

UK and US stuck on CBDC hypotheticals as developing nations plow ahead with testing

Article

The news: Regulators in the UK and the US took different stances on central bank digital currencies (CBDCs).

A [report](#) by the Economic Affairs Committee for the UK's House of Lords acknowledged benefits but decided there was no convincing case for a retail CBDC.

- The report highlighted advantages like meeting future payment needs in a digital economy and solving the issue of falling cash use.
- However, the committee said it would be difficult to strike a balance between compliance monitoring and individual privacy. The report also warned that a CBDC could threaten the banking sector and create economic instability.
- The report concluded with questions for the government's joint task force, which was created by the Bank of England and HM Treasury to explore a CBDC. The Economic Affairs Committee wants to know what threat privately issued stablecoins and cryptos present to the country's monetary system, how a CBDC would mitigate those threats, and what regulations would be necessary.

US Federal Reserve Chair Jerome Powell said that a “well-regulated, privately-issued stablecoin” and a potential Fed digital dollar could coexist, per Bloomberg.

- The US hasn't decided whether to launch a CBDC and is currently investigating the advantages and disadvantages it would bring. In recent comments to the Senate Banking Committee, Powell said that the Fed would release a report on digital currencies in the coming weeks.
- The Fed and other agencies have previously [said](#) that stablecoins need to be better regulated and should be issued by banks.
- Like the UK, regulation is a big question when it comes to CBDCs and other cryptos: A November report on stablecoins released by the President's Working Group on Financial Markets called for Congress to pass legislation that would subject private coin issuers to similar regulations as banks.

Why it's worth watching: Cryptos present [unique benefits](#) for things like B2B payments and remittances—and lately, there's been more chatter about stablecoins and CBDCs as viable payments tools because they generally involve less risk than “traditional cryptos” like Bitcoin.

- **Stablecoins.** Because they're pegged to an underlying asset like gold or the US dollar and tend to be less volatile, they're more attractive for payments. **Visa** and **Mastercard** have already announced stablecoin-related solutions, and **PayPal** is [considering](#) creating its own.

- **CBDCs.** These government-backed currencies can be more secure and stable but require extensive testing. And for them to be effective, they should be easily accessible—which could mean tying them to popular payment channels, like **WeChat's** [link](#) with China's digital yuan.

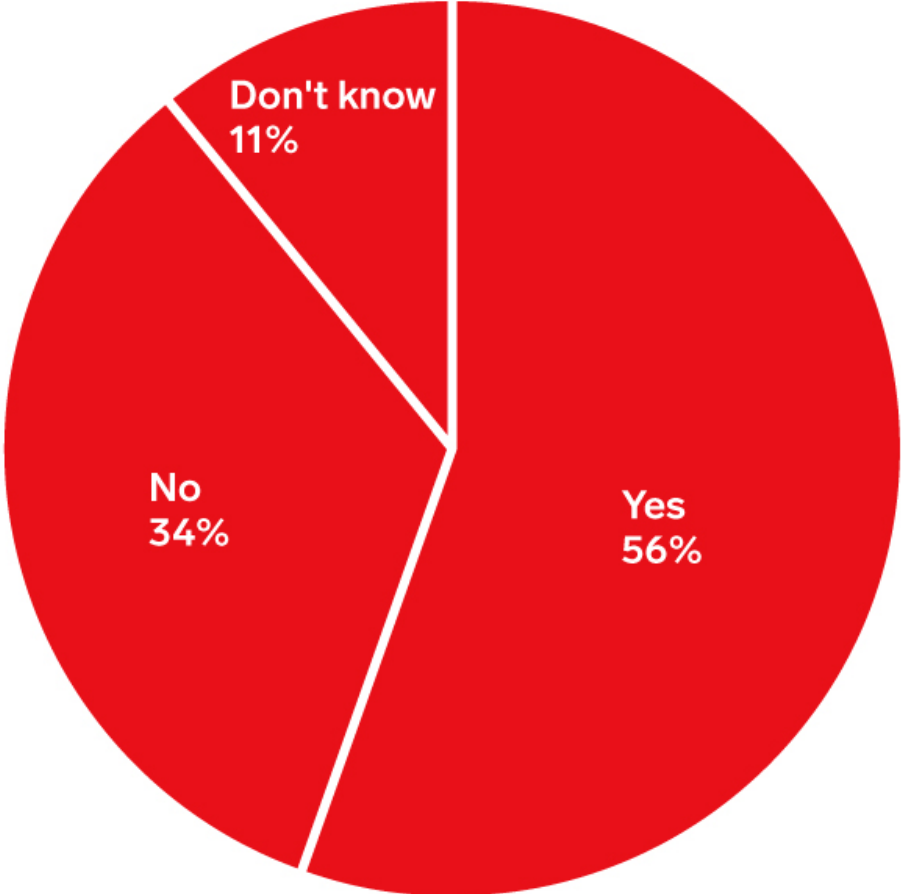
The bigger picture: As developed markets like the UK and the US hem and haw over regulatory nuances, developing nations like [India](#) (which we [predict](#) will be the next major market to launch a CBDC) are quickly moving ahead. [China](#), for example, is getting closer to launching its digital yuan.

This might be because CBDCs present a promising solution to help bring unbanked consumers into the financial system. And since developing countries tend to have more unbanked consumers, they may be more incentivized to roll out CBDCs. But other benefits, like payment digitization and tighter control over their respective financial systems, are likely also influencing their CBDC pushes.

Related content: Interested in learning more about CBDC and stablecoin use cases? Check out our [“Blockchain in Payments”](#) report.

Likelihood of Central Bank Digital Currencies (CBDCs) to Replace Physical/Fiat National Currencies in Their Country According to Institutional Investors Worldwide, March 2021

% of respondents



Note: numbers may not add up to 100% due to rounding
Source: The Economist Intelligence Unit, "Digimentality 2021: Digital Currency From Fear to Inflection," May 27, 2021

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