Opinion **Markets Insight**

Thailand may tell us a great deal about the future of money

Country's digital wallet programme will distribute $12.5bn to households, providing valuable lessons on the risks and rewards

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The funds will be channelled directly to poorer individuals and can only be spent at authorised small shops within the local area of a recipient © Andre Malerba/Bloomberg

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An intriguing window into the future of money and how central bank digital currencies (CBDCs) might be used has opened up in Thailand. This future holds promise but has many hazards as well. Countries barrelling towards it, and especially their citizens, should give it careful thought.

Fulfilling an election promise, the Thai government has initiated a programme to distribute money to low-income households through digital wallets. About 50mn Thais who fall below certain income and savings thresholds will get about $280 each, roughly half of monthly per capita income. This will temporarily boost household consumption and GDP but at a significant fiscal cost and without doing much to tackle deep-rooted problems, including low investment which is holding back growth.

The Bank of Thailand, the Thai central bank, has conducted pilot tests for a digital baht but has not formally rolled out the CBDC. Still, digital wallets to store money and use it for transactions are widely prevalent in Thailand. Adding a CBDC as a payment option is straightforward.

The Bank of Thailand and other central banks experimenting with CBDCs assert that it would coexist with physical currency. But the convenience of digital payments, and the costs and hassles to consumers and businesses of handling paper money and coins, foretell the demise of cash as a means of payment.

The Thai transfer programme already has some features of a CBDC. It is well targeted, with the funds channelled to poorer individuals who would benefit more and are likely to spend the money rather than save it. The funds go directly to individuals, reducing the inevitable corruption when money is channelled through public agencies.

The funds have to be spent within six months, an excellent way to stimulate consumption and limit "leakage" into savings, which would not immediately boost economic activity. The funds can only be spent at authorised small shops within the local area of a recipient.

A CBDC offers similar possibilities, including targeting government transfers, and more. In addition to expiry dates, consumption can be stimulated by exposing CBDC balances to negative interest rates that discourage saving. Such negative interest rates, easy to administer with computer code that shrinks balances at a pre-announced rate, are unlikely to work in an economy with cash. After all, cash offers a zero interest rate, which certainly beats a negative interest rate.

The transfer of money under the Thai programme is selective. Criminals and others with a record of committing fraud are not eligible, while merchants with spotty records cannot participate in the programme. The funds cannot be used for purchasing products such as alcohol, cigarettes, and marijuana or for online shopping.

These limitations seem entirely defensible but also show how easily digital money can be subverted for social engineering purposes. The Thai government has decided that only worthy individuals can benefit from the programme, must spend the funds in specific areas and cannot purchase products deemed undesirable. It is not hard to envision a future in which CBDC usage is restricted to “good” citizens and “acceptable” expenditures, as deemed by the government.

The digital funds cannot in principle be exchanged for cash or other types of money. But one can well imagine secondary markets where people who do not want to spend the money before the expiry date can trade it, probably at a discount, for money with a longer shelf life. Despite the government’s wishes, a recipient of the funds who really wants a smoke might buy approved goods and trade them for cigarettes.

Similarly, CBDCs enable multiple types of monetary units with different characteristics, ostensibly a great way to implement carefully targeted and socially optimal policies. But this could destroy confidence in the integrity of central bank money, which, for all its flaws, at least has a clear and fixed nominal value.

What is worse, central banks, as purveyors of CBDCs with such features, will be viewed as agents of the government when it comes to surveillance and the execution of a broad range of economic and social policies rather than just monetary policy.

The looming reality of a world of CBDCs holds much promise. But it could dent confidence in central banks and central bank money, which would be a huge price to pay. The Thai experiment will teach us a lot about what the future holds and serves as a warning about how technology might push us towards a dystopian world.

Letter in response to this article:

Central bank digital currencies show clock is ticking for cash / *From Nicholas Anthony, Policy Analyst, Cato Institute; Fellow, Human Rights Foundation, Washington, DC, US*