

Katrin Assenmacher

Libra 2.0—What does it mean for monetary policy
and financial stability?

Dirk Niepelt

Study Center Gerzensee, U of Bern, CEPR, CESifo

SUERF/Bocconi webinar, 31 August 2020

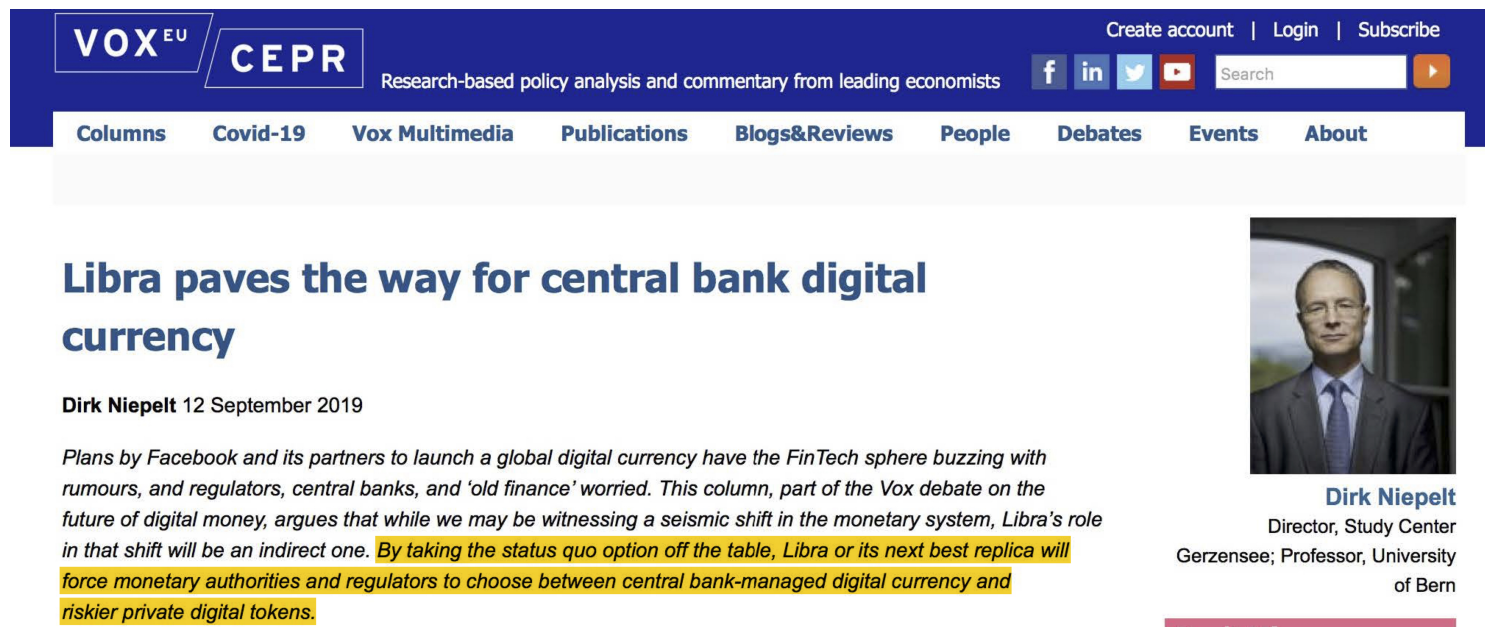
We Agree

Katrin makes many important points, convincingly!

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“Libra as a catalyst for CBDC”



The screenshot shows the top navigation bar of the VoxEU website, which includes the VoxEU and CEPR logos, the tagline "Research-based policy analysis and commentary from leading economists", and links for "Create account", "Login", and "Subscribe". Below the navigation bar is a menu with categories like "Columns", "Covid-19", "Vox Multimedia", "Publications", "Blogs&Reviews", "People", "Debates", "Events", and "About". The main content area features the article title "Libra paves the way for central bank digital currency" by Dirk Niepelt, dated 12 September 2019. The article text discusses the impact of Facebook's plans for a global digital currency and includes a highlighted quote: "By taking the status quo option off the table, Libra or its next best replica will force monetary authorities and regulators to choose between central bank-managed digital currency and riskier private digital tokens." To the right of the article is a portrait of Dirk Niepelt, identified as the Director of the Study Center Gerzensee and a Professor at the University of Bern.

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Libra paves the way for central bank digital currency

Dirk Niepelt 12 September 2019

*Plans by Facebook and its partners to launch a global digital currency have the FinTech sphere buzzing with rumours, and regulators, central banks, and 'old finance' worried. This column, part of the Vox debate on the future of digital money, argues that while we may be witnessing a seismic shift in the monetary system, Libra's role in that shift will be an indirect one. **By taking the status quo option off the table, Libra or its next best replica will force monetary authorities and regulators to choose between central bank-managed digital currency and riskier private digital tokens.***



Dirk Niepelt
Director, Study Center Gerzensee; Professor, University of Bern

We Agree

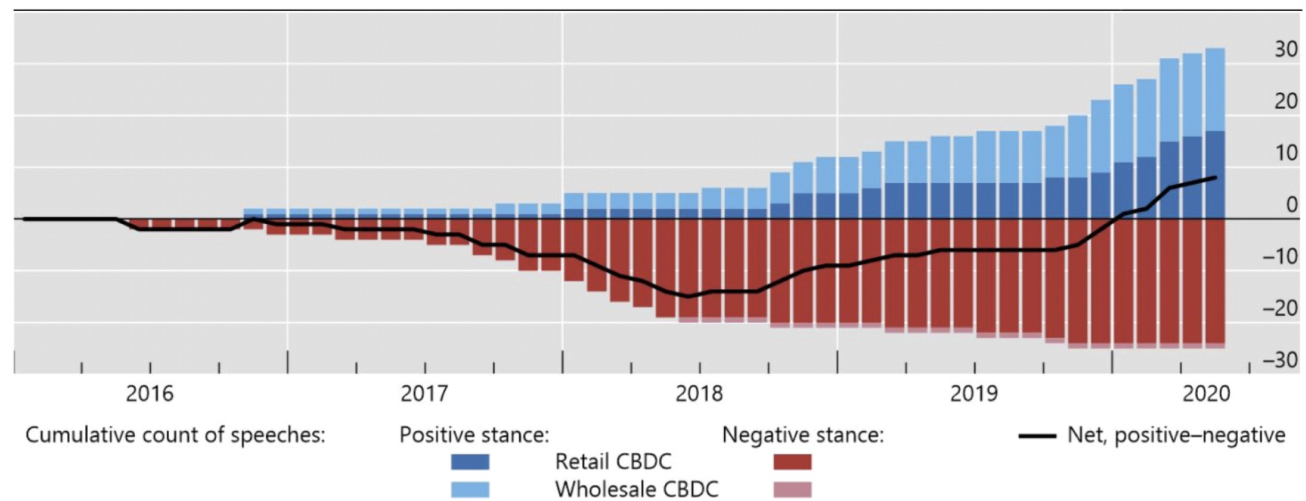
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“Libra as a catalyst for CBDC”

Speeches on CBDCs have turned more positive since late 2018

Number of speeches

Graph 4



Technology, Economics, Regulation

DLT or not: second order

Competition and financial architecture: first order

- Specifically with CBDC (“Reserves for All”)
- Already happening (narrow banks)?

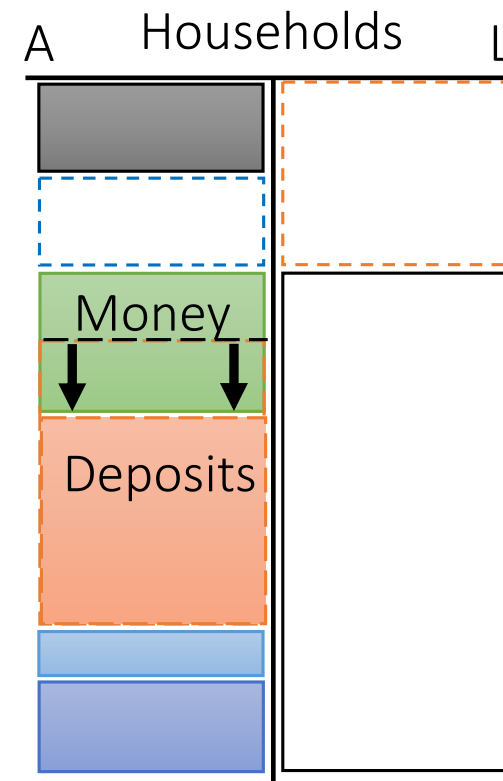
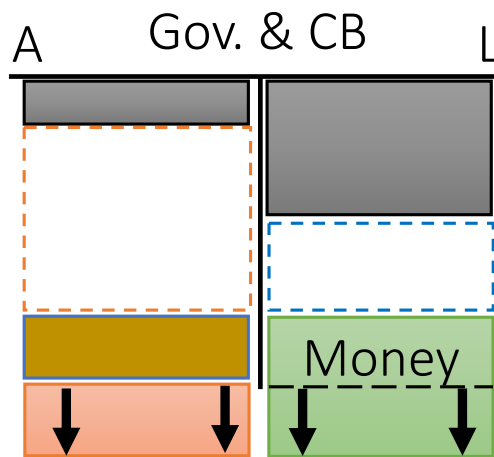
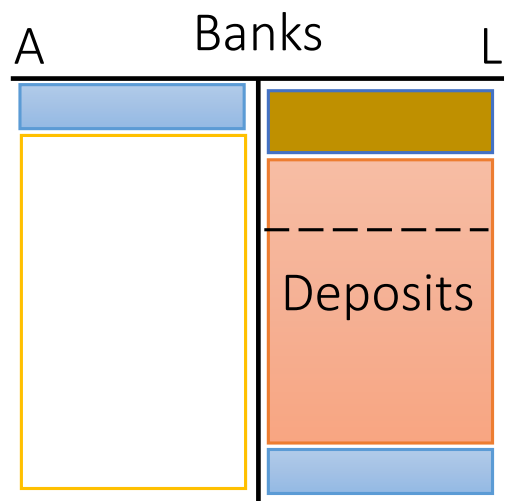
E-money? Investment fund? Bank? Systemic?

- Regulation commensurate with activities and risks (G7)
- New activities require new forms of joint regulation

Financial Stability

Frequently voiced concern

- Libra & Co. cut off bank funding, bank lending, foster bank runs, undermine financial stability ...
- ...same as with CBDC



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Proposition (Brunnermeier and Niepelt, 2019)

★ Central bank *can* insulate economy

With Libra & Co. it may be harder

This could push central banks to introduce CBDCs

Financial Stability

Key issue

- Is Libra Reserve invested in deposits?
- And engages in “maturity transformation,” creating another layer in fractional reserve banking?
- Or is Libra Reserve—fully—invested in reserves, creating a stable coin/synthetic CBDC?

Monetary Policy

Stable demand for currencies held by Libra reserve

- Katrin: Maybe stronger for EUR (weaker for USD?)
- Changes in composition will generate political “interest”

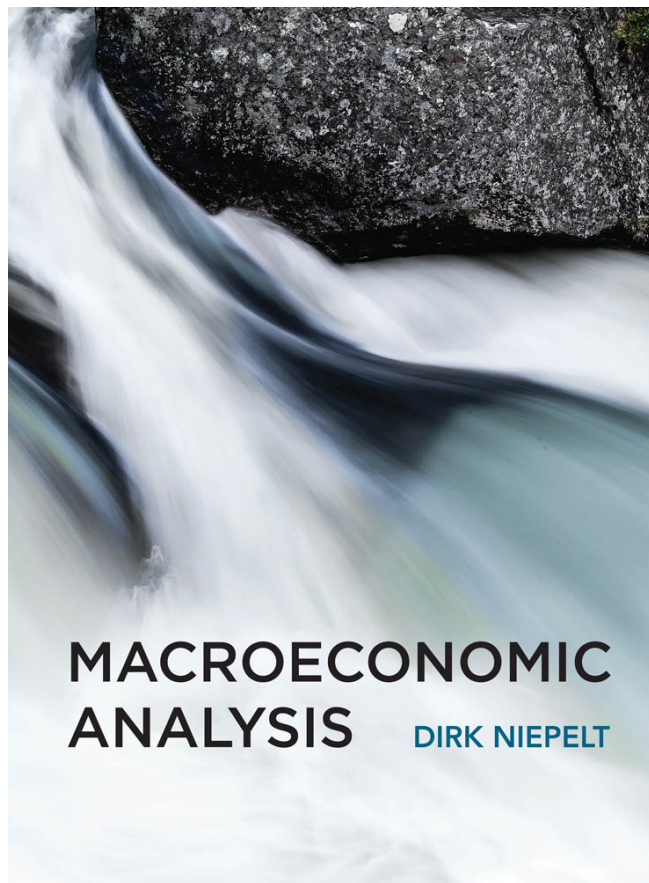
Weaker demand for emerging market currencies (“dollarization”)

- More financial inclusion, less financial repression
- Less seignorage

This could push central banks to introduce CBDCs

Thank you!

www.niepelt.ch



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References

Brunnermeier, M. K. and Niepelt, D. (2019). On the equivalence of private and public money, *Journal of Monetary Economics* **106**: 27–41.