

The future of

MONEY

Te Moni Anamata



Have your say



The Reserve Bank is inviting your feedback on a series of issues papers to test our thinking about how we should approach our new role as steward of the cash system and make sure that central bank money continues to do its job in light of significant changes affecting how New Zealanders pay, receive and save money.

- **Future of Money – Stewardship (Te Moni Anamata – Kaitiakitanga)** seeks your feedback on how we should steward of money and cash following a recent law change.
- **Future of Money – Central Bank Digital Currency (Te Moni Anamata – Aparangi ā Te Pūtea Matua)** wants your views on how we propose to explore whether a CBDC is right for Aotearoa.

*You can both read and give your feedback online for these issues papers by 10am, **Monday, 6 December 2021**.*

- **Future of Money – Cash System (Te Moni Anamata – Punaha)** to publish in November 2021 will explain issues facing the cash system and explore options to achieve greater efficiency and resilience. Feedback will close in February 2022.

What is money?



Money is central to everyday life. Money is what people receive when they get paid their wages, receive financial support from the government, sell something to their neighbour or get a gift from a friend. People draw on their money to pay for things, make gifts, and reward others.

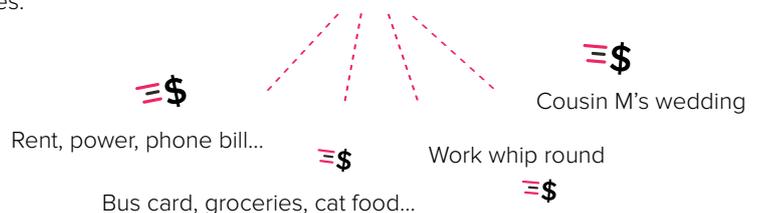
Money is central to everyday life



Pete's employer pays Pete his wages.



Pete spends and saves

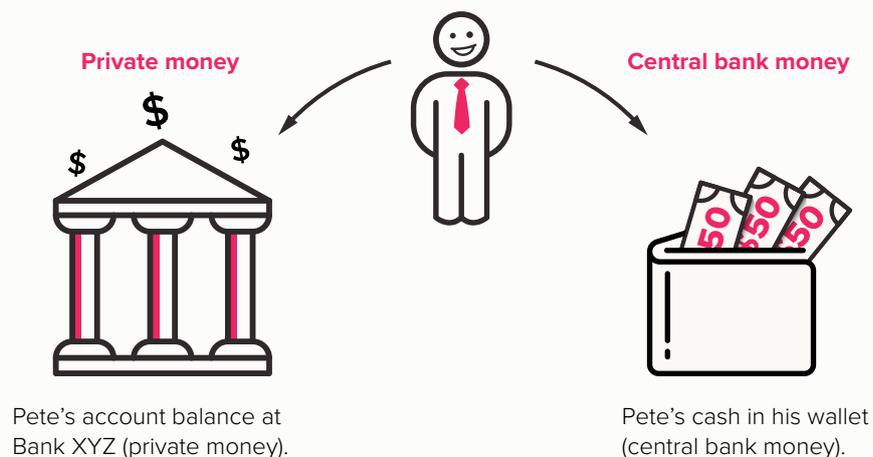


Not all money is the same. There are two types of money

Money that is designed and created by the Reserve Bank is 'central bank money'. This money is like an IOU from the government. It will always be worth what it says it is and has the lowest credit risk of all types of money.

Money that is created by private firms, such as commercial banks, is money that is like an IOU from a private firm. This is 'private money'. Your balance in a bank account with which you make payments or save is an example of private money.

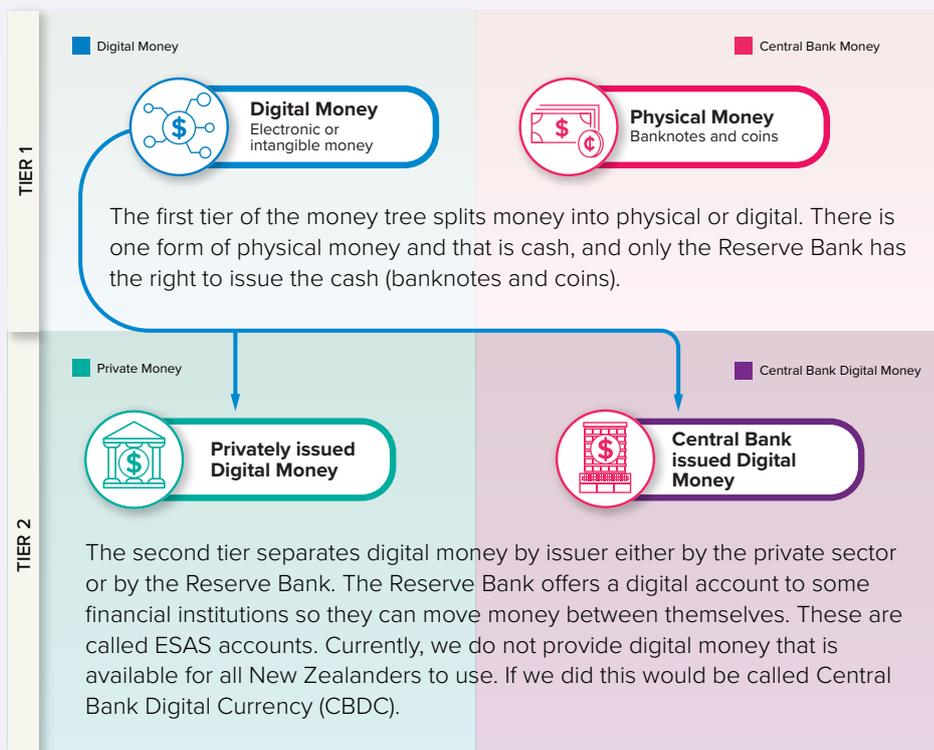
Pete has private and central bank money



Money tree

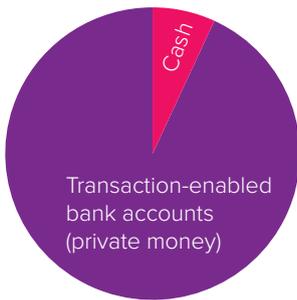
Central bank money is government-backed and issued by the central bank. Cash is currently the only type of central bank money available to anyone. Cash is also the only physical money available in New Zealand. All private money exists digitally (as an electronic record). The chart shows the different types of money that exists – or could exist - in New Zealand.

The Money Tree



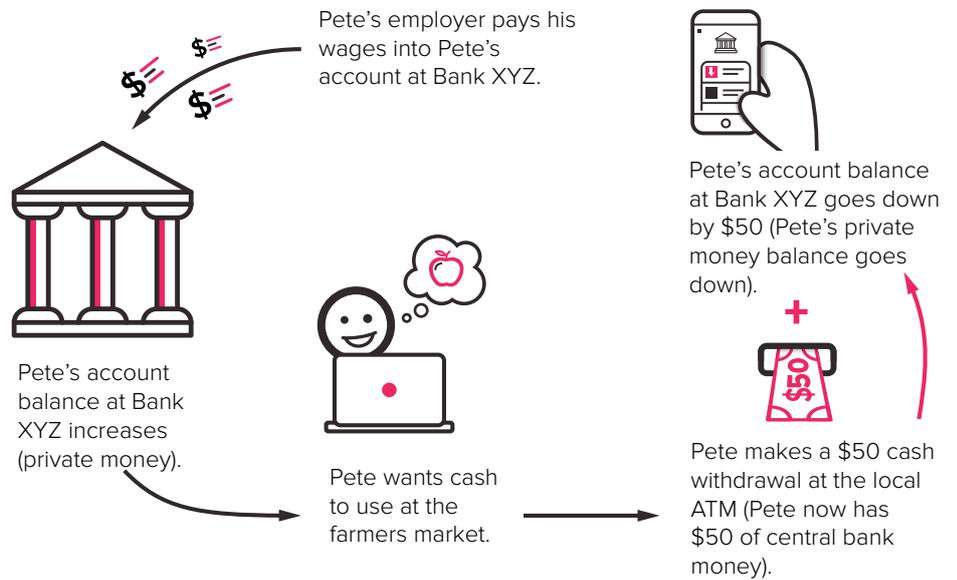
Together central bank money and private money make up all the money used in New Zealand.

Private money is the most common type of money



Source: Reserve Bank data

Pete turns private money into central bank money



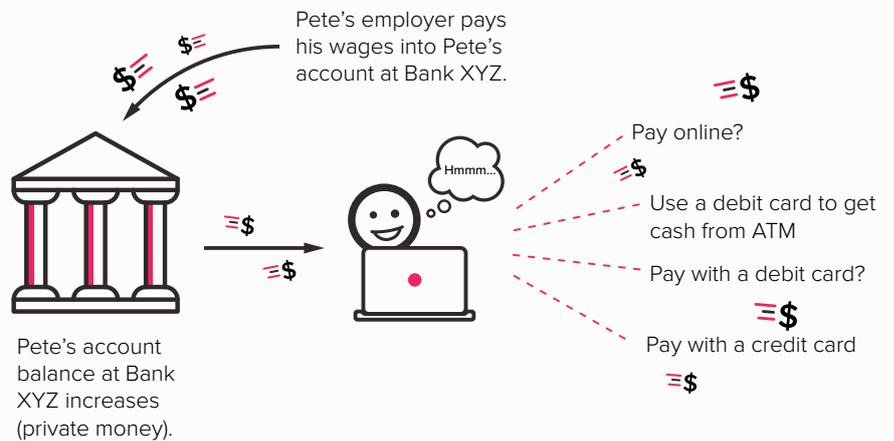
Payment instruments

To use private money you need to use a 'payment instrument'. A debit card, a credit card, contactless and internet banking are all examples of payment instruments.

Private money is far more popular than central bank money because the payment instruments associated with it exist digitally, meaning you don't have to carry cash around and you can pay for something without being physically present.

As cash is no longer used as much, now may be the time to invest and modernise the underlying foundations and technologies of central bank money. This will ensure that it continues to facilitate economic growth and meets the needs for all, including for those people that cannot access private products.

Pete's payment instruments

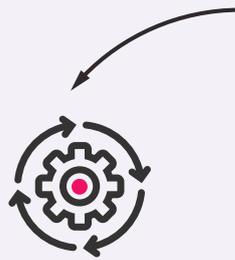


What is the Reserve Bank's role?



The Reserve Bank works to keep the monetary system, and the wider financial system, healthy.

This work ranges from regulation and enforcement, to research and using influence – and is called stewardship.



These systems form an interconnected network called 'the monetary system'.

The Reserve Bank has responsibility and authority over the systems that provide central bank money, private money and payment instruments.



Central bank money



Private money



Payment instruments

It is important that these systems are healthy – efficient, resilient and innovative. Money underpins the economy and if the monetary system is performing poorly then communities and individuals are worse off.

Why is central bank money so special?



The Reserve Bank is interested in and responsible for the entire monetary system, but it has a special interest in central bank money. There are two reasons for this. First, central bank money underpins the trust and confidence in private money. We call this acting as a **value anchor** for private money. This value anchor is the reason everyone, irrespective of the money they use, is able to transact in New Zealand dollars with confidence and the reason we can use monetary policy to help keep prices stable and employment at the maximum sustainable level. Secondly, because everyone can use it, cash contributes directly to **financial and social inclusion**.

Value anchor

Central bank money is a value anchor because:

- It allows people to easily work out what their private money is worth
- People know they can convert their private money 1:1 into cash whenever they want, so they are willing to trust the private IOU that underpins private money.

How does a value anchor work?



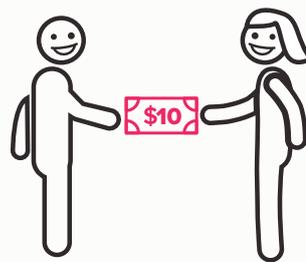
Financial and social inclusion

Most people use cash at times, however around 6 percent of people need to use it always. The 6 percent might rely on cash because the banks won't accept them as customers, they find using private money too difficult, they don't trust banks, or because they like the privacy cash provides. Central bank money plays an important role in allowing all New Zealanders to pay their bills, make purchases, give gifts, and to participate socially. In this way it directly contributes to financial and social inclusion, and therefore economic wellbeing.

6% of people rely on cash



Central bank money can't perform as a value anchor or ensure financial and social inclusion unless New Zealanders have confidence in the value of central bank money.



Central bank money contributes to financial and social inclusion



Central bank money is a value anchor



Confidence in the value of central bank money



Why is the Reserve Bank consulting about money now?

We are closely watching changes in New Zealanders' payments preferences and behaviour, along with innovations in services and technologies which might hinder or help the monetary system work well.

Challenges for the cash system



The growth in online payments, convenience or rewards for using a bank card, and phone apps are among the reasons.



Some of the places where people withdraw or deposit cash have been closed or reduced their opening hours, while some retailers prefer not to be paid in cash.

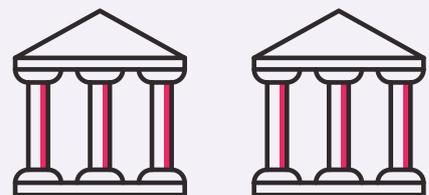


The cost to private companies of providing access to cash when there are ever smaller numbers of individuals and businesses using it might mean that private companies won't want to work in the cash system.

Given the decline in cash use the Reserve Bank is looking to see if and how the cash system can be more efficient and financially sustainable.

Digital innovation

The companies that offer new types of private money pose potential threats and bring opportunities. They are not subject to the same rules and regulations as the commercial banks they compete with. Without equal treatment the new types of private money could lead to bad outcomes.

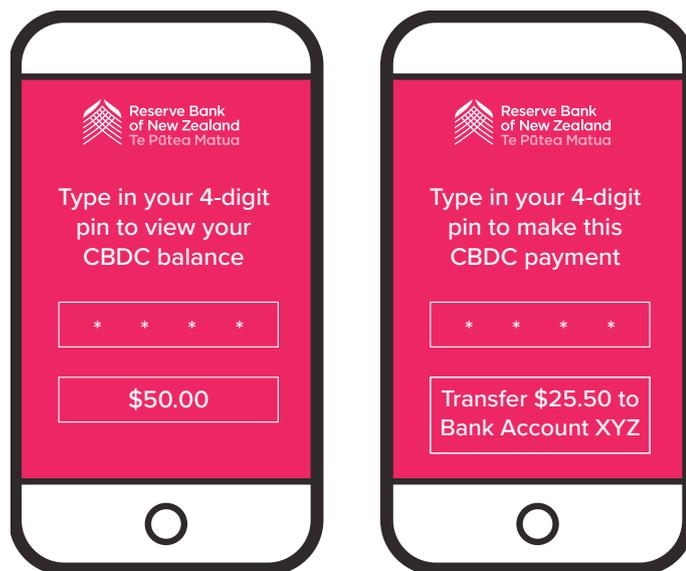


New firms, new business models and new technologies are entering the private money sector.

The monetary system might need to change

The monetary system may need significant changes to meet these challenges so that central bank money continues to perform its two essential functions and New Zealanders enjoy safe and reliable ways to pay and save, such as:

- Introduction of a central bank digital currency (CBDC)
- New rules or arrangements in the systems that provide cash
- New rules or service requirements for banks and/or retailers
- New rules for providers of new types of private money



What is Central Bank Digital Currency (CBDC)?

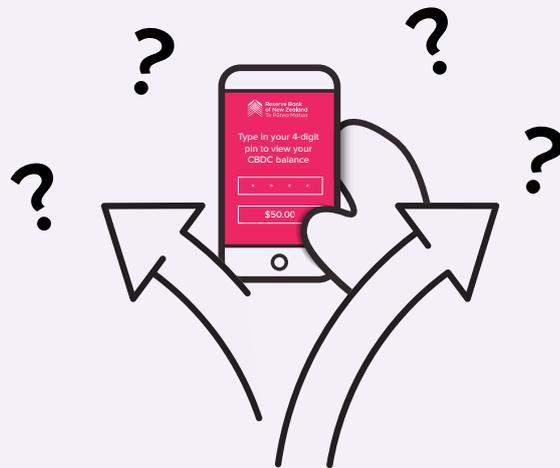
Central Bank Digital Currency (CBDC) is an electronic form of central bank money. It is recognised as a means to save and pay, just as banknotes and coins are. A payment instrument like a payment card or phone app is likely to be needed to access the money held as CBDC. Like physical notes and coins, CBDC is issued by the central bank, **does not require an existing bank account to use**, and anyone who holds CBDC has a legal claim on the government.

A CBDC account is similar to a commercial bank account. But it differs because the money held in a commercial bank account represents an IOU from the commercial bank, whereas the money held in a CBDC would represent an IOU from the government. A CBDC is issued by a central bank and government-backed, and as such it will continue to exist, for all intents and purposes, forever. A CBDC would therefore be the lowest risk form of money.

A CBDC would provide new functionality for its users when compared to most existing payments instruments available in New Zealand. It would be built using modern payments technology and allow new financial service providers to access the platform. In doing so, a CBDC could reinforce central bank money's role as a value anchor and its contribution to financial and social inclusion. It could also stimulate innovation and efficiency in the wider money and payments system.

A CBDC could present a series of challenges that would need to be worked through as part of any further work. A key challenge would be to ensure that a CBDC could not be compromised operationally by, for example, cyber-attacks. Another challenge would be that the introduction phase for a CBDC could be challenging for the financial system if not managed correctly. These considerations are not new so we would need to adjust existing decision and policy frameworks for CBDC, if a decision was made to issue one.

A CBDC brings along its own set of risks and challenges



If New Zealand was to have central bank digital currency (CBDC) it would exist alongside cash. People could choose to access their CBDC balance, rather than their private money account, to make online payments. CBDC would be similar to private money because it would be digital, but would be less risky than private money. CBDC could be accessed and viewed digitally, for example, it might be accessed using a phone app.

Pete would have two options for central bank money if there was a CBDC

You can find out more, participate, and keep in touch with our Future of Money consultations on our website www.rbnz.govt.nz

