Discussion of "CBDC Policies in Open Economies"

M. Pisani

Banca d'Italia

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The views expressed in this discussion are those of the author and should not be attributed to the Bank of Italy

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- Interest-rate paying CBDC raises long-run activity and welfare.
- CBDC interest rate rule responding to credit gaps and aggressive Taylor rule are very effective in stabilizing business cycle.
- CBDC policies reduce capital flows and exchange rate volatilities.

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- Higher interest rate on CBDC has expansionary macroeconomic effects:
  - higher households' CBDC holdings $\Rightarrow$ lower transaction costs $\Rightarrow$ higher aggregate spending.
- Interest rate-CBDC-based rule responding to credit gap is effective: credit markets directly affected by financial shocks.

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- Burlon et al. (2023):
  - steady-state GDP does not increase following CBDC introduction;
  - optimal amount of CBDC in circulation for the euro area lies between 15% and 45% of quarterly GDP in equilibrium

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- Is second-order solution of the model enough?
- Rule implementation: risk of creating collateral scarcity for central bank borrowing (disintermediation)? Role of sovereign bond supply?

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- Is the model able to replicate observed international financial flows and exchange rate dynamics?

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    - $\Rightarrow$ Implications for substitutability between sovereign bonds and CBDC? For international spillovers?

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- Systematic analysis of determinants (rules vs other structural features) of cross-country spillovers, financial flows, cross-country welfare?

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- Impossible trinity/dilemma?

Thanks!