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Introduction

Global non-cash transactions reached 708.5 billion transactions in 2019, surged by 80% since 2014. Despite cash being the most used payment instrument in the world, technological innovation and new consumer preferences are radically transforming the way consumers pay and manage money. The COVID-19 pandemic may have also been an accelerator in consolidating cashless transactions by driving the growth of e-commerce and mobile/contactless transactions. Private players currently dominate the digital payment ecosystem, urging central banks to seek solutions to ensure public access to legal tender if cash is phased out. In this context, the idea of a central bank digital currency (CBDC) is gaining momentum – a central bank liability, denominated in an existing unit of account, which serves both as a medium of exchange and a store of value. The bulk of central banks surveyed by the Bank for International Settlements (80 per cent out of sixty-six central banks), representing 90 per cent of global output, are working on a CBDC. Nevertheless, there is a need to better understand the implications in terms of risks, benefits and potential costs of CBDCs. From privacy concerns to macroeconomic effects, these implications blur the boundaries of the payment and financial systems, challenging the core functions of our economy and society. The key questions are manifold: how will a CBCD affect banking industry models and financial markets? What are the benefits and risks of introducing a CBDC? Which are the different design and technical solutions a CBDC can offer? What is the play-off between privacy as a democratic freedom and the enforcement of AML rules in the frame of CBDCs?

The Istituto Affari Internazionali (IAI), in partnership with Intesa Sanpaolo and with the support of Intesa Sanpaolo and the Bank of Italy, has carried out a research project to study the main economic and political implications of the development of CBDCs. The result of this analysis – conducted with a group of international experts – are presented in this book. These experts have participated actively in the research throughout the project and their contributions help to shed light on key specific issues and implications related to the development of CBDCs. The first chapter, by Nicola Bilotta and Fabrizio Botti, provides an overview of the approaches, features and implications of CBDCs. It briefly explores the current literature on CBDCs and provides concrete example of this innovation's stage of development. The second chapter, by Massimo Cirasino, analyses in depth the conditions and factors to take into account when launching a CBDC. The third chapter, by Ali Robleh, explains how a CBDC system will shape the structure of the whole financial system. Steven Schwarcz's Chapter 4 concentrates on how existing regulations will extend to CBDCs, investigating if this innovation will require further regulation if it is implemented, depending on the design of a CBDC system. The following three chapters take a closer look at geographical areas that are at the frontier in the field of digital currency. The fifth chapter, by Franco Passacantando, analyses the implications of a digital euro, focusing on its potential effects on the functioning of financial markets. The next chapter, by Tim Masela, details the opportunities and risks of CBDCs and digital currencies in Africa. The seventh chapter, by Jan Knoerich, analyses the features and implications of the Digital Currency/Electronic Payments (DCEP), China's CBDC, domestically and internationally. The eighth chapter, by Nicola Bilotta, focuses on the political struggle to find a balance between anonymity and security in CBDCs systems, calling ultimately for multilateralism to ensure the transparency and fairness of CBDCs. The final chapter, by Claude Lopez, looks into the need for a global framework that meets all the challenges produced by the multiplication of private digital currencies and CBDCs.

Initiatives and projects on the developments of CBDCs are rolling out across the world. Any future CBDC system will need to ensure financial stability, competition and resilience, helping central banks to achieve their public policy objectives. The implementation of CBDCs will have a radical impact on the global economy, transforming, at least potentially, the way our society is organised. This book aims at shedding some light on the economic, financial and political implications of the development of CBDCs.