Digital Money and Central Banks Balance Sheet

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Digital money is a logical step in a process of continuous technological advancement in payment systems. In response, central banks are reviewing their conduct of monetary operations in light of the new shape of financial markets and systems. The impact of digital money will depend on the type of money substitution by digital money. The paper straddles several cases where substitution of CiC (currency in circulation), and bank deposits may take place via digital money such as CBDC or other e-money, and how it would impact the central bank balance sheet. Remuneration of CBDC, if aligned to a new objective, could potentially amplify the effect on the interest rate channel of monetary policy.

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