

CBDCs, Payment Firms, and Geopolitics

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Question

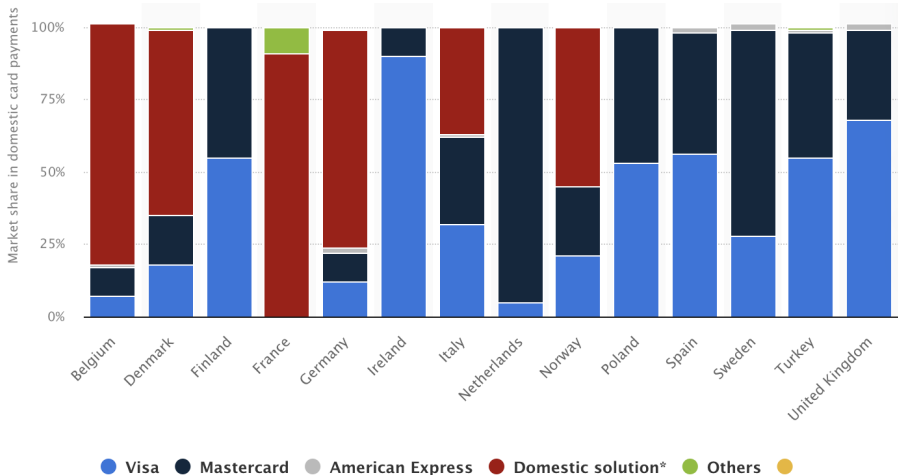
- Market of payment companies is very concentrated
 - think Visa and MasterCard in the US
- **This paper:** how payment developments impact stocks of payment firms
- **Approach:** announcements of CBDC in Europe
- **Main result:** stocks of the US (EU) payment firms drop (rise), stocks of banks don't change

Events

#	Date	Speech	Generic Title	Generic Content	News	Top	New Information
1	30-Dec-17	Benoit Cœuré: Interview in Caixin Global	Yes	Yes	No	No	ECB in early stages of discussion on wholesale CBDC (like most other central banks); critical of DLT applications for CBRD (unsuccessful past project); ECB is "much more prudent" on retail CBDC.
2	12-Apr-19	Vitas Vasiliauskas: Central bank digital currencies	No	No	No	No	For now, CBDCs seem like a quite distant prospect.
3	17-Oct-19	Benoit Cœuré: Interview with Bloomberg	No	No	Yes	No	Do not want payments to be dominated by US and Chinese actors; "I'm personally pretty sure CBDCs will come. I don't know how and in which form. It may come in different ways in different jurisdictions."
4	4-Dec-19	François Villeroy de Galhau: Central bank digital currency and innovative payments	No	No	Yes	Yes	Wants to start running CBDC experiments with the private sector rapidly; financial intermediaries to play key role in CBDC distribution; want to develop a genuine pan-European payment solution; BDF to be restructured accordingly.
5	8-Jan-20	Christine Lagarde: Interview in "Challenges" magazine	Yes	Yes	No	No	ECB expert task force created to study CBDC creation.

- Positive news about digital Euro development

Visa and MasterCard dominate European payments



Overall asesment

- Very thoughtful and important paper!
- Well-deserved R&R at the JF
- My comments will build around mechanisms and welfare

Mechanisms

- Why do EU payment stock prices rise and the US payment stock prices drop?
 1. EU payment firms outcompete US payment firms (not just Visa and MasterCard)
 2. Push for autonomy of European payments
- Why don't bank stocks drop?
 1. Banks believe digital Euro will not destabilize them

Comment 1: narrowing down the mechanisms

- The autonomy mechanism is clear and well-discussed
- The competition mechanism leaves several open questions:
 1. Why do EU payment firms like CBDC – a competition to them
 - Is this because credit card fees are low?

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 2. Why don't US payment firms raise fees in the US?
 - Matching potentially compares largest EU firms with average US firms

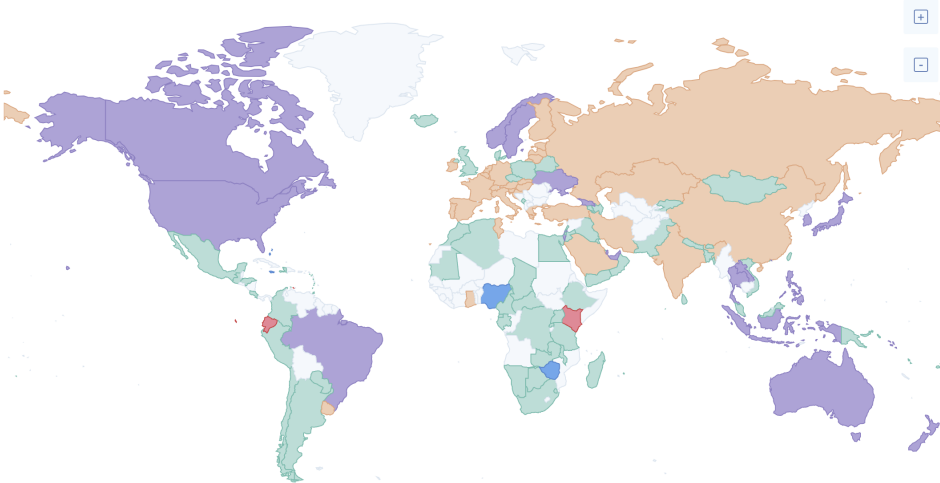
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 - Matching potentially compares largest EU firms with average US firms
- Banks should dislike CBDC because of the credit card fees

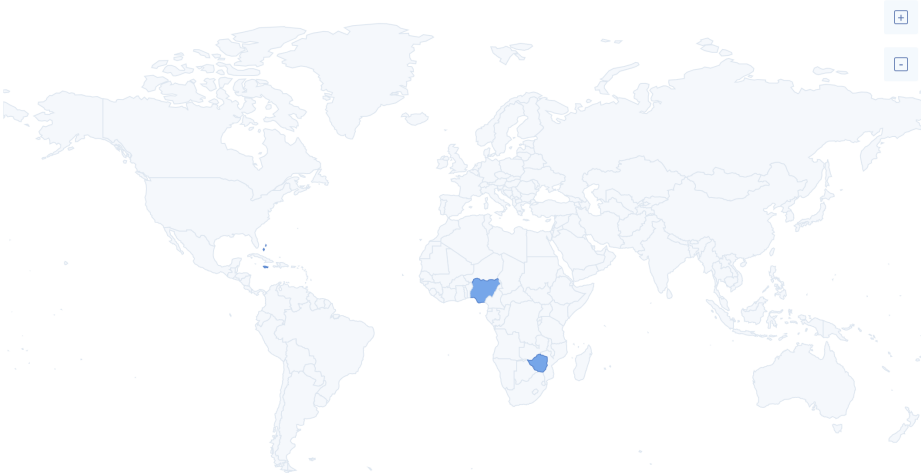
Alternative mechanism: CBDC is unlikely

- We are unlikely to see a well-functioning CBDC anytime soon
- That is why bank stocks do not react
- Payment stocks react because the news contain information about payment development
 - Visa and MasterCard can lose their fee profits
 - EU payment firms charge low fees due to regulations and benefit because Visa leaves

Countries that discuss CBDC



Countries that launched CBDC



Many interviews discussed other payments too

Innovation in the area of payments is racing ahead in response to the urgent demand for quicker and cheaper payments, especially cross-border ones. The Eurosystem in general and the ECB in particular want to play an active role in this field, rather than just acting as observers of a changing world. In 2018 the Eurosystem launched an

So the key question for the years to come is how to combine core public infrastructures like the ECB's fast payment platform, TIPS, with private systems, and what impulse central banks can give to make this happen in an integrated way. This is a particular challenge in Europe where the retail payment world remains fragmented along national lines.

Suggestions

- Study the US as a placebo
 - CBDC is very unlikely to come to the US
- Check if CBDC effects fade over time
 - We believed in CBDC more a few years ago than now
- Show the effects of card fee caps
 - They can explain asymmetric results (but inconsistent with banks' stocks)

Comment 2: explore welfare results

- Authors: merchants should benefit from lower fees
- Comment: Wang (2023) argues competition increases fees
- Negative effects during bank runs – Brunnermeier and Niepelt (2019)

Suggestions

- Compare to the US where there are no caps on fees
- Explore countries with changes in fees such as Brazil
- Consider negative announcements as well

Conclusion

- Very well-done paper on an important topic
- Other potentially interesting mechanisms
- I look forward to reading a published version