Digital money

The world of payments is undergoing a true revolution. Just a few years ago, it was difficult to find an establishment where you could pay for a coffee with a debit or credit card, and a bank transfer within the same country could take days. Today, we can pay for a coffee with our mobile phone or watch, and the transfers that once took days now take seconds.

What we cannot yet do is pay for that same coffee in bitcoins. And it is no surprise. This cryptocurrency, like many others, cannot be considered money. It is neither widely accepted nor, given its volatility, can it serve as a unit of account or as a store of value. Its use, which is limited, has been mostly for speculative purposes or illicit activities.

That is why new proposals for digital money have appeared, with mechanisms that seek to stabilise their value. This is what the consortium led by Facebook, for example, purports to do with Libra. If you purchase libras (when they are issued, if it ends up happening), the association that manages the cryptocurrency will invest the euros you pay in safe-haven assets (such as treasury bonds) denominated in various currencies. Thus, the value of Libra in euros will fluctuate, but only to the extent that the value of the euro will fluctuate against the other currencies included in the set of investments.

Proposals like Libra have a greater potential to be more widely adopted. In addition to the benefit of a more stable valuation, its promoters have a broad user base – more than 2 billion people in the case of Facebook alone – and an indisputable technological capacity. This potential is what has put a good number of regulators and central banks on high alert since the project's launch.

The regulators have underlined the risks that could arise if Libra were to become a systemic payments vehicle worldwide. Among others, these include risks to financial stability: for instance, those arising from the possibility that the supposedly safe investments that back the currency's issuance could lose value, which could cause mass withdrawals of deposits in Libra. On the other hand, there are doubts over the ability of an operator of this kind to ensure compliance with regulations aimed at preventing money laundering and other illicit activities. Lastly, there are also fears that Facebook could abuse its dominant position in social networks to promote the adoption of Libra over other alternatives.

All of the above underlines how important it is for an operator of this type not to operate in a legal vacuum. The rules of the game should be clear from the outset and provide a balanced framework for competition. Among other things, this would require such an operator to be subject to capital and liquidity requirements, in addition to all anti-money laundering and terrorism financing regulations (obligations relating to customer identification, control of transactions and reporting of suspicious activities).

Among the risks posed by the mass adoption of digital money issued by new operators is also that of the disintermediation of banks. This refers to the possibility of a mass transfer of deposits to digital money, which would result in commercial banks having less capital in order to lend, thus driving up the price of credit. This is nothing more than an age-old risk: that of losing business if a competitor does it better. The solution is also the same as ever: being clear about customers' needs and innovating continuously to offer them the best value proposition.

Another matter is the proposals for central banks to issue digital currencies. In some cases, it is suggested that this will serve to allow everybody to hold an account in the central bank itself, through which they could manage receipts and payments. This really could put the current monetary system in jeopardy. As far back as the 1930s, some economists advocated for the separation of payment processing and loan granting activities (the end of fractional reserve banking), and now new technologies have enabled their resurrection. For the same reasons that they did not succeeded then – because it would not prevent financial crises, but rather could cause them – it is unlikely that they will succeed now.

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