

In October 2021, the IFM program of the Central Bank Research Association (CEBRA), where our co-director Galina Hale serves as program director, held a joint conference with the European Central Bank (ECB) on “International aspects of digital currencies and fintech.” The conference focused on the implications of the growing role of digital currencies and fintech for the international monetary and financial system. It brought together high-quality researchers and policymakers to discuss the implications of digital currencies, global stablecoins and the digitalisation of finance for the international monetary system, exchange rates, capital flows, global financial assets and spillovers. Fabio Panetta, Member of the ECB Executive Board delivered opening remarks. Eswar Prasad (Cornell University) and Tara Rice (Bank for International Settlements) served as keynote speakers. More details are on the conference [website](#). What did we learn?

## International Aspects of Digital Currencies and Fintech

**Digital currencies and fintech are new phenomena** - so how do we analyze them? One of the activities in which humans still consistently beat machines is pattern recognition: using what we already know and drawing parallels and contrasts between the new and the familiar. This is how most conference participants tackled the question of what we should expect from digital currencies and fintech.

**Digital currencies can be viewed as money.** As such, they can be analyzed according to functions of money: unit of account, means of exchange, and store of value. A number of papers highlighted both similarities and differences between traditional currencies and digital currencies with respect to each of these functions, both in domestic and international contexts. One example was the discussion of the challenges Central Bank Digital Currencies (CBDCs) are likely to face as means of exchange in international context.

**Digital currencies, like other money, can also be viewed as financial assets.** In case of CBDCs this means that central banks can introduce assets on which they can pay interest and therefore control an interest rate in the economy directly. This has implications for price stability domestically as well as for transmission of monetary shocks to exchange rates and across countries. As a result, if CBDCs are well designed, they can improve macroeconomic outcomes without crowding out bank services.

**What are potential concerns with digital currencies,** whether private or CBDC? One concern is that they may compete against financial institutions, especially if they are interest-bearing, by reducing the amount of money deposited into bank accounts. Because deposit funding is very important for the stability of the banking system, this may present a systemic financial risk. It is still unclear whether digital currencies are likely to amplify international transmission of financial shocks or to improve international risk sharing - this depends on designs of specific currencies and markets, some of which are conceptually new, such as degree of centralization in the blockchain permission system.

Turning to fintech more generally, speakers noted its fundamental novelty due to technological underpinning, scalability, and potential for leapfrogging stages of financial development for some countries. These too, come with risks. These risks include technological factors, cybersecurity risks, blockchain-specific risks. The governments' role is to identify and control these risks and to design backstop for private payments infrastructure akin to governments' role as lenders of last resort.