Are cryptocurrencies an option for Latin America's central banks?

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The issue of cryptocurrencies such as bitcoin and ether, among many others, has been increasing in recent years. Their use has been driven by the wish to use a decentralised currency that is not controlled by a central bank. Paradoxically, the technological development that made it popular is also within reach of the authorities. So, we should not be surprised to see a growing number of countries studying the possibility of issuing a cryptocurrency, which could function as a digital version of cash, since it could retain three of its main characteristics: universality, anonymity and exchangeability without intermediaries.

In Latin America, and in other regions too, the issue of a new digital currency by a central bank would be a tool to increase the efficiency of the interbank and payment systems. Furthermore, it would serve as an instrument with which to confront a number of significant problems for the region: the low degree of financial inclusion, high costs of transporting and managing cash and the huge "informal" sector. As regards this last point, the identification of the currency issued by the central bank - a novel monetary policy alternative made possible by the technology underlying cryptocurrencies - would increase the ability to supervise financial transactions and the potential for fighting against the underground economy.

There are also some drawbacks to a central bank's issuing a digital currency. Beyond the costs related to the infrastructure required, the demand for the official cryptocurrency could lead to a reduction in bank deposits and consequently in levels of lending, which would be particularly negative for Latin America since the problems in finding financing are generally greater there. Moreover, in the event that a central bank were to opt to adopt an identified digital currency, this could lead to increased demand for anonymous alternative assets, such as the dollar, which is familiar for the region but not necessarily positive since it would cause the loss of independence of monetary policy.

The advantages of adopting a digital currency issued by a central bank are sufficiently significant for the countries of Latin America to consider it as a policy alternative. Similarly, its adoption in the region could come about as a reaction to the issue of a digital currency in some developed country. What would happen if any Latin American citizen could buy and keep in his mobile phone a digital currency issued for example by the US Federal Reserve? Its adoption requires first making progress in understanding its consequences and in designing the mechanisms that can limit its disadvantages.