Bank of England

Exploring the case for a retail CBDC: the digital pound

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Nick McLaren

Head of the Future of Money Division

Timeline of CBDC work in the UK

September 2014:
Bank publishes paper on the economics of digital currencies

July 2016:
Bank publishes working paper on the macro-economics of CBDC

March 2018:
Former Governor Mark Carney gives speech on the future of money, including CBDCs

March 2020:
Bank publishes discussion paper on CBDCs

October 2020:
Bank, BIS and other central banks publish report on CBDCs

June 2021:
Bank publishes follow up discussion paper on new forms of digital money

November 2021:
Bank/HMT announce plans for Consultation Paper on CBDC

February 2023:
Bank/HMT publish Consultation Paper on the 'digital pound' (start of design phase)

~2025-26:
Design phase concludes and decision to be taken on whether to build

A joint Bank of England and HM Treasury Consultation Paper

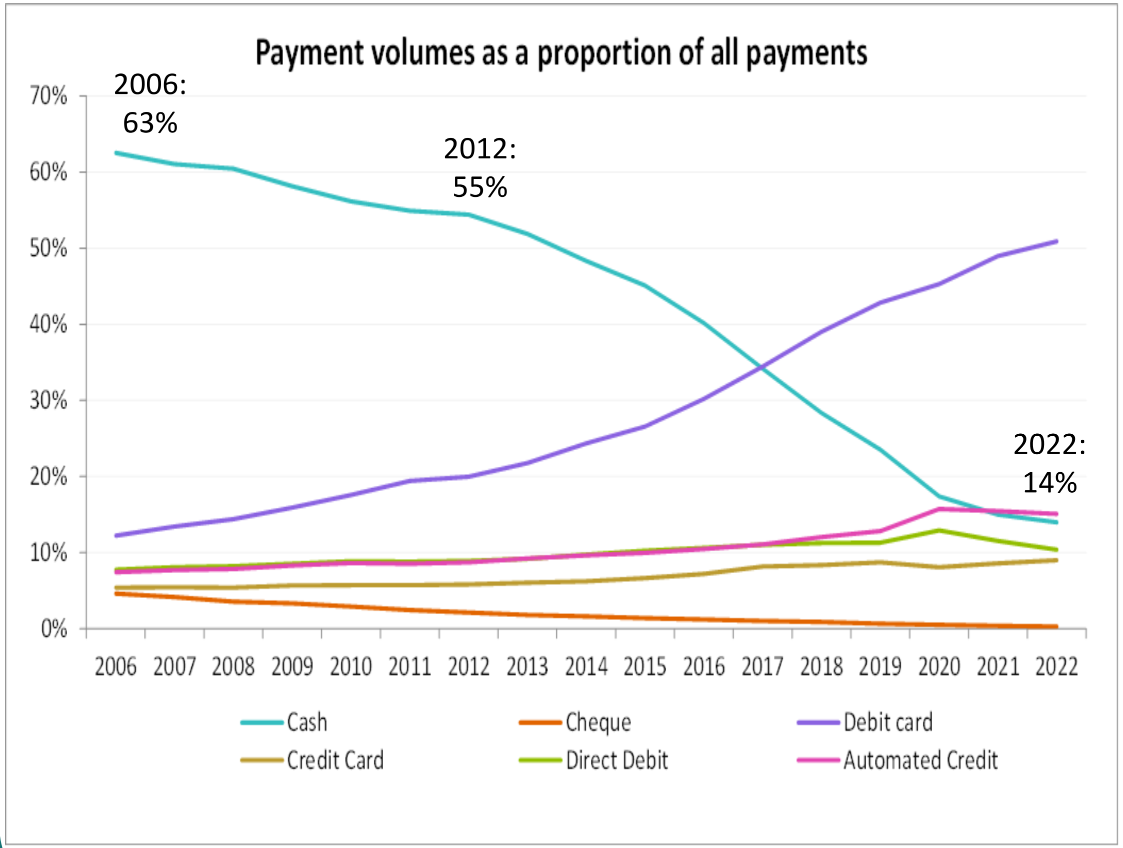
Headline: A digital pound is likely to be needed in the future

- Analyses the public policy case for a retail CBDC in the UK
- No commitment to implement, but clear step up in work into a ‘design phase’
- Sets out a proposed design to be developed in more detail in the next phase of work

Why is the digital pound likely to be needed?

Trends in payments drive the likely need for a digital pound

Decline in cash use



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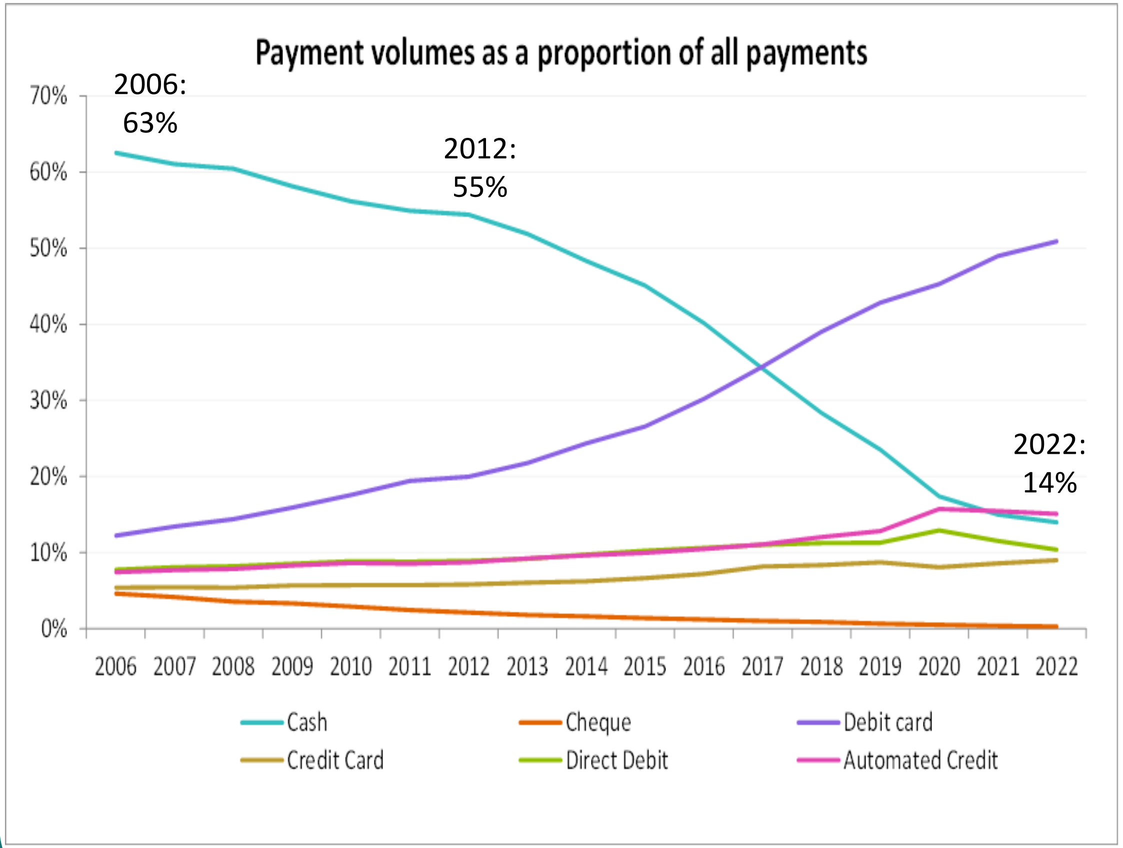
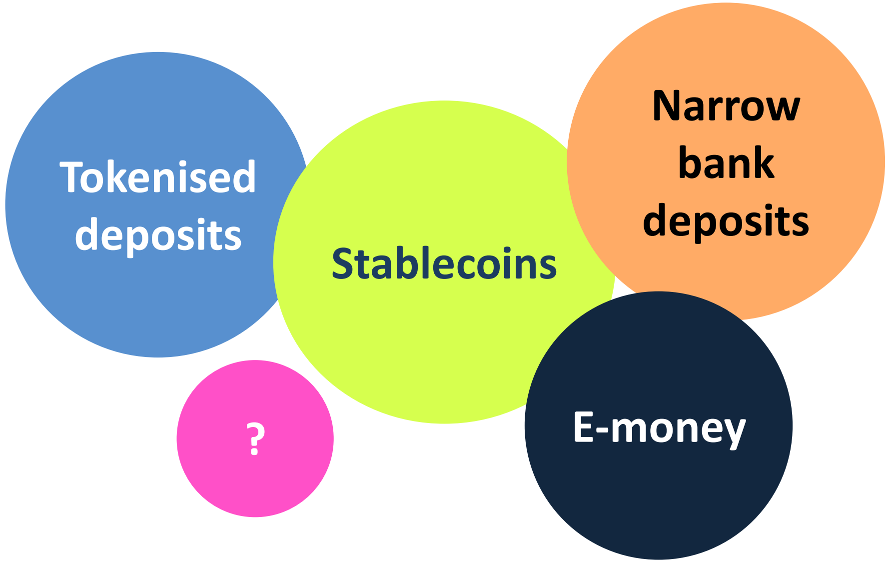


Emergence of new forms of privately-issued digital money



The uniformity of money might be threatened by payments trends

Uniformity of money – different forms of money convertible at par, on demand and widely useable.

Cash supports uniformity of money as an anchor.

The ability to convert into central bank money on demand provides a reference point for the value of private money.

There may be threats to uniformity in the future.

The emergence of **new forms of private digital money** could make the monetary system fragmented if they are not sufficiently interchangeable.

Payments innovation has supported growth and inclusivity, but also has risks

Innovation has opened up the payments market to new participants

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<u>This comes with concentration risks:</u>

- Network effects
- Economies of scale and scope
- Data advantages

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This might:

- Create payment systems with low interoperability (‘walled gardens’)
- Impair innovation
- Limit consumer choice

The policy motivations for the digital pound

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Other objectives: supporting financial inclusion, payments resilience, and improving cross-border payments

Our model for the digital pound

We propose to deliver the digital pound through a ‘platform model’

Central bank core ledger
Fast, secure, and resilient platform providing payments functionality.

API layer
Allows regulated intermediaries to connect to the core ledger.

Intermediaries
Firms providing user-friendly wallet interfaces and/or value-added services.

Users
Register with intermediaries to access the digital pound.

The platform model: role of the public sector

- Digital pounds would be held on the ‘core ledger’, so users always have a **direct claim on the Bank of England**.

- The Bank of England retains control of the core infrastructure, to ensure it is:
    - **Operationally resilient**
    - **Interoperable**
    - **Extensible** and **flexible**

- **Robust legal and regulatory framework** to protect users.

The platform model: role of private sector intermediaries

- The private sector (**Payment Interface Providers**) would provide pass-through wallets
- Wallet providers would not hold digital pounds on their balance sheet
- Non-financial firms could be involved
- There would be opportunities for businesses who do not wish to process payments (**External Service Interface Providers**)

Digital pound features: interest and limits

The digital pound would not pay interest

- Intended to be a means of payment, not a savings product

There would be a limit on how much you could hold, at least during the introductory phase

- A limit of £10,000 to £20,000 per individual is proposed

The digital pound would sit alongside, not replace, cash

The physical (and anonymous) nature of cash means there are specific activities and groups of people who are likely to continue to rely on and/or prefer cash

Digital pound features: privacy and data

A digital pound would be private but not anonymous

Users would be able to make choices about the way their data is used

Neither the Bank nor Government would have access to users’ personal data

Neither the Bank nor Government would restrict how a digital pound was spent

Key issues raised in the public consultation

Key themes from consultation responses

Over 50k responses – largest BoE consultation, and one of largest across UK government.

- **Industry, institutions and academics** generally supportive of the proposed model, albeit with different views on calibration e.g. limits.
- **General public** focussed on concerns around the concept of a CBDC, in particular:

Public sector programmability and control

Privacy

Cash

Strong reaction from the public…

Next steps

We have entered the next phase of the project

2023
Consultation

2023 – 2025/26

Design phase

Experimentation and proof of concepts

Blueprint for digital pound platform technical design

Decision on whether to build a digital pound

2025/26 (at the earliest)

Build phase

Developing prototypes

Live pilot tests

Decision on whether to launch a digital pound

The second half of the decade is the earliest point we could launch a digital pound, were we to decide to build one.