DANMARKS NATIONALBANK

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Danmarks Nationalbank sees considerable drawbacks to introducing central bank digital currency in Denmark

Central bank digital currency would not result in better payment solutions



The introduction of central bank digital currency would fundamentally change Danmarks Nationalbank's role in the financial system, and make Danmarks Nationalbank a direct competitor to the commercial banks.



Central bank digital currency would present challenges to financial stability and would not provide any new opportunities for monetary policy.

ABOUT NEWS

News is a news article based on an analysis, a working paper or other longer texts written by Danmarks Nationalbank News primarily address journalists, politicians, government officials, specialists and other persons who want to be kept updated on current topics.

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The potential benefits of introducing central bank digital currency in Denmark would not match the challenges resulting from such a decision. Issuing central bank digital currency would make the central bank a direct competitor to the commercial banks. This introduction would also lead to risks of financial instability.

This is Danmarks Nationalbank's conclusion in an analysis which weighs up the advantages and drawbacks of introducing central bank digital currency as a supplement to physical cash and commercial bank deposits.

"In a Danish context, it is unclear what central bank digital currency would be able to contribute that is not already covered by the current payment solutions," the analysis states, pointing out that Denmark has a secure and effective payments infrastructure which, among other things, provides for immediate settlement of payments and includes guarantees for bank deposits up to approximately kr. 750,000.

No to central bank digital currency, but not to new technology

Central bank digital currency would be a new type of money. Like cash, central bank digital currency would be a claim on Danmarks Nationalbank, although it would be digital like deposits with the commercial banks. On the other hand, central bank digital currency is nothing like private cryptocurrencies such as bitcoin.

Central bank digital currency could be introduced by giving all residents access to an account at Danmarks Nationalbank. The fundamental question is not whether this is technically possible, but how it would affect the financial system. Nor is the debate concerning central bank digital currency a question of saying yes or no to new technologies, such as blockchain. These technologies can still be used and implemented in the financial sector, without central bank digital currency.

Financial stability might be challenged

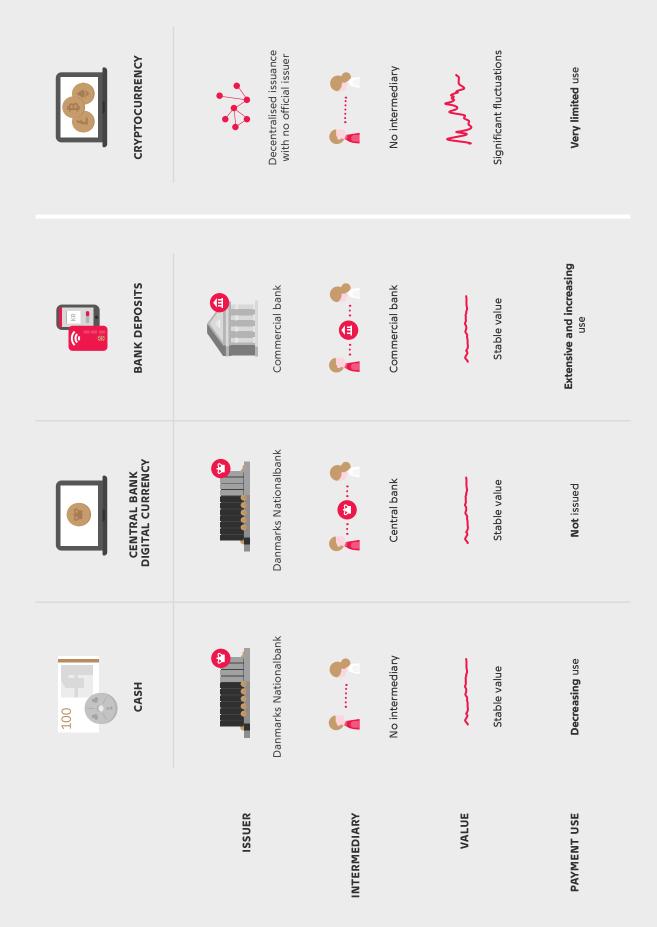
Danmarks Nationalbank's core tasks are to maintain a secure payment system, support financial stability, and ensure stable prices via monetary and exchange-rate policy. Danmarks Nationalbank handles these tasks by, among other things, serving as banker to the commercial banks. Issuing central bank digital currency would make Danmarks Nationalbank a retail bank for households and businesses and would fundamentally change Danmarks Nationalbank's role. It is not part of Danmarks Nationalbank's objective to compete with the commercial banks by providing deposit accounts and digital payment solutions to households and businesses.

Danmarks Nationalbank assesses that central bank digital currency might also jeopardise the stability of the financial system. A bank run, in which many households and businesses withdraw their bank deposits at the same time, could be far more serious if there was an option to transfer these deposits to an account at Danmarks Nationalbank within a few seconds, instead of having the deposits paid out in cash. The banks might then face an acute and significant funding need, leading to financial instability.

Issuing central bank digital currency could also present significant legal and administrative challenges for Danmarks Nationalbank, without any clear benefits for society, e.g. in relation to the anonymity of payments and access for non-residents. With regard to monetary policy there are no potential benefits from introducing central bank digital currency in this respect either.

Read the full analysis concerning central bank digital currency on Danmarks Nationalbank's website (*link*).

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