**Research Proposal on Central Bank virtual currencies, money supply, and interest rate nexus in Europe.**

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# **CHAPTER ONE: INTRODUCTION**

## **1.0 Introduction**

Central banks have traditionally held influence over the money supply and interest rates. In many countries, central bank policy is used to achieve macroeconomic objectives such as inflation targeting or full employment. The European Central Bank (ECB) has recently started to explore the idea of issuing virtual currencies such as e-Euros to reduce their reliance on conventional monetary policy tools.

The present study aims to comprehensively analyze the monetary policy nexus in Europe and its implication on central banks' use of virtual currencies. The study is structured as follows: first, two economic models are explored; second, historical data on monetary policy will be analyzed from various regions within Europe; third, the central bank's balance sheet will be studied to determine how it can accommodate the creation of virtual currencies. This study concludes that the monetary policy nexus between central and commercial banks can easily be understood even if the ECB creates its virtual currency. By understanding the monetary policy nexus, we can know how it affects commercial banks' business model and what factors lead to the alterations in their performance. Moreover, it will help us better understand how central banks' use of virtual currencies may affect the stability of European monetary policy.

## **1.1 Background Information**

A Central Bank is the most potent independent monetary regulator in a country. In the United States, for example, the Federal Reserve System plays a vital role in monitoring financial market conditions and issuing a monetary policy to meet the country's macroeconomic objectives (Grifolli et al., 2018). A central bank is often seen as a highly technical organization with little interaction with other institutions in the financial industry, such as commercial banks or credit rating agencies. However, central banks are usually not isolated institutions with no influence over commercial banks. A central bank's monetary policies are often used to regulate commercial banks.

Central banks' influence on commercial banks is often seen in the business models of these two institutions. Banks have traditionally borrowed money from their depositors and lent it to their borrowers. A bank's business model is very profitable because it has to pay only a little interest on the deposits while receiving much more interest from its borrowers (Meaning et al., 2018). However, banks' influence on central banks can also be seen in the interest rate, which is one of the most critical policies to control the money supply. Central banks can stimulate economic growth or slow inflation by setting an appropriate interest rate.

## **1.3 Research Objectives**

1. Determine the importance of the monetary policy nexus, banking system activities, and interest rates in all European developed and developing countries.

2. Evaluate the relative importance of monetary policy actions on commercial banks' business model and performance.

3. Measure the extent to which central banks' monetary policy decisions affect commercial banks.

4. Determine the influence central banks have over commercial banks.

## **1.4 Research Aims**

This study aims to answer the following questions:

1. Are European central banks using monetary policy to influence commercial banks?

2. Is the ECB's virtual currency an excellent method to control monetary policy?

3. What factors affect banks' performance and business model?

4. What are the critical areas of control for central banks to influence commercial banks?

## **1.5 Research Questions**

1. Is the monetary policy nexus in Europe strong enough to incorporate virtual currencies?

2. What factors affect the monetary policy decisions of European central banks?

3. Are the ECB's interest rates similar to the market ones?

## **1.6 Significance of the study**

This study will help financial institutions and regulatory authorities better understand the monetary policy nexus in Europe. It will provide valuable recommendations related to the performance of European commercial banks. Through this study, we can understand why central banks' monetary policy differs from commercial banks and what factors affect both decisions (Grifolli et al., 2018). The ultimate goal is to control European countries' economic and financial policies.

# **CHAPTER TWO: LITERATURE REVIEW**

## **2.0 Overview**

The research project aims to evaluate the European monetary policy nexus between central and commercial banks. The monetary policy nexus is a factor that affects the central bank's decisions and, consequently, commercial banks' performance. The objective of this study is to evaluate the monetary policy nexus in Europe, especially in the European Union, which contains more than one central bank. This project aims to analyze how European countries perform in terms of economy and how central banks deal with commercial banks.

Iorember et al., 2022 discussed the monetary policy nexus in the financial systems of Europe. Initially, it explored central banks' role, including those in different countries. The study explained that central banks were not isolated institutions in the financial sector and contributed to addressing commercial banks' interest rates. It also said central banks could stimulate growth or slow inflation by setting an appropriate interest rate 9Iorember et al., 2022). The authors defined the monetary policy nexus in different countries and evaluated the central bank's role in the financial sector. They also discussed the characteristics of the monetary policy nexus in other countries. While the US has a robust economic policy nexus, the EU countries have weaker nexus (Doğan, 2020). The study also discussed monetary policy changes in different countries and how they affect the performance of financial institutions.

Meaning et al., 2018 discussed the relationship between monetary policy and commercial banks. They argued that combining economic policies could increase effective demand for commercial bank loans, leading to a more robust economy (Balling et al., 2019). The paper also explained that commercial banks were crucial in the monetary policy nexus of central banks. Furthermore, the study evaluated how different economic policies, such as quantitative easing, affect commercial banks' performance. Meaning et al., 2018 also discussed the significance of virtual currency. They argued that central banks could use a virtual currency to set an appropriate interest rate, stimulating economic growth and closing the output gap.

Belke &Beretta 2020 on digitizing currency, discussed the relationship between monetary policy and commercial banks. The study explained that central banks were not isolated institutions in the financial sector but significantly impacted commercial banks' business models and performance. They also discussed the negative effect of commercial banks' business models on economic growth. Belke &Beretta, 2020 also discussed the benefits of digitizing money and its relationship to monetary policy (Iorember et al., 2022). Furthermore, they informed readers about virtual currency and its impact on monetary policy. The study also explained how digital currency could benefit central banks' monetary policy, especially in developing countries with weak financial sectors. The study also provided recommendations for financial institutions on how to be more inclusive and inclusive of the customer.

Grifolli et al., 2018 discussed the impact of digitizing money on monetary policy, especially in developing countries. The study also evaluated how central banks could conduct monetary policy using a digital currency. In addition, they explained how different digital currency structures differed and provided recommendations for financial regulators and central banks moving forward in implementing a digital currency.

# **CHAPTER THREE: RESEARCH METHODOLOGY**

This section will briefly describe the method of study used in this research. This research project is conducted using secondary data. The secondary data is from commercial banks, central banks, and regulatory authorities throughout the European Union (Auer et al., 2022). Analysis of this data provides valuable recommendations related to the European monetary policy nexus of central banks.

## **3.1 Research Approach**

This project will explore the European monetary policy nexus of central banks. The research approach for this study is a qualitative data analysis of commercial banks, central banks, and regulatory authorities throughout the EU. The data will be analyzed to evaluate the monetary policy nexus in different countries and its relationship with commercial banks' performance. The evaluation will conclude with recommendations for central banks about how to run their financial sectors.

## **3.2 Research Strategy**

The study will also use a secondary source, such as academic journals related to finance and accounting. Commercial banks, central banks, and regulatory authorities will be consulted to obtain additional information about the European monetary policy nexus of central banks (Doğan, 2020). Qualitative data analysis of commercial banks, central banks, and regulatory authorities will be used to evaluate the relationship between commercial banks' business models and performance.

## **3.3 Method of Data Collection**

The method will be to gather secondary data from commercial banks, central banks, and regulatory authorities (Belke & Beretta, 2020). It will provide valuable information about the European monetary policy nexus of central banks and their relationship with commercial banks.

## **3.4 Validity and Reliability**

### **3.4.1 Validity**

The validity of the data will be the primary concern. It will be analyzed to see whether or not it supports the hypothesis. The hypothesis is that commercial banks' business models negatively affect economic growth and job creation while also slowing inflation.

### **3.4.2 Reliability**

The Reliability of the data will be another concern. The data should be reliable enough to support the hypothesis.

## **3.5 Data Analysis**

The data will be analyzed using a qualitative method to explain the relationship between commercial and central banks. The analysis will include commercial banks, central banks, and regulatory authorities throughout the EU.

## **3.6 Limitation of the Methodology**

The limitation of this methodology is that the availability and credibility of data will limit it. This is a recurring problem in quantitative studies, especially one like this that utilizes secondary sources. The availability and credibility of the sources may modify the data.

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