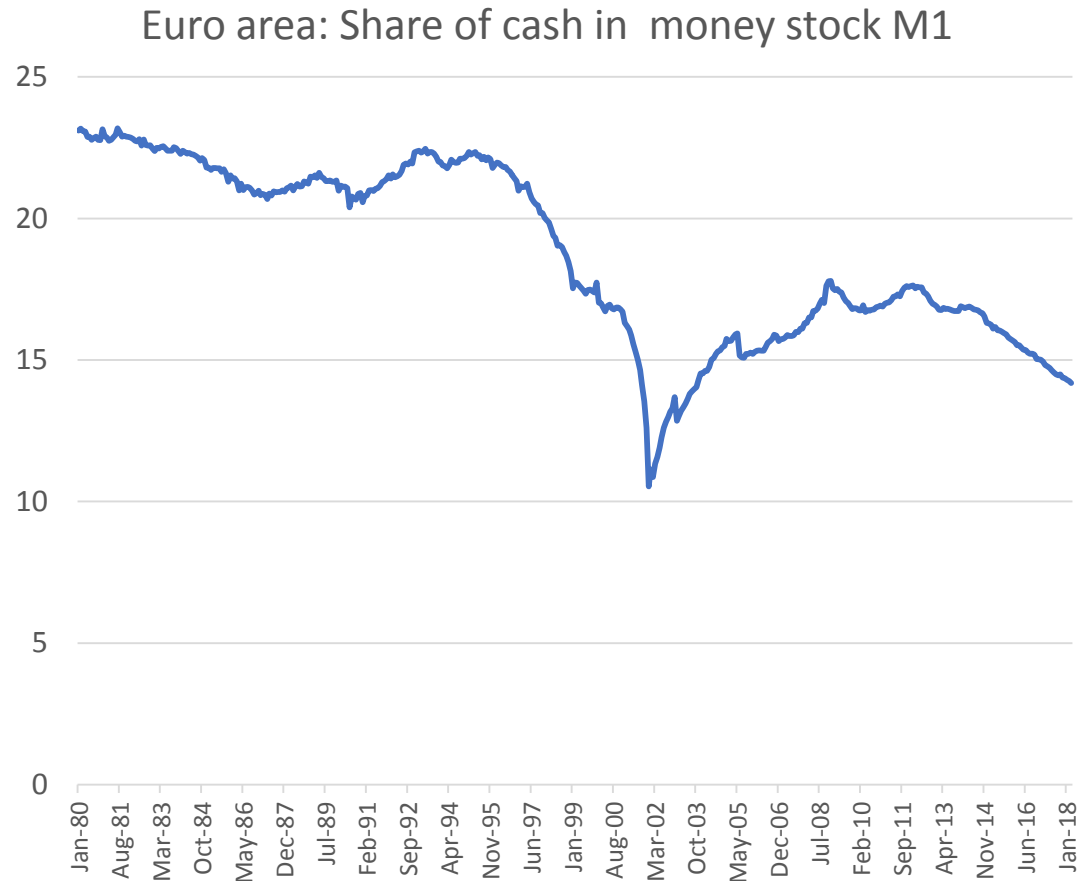
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# Digitization and the future of money

- Substitution of cash by electronic money
- Substitution of traditional bank deposits and bank notes by cryptocurrencies
- Substitution of bank deposits by “universal reserves” (central bank deposits for everyone)
- Substitution of bank lending by peer-to-peer lending on the basis of digital platforms

# Substitution of cash by electronic money

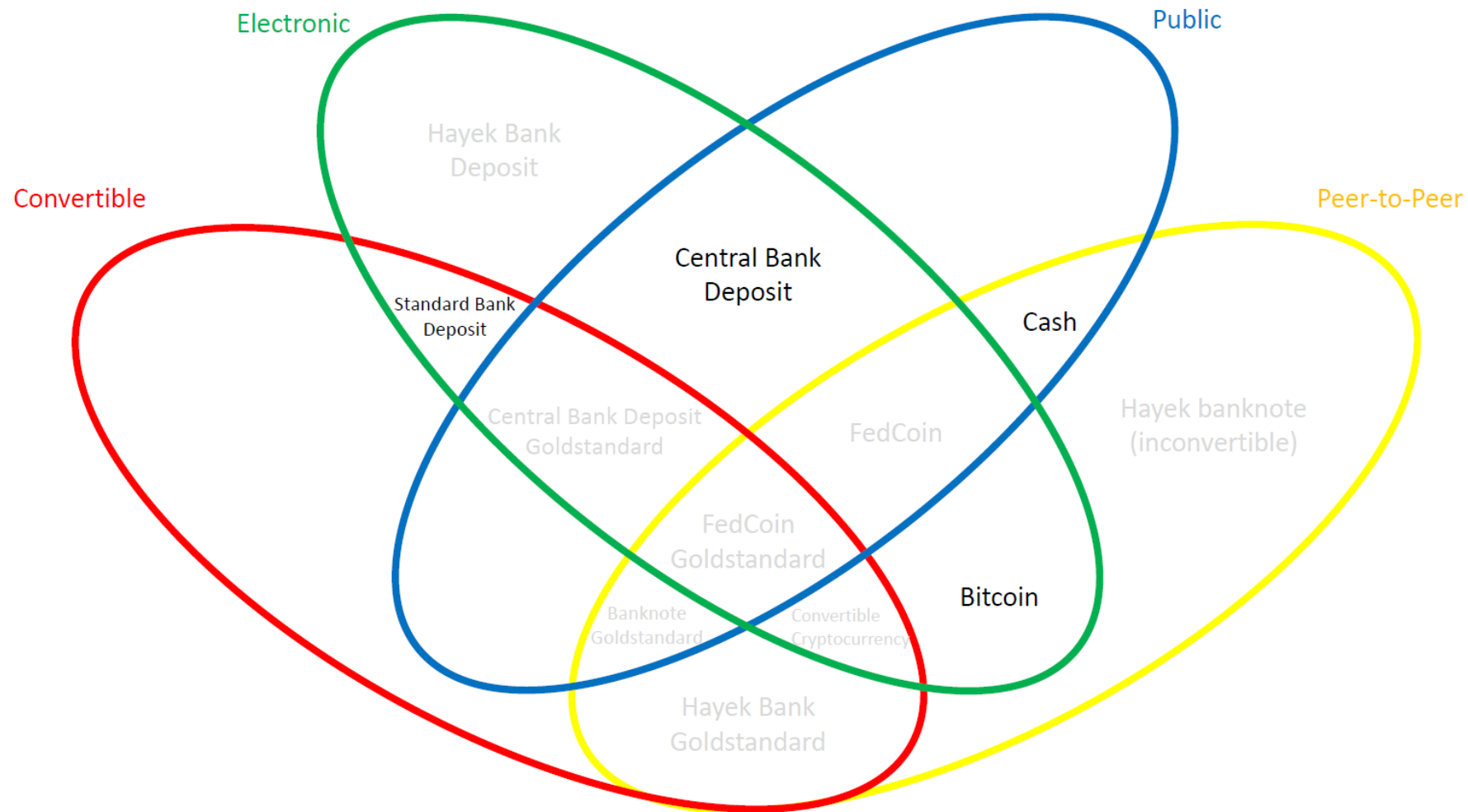


Source: Esselink and Hernández 2017

# A cashless society is not very likely

- But the usage of cash can decline considerably, above all by contactless technology for payments under 25 Euro, which make up 81 % of all payments at POS.
- Implications of a cashless society
  - Risk of bank-runs removed, but less market discipline for the banking system
  - ZLB removed: Central banks can enforce negative interest rates
- However, a regime would require a political decision to abolish cash, as in crisis situations the demand for cash would resurge
- At least from the German standpoint the end of cash is very unlikely

# Substitution of bank deposits and cash by cryptocurrencies



# Prospects for cryptocurrencies are limited

- Inconvertibility: No intrinsic value
- No legal tender: Risk of full implosion impairs store of value function
- While each issuer can limit the issue of its currency, the number of issuers and the total volume of cryptocurrencies is boundless
- High transaction costs and high transparency impair means of payment function

# „Universal reserves“ could be a game-changer

- Substitute for cash and bank-deposits
- Attractive for large depositors as protection against bail-in (BRRD)
- Implications for central banks:
  - Risk of „digital bank runs“ (Cœuré)
  - Helicopter money becomes a possibility
  - ZLB only removed if cash is totally abolished
- Transformation of the financial system into a „full money system“ or „sovereign money system“ with restricted credit creation potential of the banking system

# P2P-lending: Uberization of banking?

- Substitution of bank intermediation by direct lending („Capital market for small borrowers“)
- Platforms (Amazon?) are able to perform banking functions
  - Screening and delegated monitoring
  - Diversification of risks
- P2P-lending would require less regulations (capital, liquidity)
- Central bank control over P2P-lending is possible via control over short-money market rates



# Implications

- Digitization does not erode the control of central bank over the financial system
- Massive regime changes (abolishment of cash, universal central bank reserves) are possible. But they would require a political decision and would strengthen the role of central banks
- For banks, P2P-lending and universal central bank reserves would fundamentally change (i.e. reduce) their role in the financial system