

Digital

4/7 Dr Andrew Usher's title+abstract:

Title: Central Bank Digital Currency and Banking Choices

Abstract: To what extent does a central bank digital currency compete with traditional financial institutions? We develop and empirically estimate a structural model where each household decides in which institution to deposit their liquid digital balance, taking into account the utilities from holding liquid assets (in cash and digital money) and from potentially taking out a mortgage, in addition to the branch networks. While financial institutions tend to provide higher utilities from liquid asset holdings through higher deposit rates and from the complementarity between deposit accounts and loans, a non-interest-bearing CBDC that does not provide lending services can still have non-negligible impacts on financial institutions by providing better branch networks. We find that if every (no) bank branch is a service location for CBDC, it can crowd out the deposits by 27.7% (1.1%) on average across banks. However, introducing even a very large holding limit on CBDC can significantly reduce its uptake.