After Libra, the e-CNY and COVID-19: the new world of money and payments

Facebook's stable cryptocurrency, COVID-19, and China's central bank digital currency, the e-CNY, have caused a reorientation of monetary and payment systems around the world. ***Ross P. Buckley, Douglas W. Arner, Dirk A. Zetzsche,*** *and* ***Anton Didenko*** *envisage three emerging design choices for these systems, reflected in centralised, decentralised and hybrid models. They predict that the advent of national monetary competition through major economies' sovereign digital currencies will be one of the defining developments of the next decade.*

Over the past three years, three catalysts have caused a fundamental reorientation of domestic and international monetary and payment systems: Facebook's proposed stablecoin (Libra / Diem), China's central bank digital currency (the e-CNY), and the COVID-19 pandemic. These catalysts are in stark contrast to previous disruptions and are the focus of our recent paper.

Facebook's announcement of Libra in 2019—its own stable cryptocurrency combined with a global digital payment system and digital identification system via Facebook/WhatsApp/Instagram Pay—was the first catalyst of sufficient scale and potential to lead central banks to revisit their previous hesitancy about sovereign digital currencies. In the face of strong financial regulator hostility, Facebook redesigned their proposal to mitigate its impact on sovereign monetary policy and renamed it Diem. However, the redesign failed and Facebook (itself now renamed Meta) sold Diem in late January this year for the bargain basement price of $182 million. What was once anticipated to heavily disrupt the global financial system and pose a real threat to existing payments infrastructure is now all but dead. If Diem ever emerges from the ashes, we expect this to be in remittances, as those working offshore seek affordable ways to send money home.

Despite its failure, the Libra proposal nevertheless marks an important point in the history of money and finance. It also accelerated a second catalyst: the development of sovereign digital currencies by central banks. As Libra was a proposal by the private sector to move into the traditional preserve of sovereigns —the creation of currency—it was always likely to provoke this response. Just a few months after Facebook announced Libra, China announced its plan to launch its Digital Currency Electronic Payment (DCEP). However, despite the technical arrangements being in place following many years of work, the trials of DCEP only occurred when COVID-19 provided the final catalyst. By now, the e-CNY, as China's central bank digital currency is now called, has been extensively trialled in various Chinese cities and was used in over $8 billion worth of transactions in the second half of 2021. Most recently, further trials have been conducted at the Beijing Winter Olympics, with foreign athletes and spectators able (and encouraged) to use it and with over 300 million downloads of the app.

When the e-CNY is fully launched, it will almost certainly be the first central bank digital currency from a major economy. It has already had significant international impact, triggering the acceleration, activation, or development of a number of similar projects around the world,

For example, the Bahamas released its 'Sand Dollar' and Cambodia launched its Bakong system both in 2020 while Nigeria launched its 'e-Naira' in October 2021. India recently announced its plan to launch a central bank digital currency by 2022-23, and the UK, Singapore, Sweden, and Canada – among an increasingly large number of others – have also done significant work on central bank digital currencies. The ECB is in the midst of a major project while the US is some years behind, but even there, the Fed has recently released a report that examines the potential benefits and risks of a retail digital US dollar.

COVID-19 has accelerated these efforts, since central bank digital currencies offer potentially large improvements in the capacity of a government to direct stimulus payments to citizens in nations which lack effective, up-to-date, and comprehensive payment systems, such as the U.S.

In today's context, the push to develop central bank digital currencies is now inevitable across many economies.

In our recent paper, we envisage three emerging design choices for such systems, reflected in centralised, decentralised and hybrid models. Looking forward, neither fully private alternative payment systems nor strictly public sovereign digital currencies are likely to dominate. Rather, as with existing payment systems, we expect hybrid models involving partnerships between the public and private sectors, essentially between central and commercial banks, are most likely. In these structures, monetary arrangements will remain dominated by central banks—particularly major economy central banks—with the private sector involved in various payment configurations. This hybrid sovereign digital currency model will merge the monetary and the payment system in many cases, with the greatest potential benefits arising from addressing the challenges of the COVID-19 crisis and supporting financial inclusion and sustainable development going forward.

Such a framework offers the potential to support globalisation through the creation of a common technological framework for money and payments at the international level but also provides the potential for the global monetary and financial system to fragment into competing major currency blocks. Unfortunately, the latter appears more likely in the current environment with the potential emergence of the e-CNY, a Digital Dollar, a Digital Euro, and other major economies' sovereign digital currencies.

It is now clear that the advent of national monetary competition through major economies' sovereign digital currencies will be one of the defining developments of the next decade, with major implications not only for money and payment but also for finance and trade, both domestically and across borders.

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Notes:

- *This blog post is based on After Libra, Digital Yuan and COVID-19: Central Bank Digital Currencies and the New World of Money and Payment Systems, European Banking Institute Working Paper Series 65/2020, University of Hong Kong Faculty of Law Research Paper No. 2020/036, and UNSW Law Research Paper No. 20-59*
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