The Impact of Digital Currencies on Economic Policy

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Abstract. In the context of the current rapid economic development, the process of accelerating digitization has become an urgent problem to be solved, and digital currency has therefore emerged. As a new type of currency, digital currency has unique advantages and unique characteristics. This article focuses on digital currency and studies the impact of the emergence of digital currency on various existing economic policies, including monetary policy, financial regulatory policy (including tax policy) and international trade policy. The article analyzes the impact of digital currency on various economic policies and clarifies the pros and cons of each aspect. It also describes the further impact of emerging digital currency types on economic policy and draws the conclusion that the impact of digital currency on the economy is two-sided. At the end of this paper, the author also puts forward opinions on the future development trend of digital currency. The government should look at the influence of digital currency comprehensively and objectively, remove the dross and select the essence, and make the right choice to promote economic development.

Keywords: Central Bank Digital Currency, monetary policy, financial regulatory policy, international trade policy, double-sided.

1. Introduction

With the development of the digitization of the economy, information and communication technology is different from the past, so the cash flow has been significantly reduced, and the importance of digital currency in money circulation has been highlighted. The Digital currency refers to an unregulated and virtual currency which is generally managed and issued by the developer. In this day and age, there is unprecedented interest in digital currencies.

It is generally believed that digital currencies will have a greater impact on current economic conditions, so studying the impact of digital currencies on major economic policies has become a hot topic. In this article, economic policy is mainly divided into three categories, namely monetary policy, financial supervision policy and international trade policy. Digital currencies have varying degrees of impact on all three types of economic policy. The emerging digital currency types have a more comprehensive and wide-ranging impact on economic policy. Whether the digital currency brings positive or negative effects, it is the focus of the article, so as to ensure the integrity of the analysis.

2. The impact to Monetary Policy

To explore the impact of digital currency on economic policy, the first thing to study is the impact of digital currency on monetary policy. According to the current general situation, the widespread use of digital currencies will generally weaken the effectiveness of monetary policy.It also brings difficulties to policy making and inconveniences to the operation of the current economic system. This is because the issuer of digital currency is usually an unregulated third party, the unregulated characteristics give digital currency full freedom, so that it is created outside the banking system, the issuance is entirely dependent on the will of the issuer, so it will make the money supply unstable, which may bring a certain crisis at any time. In addition, the authorities are unable to monitor the issuance and circulation of digital currencies, resulting in the inability to accurately judge the economic operation, which will also bring trouble to policy formulation, but also weaken the effectiveness of policy transmission and implementation [1].

For this situation, the government has also made corresponding improvements. Because digital currency is a two-sided product, it can be applied to fields other than digital currency by virtue of its decentralized characteristics, but at the same time, it leads to the problem of weakening the effectiveness of money. Therefore, the government has gradually chosen a new path - Central bank digital currency (CBDC) [2]. It is based on the fact that digital currencies have changed the way central banks control the money supply, central banks have adjusted their policies to adapt to the emergence of digital currencies, and central bank digital currencies have been born to maintain the effectiveness and stability of monetary policy [3]. A central bank digital currency means that the issuer is no longer a third party, but a central bank. Compared with the accounts of commercial banks, the use of digital currency by the central bank can ensure that all transactions have a relatively high transparency and a relatively reliable currency storage capacity, so that the currency tends to be stable, so that the country's overall financial stability. This is because under certain conditions, the guarantor of regulating the circulation of digital currencies will no longer be commercial banks, because commercial banks may be insolvent. But central banks, as guarantors of the monetary system, do not face such risks. The most important use of digital currencies by central banks is to ensure a balanced state of government budgets and a sound state of fiscal policy. The positive impact of central bank currency on monetary policy is also reflected in the improvement of the shortcomings just mentioned, because of the transparency and reliable storage capacity of digital currency, every participant will be very interested in the emerging form of national currency.

Such measures will most likely end up with unintended consequences. The use of so-called central bank digital currencies as the ultimate means of payment in a country could lead to a significant reduction in the role of traditional financial intermediaries such as banks. From today's perspective, the development of this process is very clear. In addition to banks, non-banks now conduct more and more transactions, and they have even accounted for more than 25% of the payments market. The emergence of central bank digital payment platforms will reduce the role of existing payment institutions, because central banks can perform these functions more effectively. This is further proof that the impact of digital currencies on monetary policy is very large. In addition to this, the use of central bank digital currency has other benefits, the process of raising funds from businesses and households has become more convenient, because every market participant's digital wallet will come in handy. This makes the government's monetary policy decisions much easier [4].

3. The Impact to Financial Regulatory Policy

In addition to its impact on monetary policy,digital currencies also have had a certain impact on financial regulatory policy.The financial regulatory policy also contains a unique branch policy, that is, tax policy, which is also the economic policy that the digital currency is affecting.The emerging digital currency policy has led to the adjustment of financial regulatory policies, and financial regulators have adjusted for digital currencies through the existing basic framework to create a more complete regulatory framework.

First of all, the emergence of digital currencies represents the financial market becoming a larger market, with increased liquidity and communication, which makes it necessary for regulators to re-evaluate the scope and jurisdiction of their supervision. This could involve determining which agencies are responsible for regulating digital currency transactions and how to coordinate responsibilities and authorities between different regulators.For example,CBDC,The Central Bank is closely monitoring the development of CBDC, including its implementation and regulation in other jurisdictions, to learn from the practices of other jurisdictions [5]. Secondly,the anonymous and decentralized nature of the digital currency market makes regulation more complicated. Regulators need to develop policies and regulations to ensure transparency and compliance in digital currency transactions and prevent money laundering, fraud and other illegal activities.This is in line with the government's crackdown on the underground economy to be mentioned, that is, the impact of digital currencies on tax policy, which can also be called part of financial regulatory policy.Finally,a very important feature of the digital currency market is its volatility and uncertainty; This could increase the risk to consumers at any time. Regulators need to take measures to protect consumers from the adverse effects of the digital currency market and develop policies to manage market risks and stabilize the market [6].

As introduced earlier,digital currencies also have considerable implications for tax policy. Tax policy can be called a part of financial regulatory policy, or a subset of financial regulatory policies.That’s because it also involves the regulation of market participants, which is a major supplement to the impact of digital currencies on financial regulatory policy.So this is also the impact of digital currencies on financial regulatory policies.When looking at the impact of digital currencies on tax policy,this involves a new term - the "underground economy". The term refers to all economic activities that evade government introduced earlier environment control, taxation and supervision, fail to declare and pay taxes to the government, and whose output value and income are not included in the gross national product. The government has always needed to crack down on the underground economy. With the birth of digital currency, especially the accompanying development of central bank digital currency, it effectively guarantees the fairness and effectiveness of taxation. Financial corruption and the underground economy have been greatly reduced, making tax evasion virtually impossible. This is based on the issuance and circulation conditions of the digital currency, which can become a new tool to control all payment transactions and user transactions in order to combat illegal activities such as money laundering and tax evasion. The digital units of each central bank's digital currency have their own unique codes that can track the order and trajectory of these codes' movements since their release to combat the underground economy. Ensure that tax policies are fair and effective.Therefore, digital currencies, especially emerging digital currencies, can be said to effectively promote the comprehensive development of tax policies and ensure the stable and orderly progress of government work. Central bank digital currency undoubtedly brings a lot of convenience to financial regulatory policies, which effectively improves the shortcomings of digital currency at the beginning, making it easier for the digital currency to be accepted by the government [7].

But in summary, the impact of digital currencies on financial regulatory policy is complex, on the one hand, the development of digital currencies may prompt regulators to update their regulations and policies to adapt to emerging forms of finance, ensuring financial stability and consumer protection. On the other hand, the anonymity and cross-border nature of digital currencies may increase the difficulty of regulation, requiring regulators to take corresponding measures to deal with potential risks. Therefore, the impact of digital currencies on financial regulatory policies should still be viewed with caution.

4. The Impact to International Trade Policy

Digital currencies also have deep and wide-ranging implications for international trade policy. According to the World Economic Forum, there is currently a $1.7 trillion global trade finance gap in the world, and the growth of digital currencies can improve the efficiency of cross-border payments and effectively address such a huge gap. However, these emerging currencies are also a double-edged sword, which will not solve all trade problems and may further complicate foreign exchange supply and demand, especially for countries with existing international trade constraints. Therefore, in order to realize the full potential of digital currencies, governments should go hand in hand with the need for advances in payment technology and the digitization of trade [8].

In the impact of digital currency on international trade policy, the international trade policy that it changes can be divided into three aspects. First, digital currencies may make cross-border payments more efficient. According to the current situation, the settlement speed of cross-border payments ranges from one working day to five working days. However, the process of verifying information between sender and receiver often requires human interaction, which requires a very rapid process. For digital currency, it relies on a decentralized ledger that can send and receive funds in seconds around the clock, which meets the requirements of speed and efficiency. At the same time, digital currencies can provide another kind of credit information for trade finance. With the data citing a $1.7tn global trade finance gap, this disproportionately affects small and medium-sized enterprises, which often do not have access to bank finance. Public ledgers of digital currencies can be used to share payments and check financial history to underwrite import and export loans. Such an account is a protection for small and medium-sized enterprises, and the credit guarantee thus provided is a huge change in international trade policy given by digital currencies.Finally, digital currencies can alleviate the problem of de-risking,which means eliminating the risks.De-risk creates a disincentive for countries that are considered to have high AML and terrorist financing risks and want to participate in global trade, and may also increase transaction costs for buyers and sellers in these countries. While digital currencies do nothing to mitigate these two risks, they can provide alternative payment methods that allow consumers and merchants in these countries to reconnect with international buyers and sellers [9].

However, as mentioned in the previous article, although digital currency is a product with great potential, it also has many shortcomings. This could lead to all sorts of new problems. For example, in terms of foreign exchange supply and demand, it is still controversial whether digital currencies can promote the expansion of trade among all countries. While digital currencies may help to increase the volume of trade for some countries, this does not represent a significant advantage, as it does not change the basic principles of international trade that rely on comparative advantage. For countries struggling with economic development or political stability, those countries may continue to face these challenges even with digital currencies, so digital currencies issued by countries with limited foreign trade are still not welcome. Therefore, even if a digital currency can gain global market share, if there is limited demand for the currency in the international market, it will not only be expensive but also difficult to convert it into a local currency for international trade. Similarly, just like the three aspects of the impact of digital currencies on international trade policy mentioned above, the second aspect is that digital currencies can provide another kind of credit information for trade finance. However, if you want to smoothly provide such credit information, there are conditions. This requires that both sides of international trade must implement strong privacy agreements to achieve this, otherwise it will cause information leakage and cannot provide credit protection.This has led to the limitations of digital currency for international trade policy, and such limitations are also urgent problems to be solved, which is the direction of future digital currency development.The correct use of the double-sided nature of digital currency, to its dross, take its essence, is the right behavior [10].

5. Conclusion

This article analyzes the impact of digital currencies on monetary policy, financial regulatory policy and international trade policy in the context of existing digitization, and contrasts the different impacts of the original digital currencies and the emerging central bank digital currencies on economic policy. Finally, it is found that the impact of digital currency on economic policies is double-sided, and the government should treat the advantages of digital currency correctly, and improve its defects, so as to develop digital currency more fully. At present, it is found that digital currency has defects in foreign exchange supply and demand, foreign direct investment and other aspects, and the improvement of these aspects is an urgent problem to be solved in the future.

The overall analysis of this article is relatively comprehensive, but the analysis of the model is lacking, the support of data is not significant, and only includes relatively macro data. In future research, the author should focus on micro data to further explain the impact of digital currency on economic policies. At the same time, further consideration should be given to the implications for other economic policies not covered.

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