

Monetary policy

The end of privacy? Central banks plan to launch digital coins

As regulators crack down on cryptocurrencies, policymakers develop state-run versions



Representations of cryptocurrencies including Bitcoin, Dash, ethereum, ripple and Litecoin. Central banks are trying to create their own versions © Florence Lo/Reuters

Eva Szalay in London, **Colby Smith** in New York and **Thomas Hale** in Hong Kong 8 HOURS AGO

The dilemma central banks face over how to tackle the world's rapidly growing cryptocurrency market has been thrown into stark relief in recent days by two very different announcements.

On Thursday, global regulator the Basel Committee on Banking Supervision said that cryptocurrencies [are some of the world's riskiest assets](#), and called for tougher capital rules and stricter oversight of investors' holdings.

However El Salvador had just a day earlier [announced](#) that it would make bitcoin a legal tender — the first country in the world to do so.

Regulators and central banks are fighting for control of the monetary system as cryptocurrencies become an increasing challenge to fiat currencies, threatening to blunt the levers policymakers rely on to control the running of their economies.

“It is no surprise that governments are not inclined to give up their monetary monopolies,” said Marion Laboure, an analyst at Deutsche Bank. “As cryptocurrencies begin to seriously compete with regular currencies and fiat currencies, regulators and policymakers will crack down.”

A digital currency revolution [could be] either a triumph of decentralisation and market forces or a triumph of centralisation and government monitoring

Randall Kroszner, University of Chicago
Booth School of Business

There are broadly two options: regulation and competition. Most countries are inching towards a combined approach of tightening supervision over cryptocurrencies and private payment systems while also developing central bank-backed digital coins.

The EU set out a regime for [overseeing](#) cryptocurrency markets in September last year and national regulators in the bloc have also taken steps. For example Germany’s BaFin has been [pushing back](#) against efforts by crypto exchange Binance to issue digital tokens that mimic more tightly controlled traditional securities.

Regulators elsewhere are also on the move. In May, the People’s Bank of China escalated its multiyear [crackdown](#) on cryptocurrencies, saying that financial institutions should not accept them as payment or offer services related to them.

China, which once accounted for the majority of bitcoin trading globally, first moved to close down cryptocurrency exchanges in 2017. Last month there were also signs of greater pressure on the mining of virtual currencies, with the province of inner Mongolia setting up a [hotline](#) where people could report suspected mining outfits.

After a more sluggish start, regulators in the US are also showing [signs](#) of [taking a firmer approach](#) towards bitcoin and its peers, although there are rifts about the extent of the crackdown.

Hester Peirce, a senior member of the Securities and Exchange Commission, recently warned against overly strict regulatory requirements for cryptocurrency markets. Her remarks contrasted with new commissioner Gary Gensler’s [calls](#) to bring them under closer supervision.

Meanwhile many central banks are embracing the technology behind cryptocurrency in an attempt to compete with existing coins. Nearly 90 per cent of the world's central banks have launched projects on issuing digital currencies according to the Bank for International Settlements.

“Central banks representing a fifth of the world's population say they are likely to issue the first central bank digital currencies in the next few years,” the BIS said in a report in January.

Potential benefits include making cross-border payments cheaper and faster and giving access to the monetary system to all individuals, rather than dividing the world into those with bank accounts and the unbanked. National digital currencies could also trigger a reshuffling of the world's most dominant currencies.

“We do not usually associate disruption with central banks. But a major move to introduce central bank digital currencies could actually disrupt the financial system,” said Chetan Ahya, an analyst at Morgan Stanley, in a research note.

But the gamble risks sparking a vicious row about data privacy because officially run digital currencies could hand unprecedented power to policymakers.

Unlike cryptocurrencies which operate on decentralised systems, central bank digital currencies would be issued, backed and controlled by domestic national banks, giving them the ability to pay money directly to individuals. That would allow central banks and national governments to monitor every transaction and keep a record of all money movements in their economies.

“A digital currency revolution could go in two directions: either a triumph of decentralisation and market forces or a triumph of centralisation and government monitoring of every transaction,” Randall Kroszner of the University of Chicago Booth School of Business told the Financial Times.

It could also shake up other economic relationships. Bank of England deputy governor Sir Jon Cunliffe recently said that a digital pound would allow parents to programme their children's pocket money so that they are unable to buy sweets, illustrating the potential powers of the UK's planned “bitcoin”.

China, Sweden and the Bahamas are the world leaders in the efforts to develop national cryptocurrencies. China has already launched live trials of its digital renminbi with millions of people currently using it as an experiment.

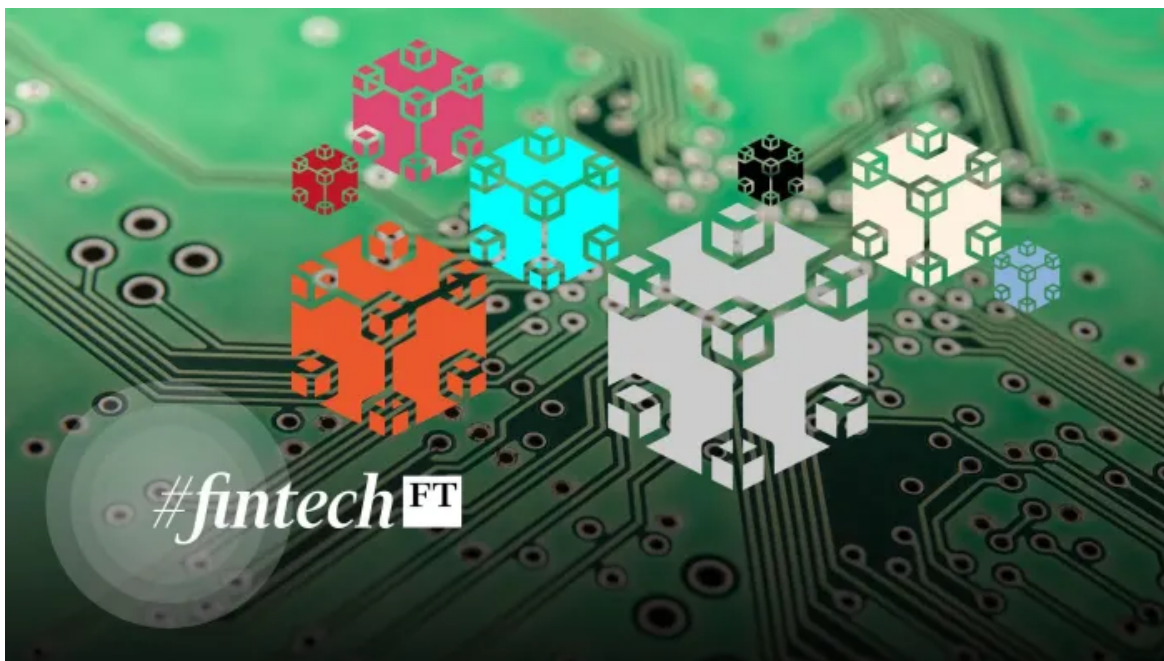
After a slower start, central bankers in the US, Europe and the UK are also responding. The ECB recently concluded a public consultation on a digital euro and will make a decision on whether to move forward with a formal investigation phase later this summer.

Last month US Federal Reserve chair Jay Powell outlined its plans to assess the prospects of a digital version of the dollar, although he said there would be a “thoughtful and deliberative process” this summer before making any firm commitments.

That leaves policymakers and regulators in a race against time to grapple with the ethical issues involved, as the economic role of privately run cryptocurrencies grows rapidly.

“The dilemma society faces is: do we really want a central bank to know all about our financial lives?” said Eswar Prasad of Cornell University. “The great irony is that the revolution that bitcoin set off could be the end of [financial] privacy.”

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