

Digital Currencies in Financial Networks[°]

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Olli Castrén Ilja Kristian Kavonius Michela Rancan

Abstract

We introduce a digital currency, either as a central bank digital currency (CBDC) or a crypto financial asset (stablecoin), in the network of euro area financial accounts. Simulating a shift of deposits by both households and non-financial corporations from the banking sector to the digital currency, we model the different responses of the affected institutional sectors. We find that the introduction of a digital currency generates significant adjustments in the balance sheets of all sectors, may trigger large moves in securities prices, generate funding shortages, and induce changes in the financial network structure. The economic impacts vary depending on the design of the digital innovation, the size of the deposit shift, the channels through which the balance sheet adjustments take place, and the timing of the initiative.

Keywords: Digital currency, Macro-network, CBDC, Stablecoins, Financial Intermediation, Financial Stability

JEL Classification: G21, E58

[°] Castrén: European Banking Authority, Tower Europlaza, La Defense, Courbevoie (Paris), France, email: olli.castren@eba.europa.eu; Kavonius: Centre for Consumer Society Research, University of Helsinki, Helsinki, Finland, email: ilja.kavonius@helsinki.fi; Rancan: Università Politecnica delle Marche, Ancona, Italy, email: m.rancan@univpm.it. We thank Ulrich Bindseil and Elisabeth Noble for useful comments. The opinions and views expressed in this paper are those of the authors only and should not be associated with the EBA.