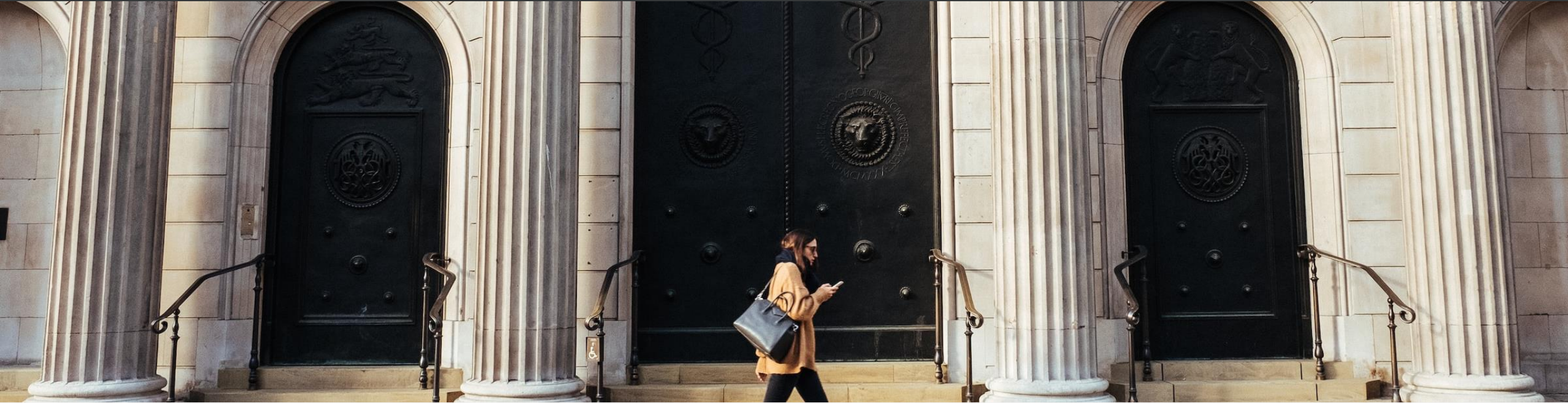




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Global Financial Challenges - The Role Of Central Bank Digital Currencies

Dr Michael Lloyd, Senior Research Fellow & Associate Director, Global Policy Institute

Wednesday, 15 March 2023



A Word From Today's Chairman

Hugh Morris
Senior Research Partner
Z/Yen Group





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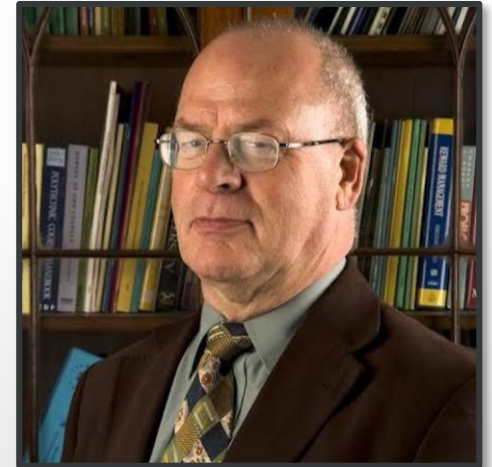
Today's Agenda

- 11:00 – 11:05 Chairman's Introduction
- 11:05 – 11:25 Keynote Presentation – Dr Michael Lloyd
- 11:25 – 11:45 Question & Answer



Today's Speaker

Dr Michael Lloyd
Senior Research Fellow &
Associate Director
Global Policy Institute



Webinar - 15 March 2023

Global Financial Challenges

The Role Of Central Bank Digital Currencies

Dr Michael Lloyd

Global Policy Institute

www.gpilondon.com



Central Bank Digital Currencies

The International Dimension



Central Bank Digital Currencies – The International Dimension

Public Money v Private Money

Medium of exchange, store of value, unit of account

Intangible numeraire for commodity valuation

Private *fiat* money is accepted in monetary jurisdictions – key central bank role

Public money “converts private money” – public trust

New *private, digital money* channels – a problem for *universal* public trust, within and across monetary jurisdictions

Central Bank Digital Currencies – The International Dimension

Central Bank Motivations- International Concerns

Concern about threats to global financial stability from increasing use of *digitized* private money channels – stability is an important *public good*

Current cross-border financial transfers are inefficient

High costs and low speeds – improvement via digitization

Opportunities for CBDCs – use of *digital ledger technology*

Synchronous shared ledger only required, “pure” blockchain not required

Central Bank Digital Currencies – The International Dimension

Cross-Border CBDC Projects

These concerns for central banks have led to a variety of international projects, involving central banks and commercial banks, testing wholesale CBDC financial transfers

BIS involvement: *mBridge* project prototype

Projects Jura, Dunbar, Helvetia, and recently Icebreaker

Results are promising

Central Bank Digital Currencies – The International Dimension

Regional CBDC Initiatives

The CBDC cross-border projects are regional, but extensive

Indicates the potential to expand *across monetary jurisdictions*

Digital Yuan/e-CNY expansion

ECB/Euro Area-Plus/SEPA

Interoperability required and international standards

Central Bank Digital Currencies – The International Dimension

Fragile Global Financial Situation

Threats to stability of concern to BIS and the IMF

Global reserves: IMF SDRs 90% in 2007, in 2021 25%,
regional reserves (30%) and currency swaps (45%)

Majority of the currency/credit swaps involve the US Fed.

Post 2008 - US Federal Reserve acts as *global central bank*,
via permanent (C6) and temporary (14 other CBs) credit swap
arrangement with other central banks

Central Bank Digital Currencies – The International Dimension

The Global US Dollar-Zone System

40% of global trade invoiced in \$, versus
10% US share (China 2% and 15%)

80% of publicly traded debt is dollar-
denominated

60% of international currency reserves
are denominated in dollars

Current monetary dominance by the US
dollar is *necessary*, but unsatisfactory

Central Bank Digital Currencies – The International Dimension

New Digital Central Bank Currency Areas

Smaller Jurisdictions may adopt CBDCs, but need successful fiscal and monetary policy regimes

International trade is becoming more extensively regionalized

Possibility of large DCAs being formed

Potential for large DCAs for China, EU (SEPA), US. leading to a more balanced global trade invoicing structure

Central Bank Digital Currencies – The International Dimension

Replacement of Global US Dollar-Zone System?

Advent of large DCAs are likely only to lead to changes in the invoicing of trade

This is likely to see an expansion of invoicing in the Yuan, probably at the expense of the US dollar

Such a change would not spell any significant challenge to the monetary dominance of the US dollar-zone

However, large DCAs *may* be a *precursor* of an *eventual* replacement of the US dollar *as a reserve currency*

Central Bank Digital Currencies – The International Dimension

Possibility of Replacing Global US Dollar-Zone System

Small number of DCAs, easier to gain agreement for wider monetary dimension reformulation

There is a need for an *independent* global unit of account and *global clearance and settlement system* – and a global central bank (BIS?)

But a solution to Keynes' problem will be necessary: involving monetary jurisdictions surrendering control of monetary policy

US political hegemony and nation-state sovereignty are the problems: decades to reach any agreement



Comments, Questions & Answers



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- Thu, 16 Mar (10:00-10:45) Asia's Noodle Bowl Of Trade
- Mon, 20 Mar (16:00-16:45) Transforming Retail Banking To Meet Evolving Customer Needs
- Wed, 22 Mar (16:00-16:45) Working Upstream Of Crisis
- Thu, 23 Mar (09:00-09:45) Launch Of Global Financial Centres Index 33

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