



CENTRAL BANK DIGITAL CURRENCIES: ECONOMIC DRIVERS AND IMPLICATIONS

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A B S T R A C T

Abstract. In light of the development of new technologies in the banking and financial industries, the general trend is to move towards a non-monetary society, which is taken for granted in the economies through the central banks' recognition of the importance of the digital currency. Where many central banks in developed countries are de-signing their own version of the digital currency and the mechanism and scenarios for its issuance. As the success of any digital currency depends on its competitiveness in the market, within a few years central banks have stepped up their efforts in the research and development of central bank digital currencies (CBDCs). However, central bank digital currencies should be considered in the full context of the digital economy and data centralization, which raises concerns about competition, payment system integrity, and privacy. This paper provides a general idea of (CBDCs) and microeconomic considerations related to operational and technological structures, privacy, and macroeconomic effects on the financial system, general stability, and monetary policy.

KEY WORDS

Money, Central bank digital currencies, Central banks Encrypted currencies.

INTRODUCTION

1 Introduction

The emergence of encrypted digital currencies represents a great challenge for official currencies, because it has witnessed a great development due to the development of smart digital technologies to the extent that digital currencies have become used as a means of exchange. Despite some positive

characteristics of digital currencies such as universality and accessibility, it is witnessing a state of instability as it was vulnerable to fluctuate in value up and down. That is why the past few years have witnessed a great expansion in the volume of discussions about the disturbance in the value of digital currencies. As a result, many proposals were put forward to issue stable global currencies. Many central banks adopted a more proactive stance than other central banks about future expectations for digital currencies and instead of continuing to deal with the system the prevailing monetary these central banks began their active participation in research and studies on the issuance of their digital currencies. As a survey conducted at the end of 2020 indicated that 86% of global central banks participated in research and study of the issue of issuing their digital currency, and that 56% of global central banks revealed their efforts to develop the issuance of digital currencies [1]. The digitization of economies has far-reaching effects on many economic variables, not the least of which is the monetary economy. The availability of huge amounts of data generated by digital activities is capable of creating new opportunities and challenges for the monetary system. For these reasons and in this context, the pace of issuance of (CBDCs) accelerated, although it took a cautious approach at the beginning, as these currencies were characterized by stability and the possibility of accessing them by users and benefiting from them in cross-border transfers, taking advantage of modern technology. However, there is still no consensus among All central banks are aware of the actual need to issue digital currencies specific to each central bank [2].

This was accompanied by very important discussions looking at the economic effects that CBDCs can have on the cash reserves of central banks and their balance sheets, and thus the impact on the extent of their interaction with commercial banks. The effects that CBDCs can have on the effectiveness of monetary policy and financial stability were also researched and studied. These discussions generated increasing confidence that the targeted economic model can achieve the objectives of the general economic policy, reduce the negative effects, increase the effectiveness of monetary policy, and improve the efficiency of the payments system [2],[3]. This made many central banks see that their digital currencies represent an infrastructure that can help expand markets and increase their competitiveness in the face of the incursion of major technology companies into payment systems [4].

Accordingly, it can be said that the issuance of these currencies is one of the tasks and responsibilities of central banks, and they are a form of digital money denominated in a national unit of account. These currencies can be intended for use by financial institutions or by families and companies, and these currencies can be defined or can be expressed with certain symbols that enable the masking of identification in payments. In the recent period, the digital currencies of central banks have witnessed a great development that keeps pace with developments in the economy around the world and in line with the integration of theory with application. However, there are some gaps in this development through which some important questions can be raised about the international effects of issuing digital currencies of central banks on the issuing countries on the one hand and on the countries receiving these currencies on the other hand, and the subject still needs more research and study. From the aforementioned, this paper was organized to deal with a theoretical framework that enters into the economic literature about the digital currency of central banks and what are the motives for issuing it. Also discusses its potential effects on the economy and what are the future prospects for this currency.

the study Problem :

The increase in the use of digital currencies for central banks could lead to a decrease in demand for traditional currencies, and thus this will affect the characteristics of central banks and a decrease in the size of the balance sheet of these banks, which reduces their ability to influence interest rate rates and reduces the regulatory capabilities of these banks.

Study hypothesis:

The study assumes that the adoption of digital currencies by central banks can have positive effects on the effectiveness of monetary policy.

Purpose of the study :

The study aims to identify: -

- Does the expansion of the issuance of digital currencies by central banks have a positive impact on the effectiveness of monetary policy?
- Does the expansion of the issuance of digital currencies by central banks increase inflation rates in the economy?

Study methodologies:

This study relied on the inductive approach in examining the experiences of some central banks in issuing digital currencies

2 Literature Review

2.1 The importance of CBDC issuance

Although CBDC has a range of potential advantages in theory, central banks must determine whether there are urgent reasons for issuing and adopting it at the present time and what are the future prospects for demand for it, as some central banks still have reservations about issuing it, at least in nowadays. Although there are approximately 100 central digital currencies that are undergoing research and development until 2022, and two have been finalized, as in the cases of the Central Bank of Nigeria and the Bank of the Bahamas, the motives for issuing these currencies differ according to the different central banks. Where senior economists believe that the adoption of digital currencies issued by central banks can make the local payment systems more robust and enhance competition, and this may be a convincing reason to increase the chances of obtaining loans, improve the efficiency of payments, reduce transaction costs, and increase the level of transparency in money flows. . When talking about the motives for issuing these digital currencies, there are potential risks that central banks must take into consideration. For example, users may over-withdraw funds at once from the bank in order to purchase central bank currencies, which may cause a crisis, not to mention the extent to which central banks are able to manage risks. imposed by cyber attacks [5].

With regard to CBDC issuance, most central banks have strategies related to the objectives of improving performance in key cases related to payment markets, financial stability, monetary policy and financial inclusion. For each of these four main areas, different planning options are considered in order to formulate specific and clear policy objectives. The hierarchy of policy objectives for each central bank depends on the relative importance of the policy objectives on each central bank's particular strategy as well as on local conditions regarding the country's currency. The relative

importance of these goals varies with the passage of time, just as the motives of central banks for these goals in developed economies differ from their motives in emerging markets and developing economies [6]. In developed economies, the acceleration of payment processing was found to be the main driver for accelerating the introduction of CBDC. According to Bank of Canada 2020, digital banknotes allow families and companies to access risk-free funds with high operational flexibility. Many authors believe that CBDC improves the efficiency of domestic payments by enhancing competition and increasing innovation in the payment markets [7]. While the multiplicity of payment systems in the case of international payments may lead to a kind of incompatibility, slowness, high cost, and difficulty in accessing them, with other economic consequences represented by the decrease in the use of cash and the widespread reliance on digital currencies.

2.2 Motives for issuing CBDC

Central banks and a lot of economic literature believe that CBDC can have a positive impact on the stability of the financial system and reduce the fragility of the financial system by issuing an alert when there are risks of rushing operations on banks, thus protecting deposits and reducing liquidity risks [8].

Also, CBDC can have a potential negative impact on financial stability when depositors see that CBDC is more attractive than bank deposits because it is risk-free. Negative Consequences [9].

One of the reasons why central banks issued CBDCs is the possibility of obtaining new tools for monetary policy, as most economic policy makers and academics believe that it is possible to add a tool to monetary policy through the issuance of CBDC represented in increasing revenues, easing restrictions, and enhancing the impact of monetary policy transmission [10]. Yet the controversy remains there is a discussion about the extent to which CBDC can be used to strengthen monetary policy. Some central banks aim to use CBDC to ensure access to central bank funds. In developing economies, where structural imbalances reduce access to formal financial services (transactions, payments, savings, and credit). But in developed economies, where access to electronic media is more widespread, and access to an easy, reliable, and risk-free electronic payment method [11]. Especially if its advantages are similar to or greater than those of official money, which makes it marginalized.

3 Conclusions

There is an urgent need for more research and studies to understand the potential obstacles in adopting these currencies and thus overcoming them. It is not necessary that there will be widespread adoption of payment systems that adopt advanced technology. That the comparative advantage achieved by the (CBDC) currency is not necessarily adopted by consumers, as here enters the differentiation factor. It may also not take into account possible subsequent infrastructure costs when calculating the current zero cost. Participation with the private sector may be a reason to increase confidence in these currencies and reduce caution. In addition to the availability of more data on experiments and studies to adopt (CBDC) that would help in diagnosing the strengths and weaknesses of these currencies. Also, dealing with caution with the conclusions of studies and research because it is still too early to draw lessons from the adoption of these currencies, and the researcher indicates that the initiatives and recommendations presented above are not final and may be a minor contribution to the necessary discussions about (CBDC).

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