



BURKHARD BALZ

Member of the Executive Board,
Deutsche Bundesbank

Are crypto-tokens the future of money?

For more than a decade now, distributed ledger technology (DLT) has facilitated the transfer of crypto-tokens across decentralised digital networks using cryptographic methods. DLT transfers take place in a clear and transparent manner without the need for intermediaries, so the technology promises to be disruptive. This could potentially speed up confirmations and reconciliation processes in the financial sector and even eliminate some steps in the process chain altogether. As a result, DLT may be of value in particular complex labour-sharing processes like securities settlement, though cross-border payments may benefit as well. Given that DLT can also be used to programme payment flows and incorporate payment processing into delivery processes, it is mainly regarded as a promising basis for many applications in what has been dubbed the Fourth Industrial Revolution.

While DLT offers a wealth of potential, the crypto-tokens currently available in the market are a niche phenomenon in the payment space. Indeed, the chief purpose they serve is as a means of speculation, largely because of their huge swings in value against official currencies like the euro. One key reason for this instability is the lack of a credible stability anchor. Crypto-tokens have no intrinsic value, and there is usually no reliable issuer that is legally obligated to ensure that tokens will remain stable in value or to guarantee that tokens can be exchanged back into cash or book money. In addition, many crypto-tokens involve comparably low processing capacities, relatively costly money transfers, and consume huge amounts of energy in the most prominent examples, making them an economically and environmentally inefficient proposition as a means of payment so far.

For crypto-tokens to maximise their potential as a payment instrument, they will need to be stable in value and safe to use. Stablecoins may fit the bill, given that they stabilise their value for example by pegging it to, and backing it by, a currency issued by a central bank. There are several conceivable ways in which stablecoins can be legally structured, and the European Union's Markets in Crypto-Assets Regulation (MiCA) is a new piece of legislation designed to regulate their issuance in the EU. MiCA aims to provide clarity and certainty for crypto-asset issuers and providers, while establishing sufficient safeguards for the buyers of such coins, for example in the form of

capital requirements for issuers, well-defined investor rights and stringent supervision.

I believe that in a market economy, offering innovative payment solutions to the general public should be a primary task of the private sector. Nowadays, the vast majority of payment transactions between non-banks are settled in commercial bank money. Stablecoins issued by a private commercial bank could therefore be one way forward to satisfy the demand for crypto-tokens as a programmable payment medium in the financial sector and real economy. However, central bank money will continue to play an important role in payments in the future, just as it does today. Recipients of large payments are likely to prefer settlement in central bank money, while money in the form of cash enjoys enduring popularity as a means of payment for the public.

For this reason, Bundesbank experts are exploring ways to technically bridge the space between DLT networks and existing payment systems in a way that would allow DLT-based trade to be settled in central bank money. Moreover, the Eurosystem is currently examining the risks and rewards of central banks issuing their own digital currencies, or CBDCs. There needs to be a clear understanding of the potential implications of launching a digital euro for matters including financial stability and monetary policy effectiveness before any such decision can be made. The potential downsides of CBDC, such as structural disintermediation of the banking system, have to be manageable and outweighed by positive effects such as efficiency gains or the facilitation of new business applications. Therefore, we will have to pay close attention to how any digital euro is designed.