CBDC & Banking Liberalization

The Future of Money

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Miguel A. Fernández Ordóñez

"cbDC" and "CBDC" models

cbDC (commercial bank Digital Currency)

- Money and Banking are closely linked. They are inseparable.
- Money is Fragile and Banking is heavily protected and regulated by the State

CBDC (Central Bank Digital Currency)

- Money is separated from banking activities
- Money is Safe and Banking activities can be liberalized

2 CBDC Views

Stability . **Money** reform

- From Fragile Money (cbDC) to Safe Money (CBDC)
- No more banking crisis, no more debt bubbles, no more long recoveries…
- More effective Monetary Policy

Competition. **Banking** Structural Reform

- With cbDC Banking activities are Hyper regulated & Hyper protected
- With CBDC it is possible introduce efficiency and competition in lending and payment services (Banking activities)

Structural Reforms

- International Trade liberalization
- Telecommunications
- Air Transport
- Liberal professions
- Retail opening hours
- Housing rent regulations
- ……

- Banking?

Structural Reforms

Common Characteristics

- **New Technologies**
- **Unbundling**: Separate activities. E.g.., Air transport, airports
- **Competition**: Eliminate subsidies, privileges, protections, monopolies, entry barriers, useless regulations…More Market
- **Re-regulation**: Protecting consumers rather than businesses
- **Transition**: Design calendars to allow incumbents to adapt to the market and to avoid disruptions.

Banking privileges, protections, subsidies, entry barriers…

1) The BIG PROHIBITION : only banks can hold current accounts at the CB

2) A Protectionist Regulatory Block (without protection Fragile Money cannot exist)
   - Deposits Insurance
   - Liquidity Support
   - Capital injections. Bail outs
   - Special Resolution.

3) A Prudential Regulatory Block (a unique kind of "intrusive" interventionism)
   Capital and Liquidity requirements, Anti-cyclical buffers, Remunerations, Exposures rules, Leverage ratio, Structural Measures, TBTF…

4) Competition and Antitrust laws are no enforced

5) Public Institutions: Supervisors and Central Banks are a "di facto" guardians of profitability of banks

Banking Structural Reform

New Technologies: CB, lending and payments

Unbundling: Separate activities. Money from lending and payments services

Competition: Eliminate subsidies, privileges, protections, monopolies, entry barriers, useless regulations…More Market

Re-regulation: Protect markets and citizens, not businesses.

Transition: Design calendars to allow incumbents to adapt to the market

Why banking has not been liberalized?

- Banking is the most protected and intervened of all economic sectors
- But, as long as there is no alternative to banks Money (cbDC), it is necessary to protect banks and to flood them with regulations to reduce the frequency and severity of banking crises.
- Once CBDC is possible, anti–market regulations are not necessary to have Safe Money
- It is possible to deregulate banking without fear.

Market and State roles.

- **cbDC** (commercial banks Digital Currency) CONFUSION
  - Money is Private (deposits) with public limitations (Monetary Policy)
  - State protects Banking
  - Banking (risk management) is dictated by State
  - Money is a financial asset (with risk). It is Fragile

- **CBDC** (Central Banks Digital Currency) SEPARATION
  - Money is Public. Lending and Payment services are private
  - Money is not a financial asset . No risk. Money is Safe.
  - Financial System is wholly private and with competition
  - Banks are subject to market discipline (as any other firm)

Benefits of CBDC

- Benefits of Safe Money (+ Stability)
  - No more Debt bubbles
  - Ending the worst financial crises
  - No more painful recoveries (Deleverage)
  - Improving monetary policy

- Benefits of Competition (+ Efficiency)
  - More efficiency, more growth
  - Lower prices, Better qualities, etc.
  - Innovation in products and processes
  - Market discipline is better than the regulatory discipline (e.g.: capital requirements)
  - Social objectives achieved with better and targeted instruments. (Re-regulation)

On CBDC Design

CBDC benefits will not be obtained without an adequate design. God is in the detail.

Money reform and Banking reform must be simultaneous

It is suicidal to deregulate Banking if citizens do not have an alternative to bank Money (Deregulation would make bank money even more fragile)

It is not wise to reform Money without liberalizing Banking (Problems arise if citizens are allowed to use the safe money (CBDC) and cbDC because the State continues to protect the banks)