CENTRAL BANK DIGITAL CURRENCIES: PROS AND CONS

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This paper aims to present the arguments of supporters and opponents of the introduction of national digital currencies. The study also reveals the essence of the difference between the National Digital Currency and cryptocurrency, provides a list of arguments for and against the introduction of digital national currencies, as well as personal opinion of the author of the article on this issue.

Keywords: digital currency; cryptocurrency; new economy; central bank; central bank digital currency (CBDC).

INTRODUCTION

The topic of digital currencies is now on the front pages of the world's major media, arousing the interest of both politicians and business giants, as well as ordinary people. Several of the world's largest economies have now announced plans to develop and implement a national digital currency in the very near future. And, as is often the case with any global issue, attitudes toward digital currencies range from joyful optimism to total rejection. In our paper we will try to give all the arguments for and against the introduction of digital currencies.

RESEARCH MATERIAL AND METHODS

To present foundation to our arguments we have analyzed the definitions available. According to the most widespread approach, a central bank digital currency (hereinafter – CBDC) (also called digital fiat currency or digital base money) is a digital currency issued by a central bank, rather than by a commercial bank. It is also a liability of the central bank and denominated in the sovereign currency, as is the case with physical banknotes and coins [1].

A comprehensive analysis conducted has led us to the idea that it is important to distinguish between digital currency and cryptocurrency. In addition to the main difference – the presence of a digital fiat currency issuing center in the form of a central bank – there are also a number of other differences, which can be summarized as the following formula: Digital fiat currency is an electronic, non-physical, full analogue of a conventional national currency.

After having investigated various experts' opinions on the roots of digital currency creation we adhere to the tenet suggested by the experts from the Financial Times [2], the main prerequisites for the emergence of the idea of creating national digital currencies were:

- The modern system of monetary relations itself, also known as the Jamaican system, which implies in particular the rejection of backing a national currency with gold or other material goods, instead assuming a market system of floating exchange rates, in which the currency is backed by the entire economic power of the state.
- A significant spread of high technology, digitalization and automation.
- As a consequence, a sharp increase in the share of non-cash payments in the economies of developed countries.

The immediate impetus for the decision to create CBDC was the staggering increase in the popularity of cryptocurrencies in the world.

In spring 2023, the following countries have announced the development of their national digital currencies: the United States, China, Russia, the European Union, Ukraine, Sweden, Nigeria, India, Kazakhstan, Belarus and other.

Now, having studied the basics of the topic under consideration, let us move directly to the reasoning in the argument for or against CBDC.

The arguments for the introduction of national CBDC include:

- Reduction of costs associated with the circulation of cash currency (printing banknotes and their wear and tear and loss)
- As an outcome from the previous argument, digital currencies make transaction costs cheaper.
- Security issues. Stealing digital currency, according to the ideologists of this approach, is much more difficult than stealing cash currency.
- An increased control. Digital currency is easier to trace in case of necessity – for example, when investigating a crime.

According to a leading expert in the field, Jake Frankenfield, all the main advantages of CBDC boil down to the natural advantages of digital technology in general [3].

The dual approach to analyzing the digital currency essence was employed. After focusing on the pitfalls of this currency, we consider it useful to cite the list of counterarguments, elaborated by opponents of the introduction of digital national currencies which is quite impressive.

- Excessive control. Paradoxically, many people cite one of the main disadvantages of the technology as one of its main advantages. Opponents point to the potential abuse of CBDC by some governments to increase control over citizens' economic activities. Cash that is kept as a stash is difficult to seize, while digital currency in a virtual account can be frozen with a click of a button.
- Vulnerability to hacker attacks. Despite all the security measures taken, frauds and other types of cybercriminals also do not stand still, coming up with more and more sophisticated ways to bypass protection and hack into

currency accounts. If some hacker manages to hack the national digital currency, it could jeopardize the entire economy of the country and even the world.

- The dependence of the normal functioning of the economy on a stable supply of electricity and communication systems. In the event of a force majeure situation, the least protected categories of the population, such as the elderly and residents of remote regions, will be the first to be at risk.

RESULTS AND DISCUSSION

Implementation of the CBDC in various countries has revealed several imperfections. Thus, according to Jake Frankenfield, the disadvantages of the CBDC can be described as a part of the general problems of the relationship between the state and new technologies. Often the same argument, as we have already noted above, can be considered both for and against the introduction of national digital currencies, depending on the specific situation in the country [3]. There has been accumulated plenty of evidence that the stages of deployment of this currency type yet require a thorough investigation.

CONCLUSION

To conclude, the position of the author of this article is that it is impossible to answer the question FOR or AGAINST CBDC unambiguously, as it is often the case in Economics. Results of the experimental introduction of CBDC will be deferred. In our opinion, we should cautiously and gradually introduce the national digital currency as a supplement to, but not a substitute for, the conventional currency, while maintaining the parallel circulation of cash currency. This experiment should last at least 5 years.

References

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