Session 3 | NEW TECHNOLOGIES AND MONETARY POLICY FRAMEWORKS

NEW TECHNOLOGIES, FINANCIAL INCLUSION, AND MONETARY POLICY IN CCA COUNTRIES

New technologies are accelerating the development, deployment, and adoption of digital payments and money, including central bank digital currencies, as well as the use of artificial intelligence, big data, and machine learning. At a time when many CCA central banks are transitioning to inflation targeting, these changes raise new policy questions, opportunities, and tradeoffs, including regarding price stability (starting with measuring prices), employment, financial intermediation, and credit. Many of these changes are also highly uncertain and may have unintended consequences, including for example by affecting policy transmission, which could then require more policy effort to reach inflation targets than in the past.

While digital payments and money, including central bank digital currencies, are still in an early development, how fast could they emerge in CCA countries? Which reform areas could CCA central banks focus on to harness digitization and better fulfill their mandates? In tackling policy challenges and opportunities from digital financial services, how could policy lessons from international experience help them set priorities and limit risks?

Panel and presentations

Moderator: **Santiago Fernández de Lis** – Head of Regulation, BBVA
Presenter: **Denis Beau** – Senior Deputy Governor, Banque de France
Discussant: **Thomas Moser** - Alternate Member of the Governing Board, Swiss National Bank

Key Takeaways and Quotes

- New technologies can support monetary policy efficiency and financial inclusion.
- Current cross-border payment systems are expensive and slow, especially for remittance-intensive CCA countries. CBDCs would reduce these obstacles.
    - *“It's clearly in the interest of countries to work together to improve cross-border payments and make them cheaper, and here the G-20 and IMF initiatives are important.” Thomas Moser*
- Monetary operations should adapt to the role of CBDCs in the financial system.
    - *“As central banks, in the context of our monetary and financial stability mandate, we have a role to play to make sure that digitalization becomes a blessing and not a curse. The readiness to issue a CBDC can prove an important lever to that end.” Denis Beau*
- Central banks and regulators will need to provide the basic infrastructure in which private sector innovation can thrive, while risks remain manageable.
- Digital payment systems where central banks play a limited role raise more risks, (e.g., for currency substitution, monetary management, financial stability, market integrity, cybersecurity, and data privacy) – they require strong regulation.

Summary of discussions

Denis Beau outlined the various opportunities and challenges created by new financial technologies and CBDCs specifically. Many opportunities were touched upon in previous sessions, including with regard to greater financial efficiency and inclusion. Most risks are associated with transitions to new payment systems where the role of central banks is less clear (also undercutting monetary management), and where unregulated settlement of transactions outside the traditional banking sector could create financial stability, AML/CFT and cybersecurity risks, as well as data privacy problems.

Thomas Moser noted that the current system of cross-border payments is too expensive and slow, and an important benefit from CBDCs (or increased digitalization of payments), especially for remittance-intensive CCA countries, would be cheaper and faster cross-border payments. At the same time, regulatory frameworks should take into account and address the potential risks from increased cross-border capital flow volatility and currency substitution, as well as AML/CFT issues.

The panelists agreed that the role of central banks and regulators is to provide the basic infrastructure (including CBDCs) where new opportunities could be exploited with manageable risks. Thus, where digital payment technologies become systemic, there is a strong case for central bank involvement, even if the private sector is better placed to be innovative in service delivery and customer interaction, building on the basic infrastructure provided by central banks. Should a CBDC be introduced, monetary policy operations would need to adapt to their importance in the financial system. Amongst digital currencies, the issuance of stable coins required strong regulation, including to ensure that their underlying value remains credible.