WEF Debuts Framework For Central Bank Digital Currency

TN has documented the headlong rush of Central Banks toward digital/blockchain currency in order to replace physical currencies. This will be the new financial system for Sustainable Development, aka Technocracy. TN Editor

The World Economic Forum (WEF) — together with some of the world's major central banks — has created a central bank digital currency (CBDC) policymaker toolkit.

According to an announcement on Jan. 22, the toolkit is the WEF's attempt to help policy-makers understand whether deploying a CBDC would be advantageous and guide them through its design.

The WEF collaborated with regulators, central bank researchers, international organizations and experts from over 40 institutions to develop the framework. The head of blockchain and distributed ledger technology (DLT) at the World Economic Forum Sheila Warren explained:

> *“Given the critical roles central banks play in the global economy, any central bank digital currency implementation, including potentially with blockchain technology, will have a profound impact domestically and internationally. […] It is imperative that central banks proceed cautiously, with a rigorous analysis of the opportunities and challenges posed.”*

Bank of Thailand Governor Veerathai Santiprabhob said that the institution made good progress on its own CBDC implementation, called Project Inthanon. Recently, reports started circulating that Hong Kong and Thailand’s central banks have stepped closer to implementing a joint CBDC for cross-border payments. He explained how the toolkit is useful for the continued development of the bank’s digital currency:

“From our experience, we need to identify tradeoffs between benefits from the use cases and their associated risks across different dimensions. This is where the Policymaker Toolkit could usefully provide an actionable framework for CBDC deployment.”

Central Bank of Bahrain Governor Rasheed M. Al Maraj announced that the institution that he is guiding will pilot the WEF’s toolkit, saying, “We hope that it will be an opportunity to learn, grow and to adapt to the changes in the Fourth Industrial Revolution.”

The pros and cons of a digital currency

The framework recognizes that a CBDC — among other things — can improve the cost and speed efficiencies of cross-border interbank payments, as well as reduce settlement and counterparty risks. The WEF notes that a digital currency can also enhance financial data transmission and reporting, and improve traceability compared to physical cash.

The paper admits that, before considering a CBDC, other solutions to economic friction should be considered. A digital currency may not add value in domestic interbank payments where an efficient system is already present.

The toolkit also notes that digital currency implementation requires substantial investments in cybersecurity and system resilience, and that potential risks come along with it:

> *"Generates substantial financial risks, including: 1) bank disintermediation risk, which could reduce bank profits and lending activity; 2) digital-bank-run risk as depositors may rapidly convert commercial bank deposits to CBDC."*

Toolkit distinguishes between different types of CBDCs

The WEF's framework divides CBDCs into three categories: retail, wholesale and hybrid. The first category allows non-financial users to hold digital currency accounts, while the second is an electronic system granting access to the central bank reserve that could be used by commercial banks and other financial institutions for interbank and security transactions.

Hybrid CBDCs allow financial institutions that do not usually have access to a central bank deposit facility to hold reserves at it. This would enable stronger safeguards and monitoring of those organizations and improve interoperability between different payment systems, according to the WEF.

The paper explains that in the case of a DLT-based CBDC, the central bank would preserve full control over the issuance of the digital currency:

> *"[The central bank] could delegate transaction approval to a more decentralized network, most likely consisting of regulated financial institutions. Transaction approval could follow a pre-specified consensus process determined by the central bank, which could include privileges for the central bank such as transaction 'veto' powers or visibility. It is also possible to develop a DLT system in which the central bank remains the only validating node yet it*

benefits from other advantages related to DLT."

The impact of stablecoins on CBDC development

Global efforts and discussions around CBDC development are increasingly common. Many believe that stablecoins — and Facebook's Libra in particular — served as a wake-up call for central banks to realize that in the digital age the public expects cheap and instant digital payments.

Earlier this month, the president of the European Central Bank, Christine Lagarde, also said that she supports the bank's active involvement in the development of a CBDC, particularly in addressing the demand for faster and cheaper cross-border payments.

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