Review of: "From Tech Hub to Banking Failure: Exploring the Implications of CBDCs on the Destiny of Silicon Valley Bank"

Michael Lloyd

Potential competing interests: No potential competing interests to declare.

The section on the collapse of the SVB is unexceptional and broadly correct, but as the focus of the article is how the advent of CBDCs might, in the future prevent such a bank collapse. Hence, it is not clear why 60% of the article is given over to an analysis, albeit correct, of the various reasons for the failure of SVB?

In relation to the substantive speculation as to whether a banking system that contained CBDCs would have provided a remedy, there are a number of observations to make.

First, as the article implicitly concedes, notwithstanding the interest and involvement of numerous central banks and a host of projects at various stages of development, there is no clear consensus among central banks or governments on the various *retail CBDC* model designs or on timescales for their introduction.

The situation is different in respect of the development and introduction of cross-border*wholesale CBDCs*. Where the testing if models is relatively well-advanced and could see the introduction of regional cross-border utilisation during the next three years.

The situation on retail CBDCs is that, if one takes the situation in the UK where an active public consultation exercise is taking place (end-date June 30th, 2023) the BoE and Treasury estimate of retail CBDC introduction is unlikely to take place until the end of the decade, towards 2030.

Inevitably, this leaves the authors of the article in the realm of speculation, both as to what a retail CBDC may look like and even more so the implications for banks and wider issues of financial stability.

For instance, a key aspect of retail CBDCs is whether or not they will bear interest. If they do not - and currently tis appears to be a broad central bank consensus - then they will be used as a substitute for cash for payment purposes. They would then not compete with commercial bank deposits and any fears about disintermediation disappear, an important part of the discussion in the article, though the authors do side with the emerging consensus in the academic literature, as does this reviewer.

If retail CBDCs are used for payments purposes, there will be a different problem for commercial banks. Banks are already under some pressure on the payments front for PIPs (Payment Interface Providers), the introduction of CBDCs for payment purposes would add even more pressure. The advent of stablecoins being able to issue CBDCs which seems likely would exacerbate the payments situation for the banks. The loss of perhaps a substantial proportion of banking payments would challenge the current "bundling of services" model used by banks to offer other banking services either free or at low cost. This would hit not only citizens bur especially SMEs. This possible impact is not discussed in the article.

The article does raise one potential issue, linked to the possible use of CBDCs for monetary policy purposes. So far, though raised in the academic literature, the central banks have eschewed any suggestion that they might use CBDCs for this purpose. Not only would this be a problem for banks, but it would threaten the present credit creation system whereby the joint operation of commercia; banks and central banks provide business and personal loans in the form of private credit money, relying on the central bank to provide clearance and final settlement, and hence the public monetary anchor of the system.

It may be possible to envisage a different monetary system, involving CBDCs. But not commercial banks as credit money creators, though no-one is currently suggesting an alternative!

Finally, given the unusual character of SVB as a medium-sized US bank serving the high-tech sector, with an extremely high-risk investment strategy that left the bank exposed on two fronts, the main preventative issue (as the article does mention) is the need for more active monitoring and regulation of the US mid-size banking sector, rather than an expectation of the introduction of speculative versions of CBDCs to be the saviour. We may have to wait somewhat longer to reveal the actual monetary and financial stability impacts of retail CBDCs, positive and negative.