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IMF: Nations Need to Consider a Central Bank Backed Cryptocurrency

by Fintechnews Singapore / November 14, 2018



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During her speech at Singapore Fintech Festival 2018, Christine Lagarde, IMF's Managing Director expressed the need for states to consider the possibility to issue digital currency, adding that there may be a role for the state to supply money to the digital economy.

Ms Lagarde is of the opinion that a central bank backed cryptocurrency could achieve the following goals financial inclusion, security and consumer protection; and to provide what the private sector cannot — privacy in payments.

How a central bank backed cryptocurrency could aid financial inclusion

She shared during her speech that cryptocurrencies offer great promise through its through its ability to reach people and businesses in remote and marginalized regions where banks are not exactly rushing to serve poor and rural populations.

Ms Largarde further added that it is critical because cash might no longer be an option, if the majority of people adopt digital forms of money, the infrastructure for cash would degrade, leaving those in the periphery behind.

She emphasized of course, cryptocurrency is not necessarily the only answer. There may be scope for governments to encourage private sector solutions, by providing funding, or improving infrastructure.

The case for security, privacy and consumer protection

“Without cash, too much power could fall into the hands of a small number of outsized private payment providers. Payments, after all, naturally lean toward monopolies—the more people you serve, the cheaper and more useful the service.” said Ms. Largarde

She also expressed concerns for private firms under-investing in security to the extent that it may cause some form of systemic failure that regulation not necessarily equipped to redress. She pointed out that a central bank backed cryptocurrency could offer advantages, as a backup means of payment and give its grandfather the old reliable paper note a run for its money.

An interesting thought that Ms. Largarde brought up during the speech for the need for privacy in the age where customer profiling is becoming increasingly sophisticated.

She quipped *“Consider a simple example. Imagine that people purchasing beer and frozen pizza have higher mortgage defaults than citizens purchasing organic broccoli and spring water. What can you do if you have a craving for beer and pizza but do not want your credit score to drop? Today, you pull out cash. And tomorrow? Would a privately-owned payment system push you to the broccoli aisle?”*

Using that as an example she stated that cryptocurrency could offer a real alternative to other forms of payments but she was quick to point out that it would be unwise for central banks to offer fully anonymous digital currency or they will risk creating a bonanza for criminals.

A win-win framework for privacy and financial system integrity?

Instead of fully disregarding the benefits of privacy for consumers on the account of bad actors, Ms. Largarde offered an alternative. She said central banks might design digital currency so that users' identities would be authenticated through customer due diligence procedures and transactions recorded.

The identities would not be disclosed to third parties or governments unless required by law. So when someone purchases pizza and beer, the supermarket, its bank, and marketers would not know who they are. The state might not either, at least by default.

Anti-money laundering and terrorist financing controls would nevertheless run in the background. If a suspicion arose it would be possible to lift the veil of anonymity and investigate.

This setup would be good for users, bad for criminals, and better for the state, relative to cash.

The jury is still out but exploration is encouraged

Her closing message is that while the case for digital currency is not universal, we should investigate it further, seriously, carefully, and creatively.

In the world of Fintech, she stressed that we need to harness change so it is fair, safe, efficient, and dynamic in line with goal of the [Bali Fintech Agenda](#) launched by the IMF and World Bank last October.

Her full speech can be found [here](#)

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CENTRAL BANK BACKED CRYPTOCURRENCY

IMF

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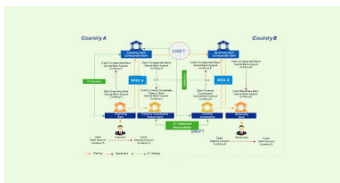
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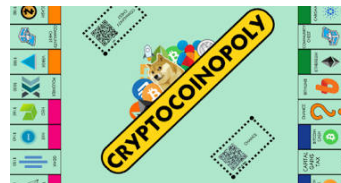
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14 November, 2018, 16:49

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#2

14 November, 2018, 18:44

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14 November, 2018, 23:50

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#4

20 November, 2018, 08:05

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20 November, 2018, 12:41

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28 January, 2019, 10:47

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4 BITCOIN TRENDS LIKELY TO DOMINATE 2019 – DAILY BITCOIN REPORT

#8

16 February, 2019, 21:02

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16 February, 2019, 21:04

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#11

16 February, 2019, 21:08

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16 February, 2019, 21:10

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16 February, 2019, 21:12

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16 February, 2019, 21:21

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16 February, 2019, 21:22

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#16

16 February, 2019, 21:25

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16 February, 2019, 21:27

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16 February, 2019, 21:44

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16 February, 2019, 21:49

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16 February, 2019, 21:51

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16 February, 2019, 21:53

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16 February, 2019, 22:00

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16 February, 2019, 22:06

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#24

16 February, 2019, 22:13

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16 February, 2019, 22:14

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16 February, 2019, 22:21

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16 February, 2019, 22:26

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16 February, 2019, 22:42

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16 February, 2019, 22:58

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16 February, 2019, 23:20

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16 February, 2019, 23:49

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17 February, 2019, 00:02

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17 February, 2019, 00:40

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17 February, 2019, 02:02

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#41

17 February, 2019, 02:23

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17 February, 2019, 05:04

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17 February, 2019, 05:08

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17 February, 2019, 06:05

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17 February, 2019, 08:04

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STEEM | 4 BITCOIN TRENDS LIKELY TO DOMINATE 2019

#47

17 February, 2019, 08:46

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17 February, 2019, 10:05

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#49

17 February, 2019, 14:05

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17 February, 2019, 16:06

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ASGEIR

#51

25 February, 2019, 11:25

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1 March, 2019, 09:30

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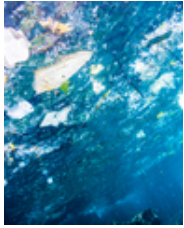
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