



By: *Emre Alkin*

The beginning of the end for Central Banks?



For the past few years, people have been asking me, "why is the independence of central banks under threat from politics?" There are many reasons underlying this threat.

We should, however, avoid blaming government v central bank tensions directly for economic instability, because sometimes the monetary system itself and the central banks may be the reason for instability.

To give you a general idea, we should take a look at the founding principles and the key responsibilities of central banks.

The principles I mentioned above are summarised in the "Central Banking in 100 Questions" report on the Central Bank of the Republic of Turkey (CBRT)'s website:

"As set forth in Central Bank Act No. 1211 of Turkey (January 1, 1970), the most fundamental purpose of the central bank is to maintain price stability. Price stability means that the general price level in an economy does not change much over time. There is no significant degree of inflation or deflation. According to the Central Bank Act, the central bank of Turkey shall independently determine a monetary policy and the tools of monetary policy to maintain price stability".

Below listed are the functions and responsibilities of central banks that are established on the basis of similar principles:

- Their role as a bank before public Institutions and government
- Their role as a bank serving other banks and their role as a regulatory authority
- Their duty to control the supply of money
- Their duty to ensure the stability of their country's currency
- Their duty to maintain price stability
- Their duty to maintain financial stability

However, given the fact that central banks are

carrying out some of the above duties with the help of other institutions, we must be aware that other authorities or money market instruments are also capable of performing similar duties. Other institutions like public banks or the Banking Regulation and Supervision Agency.

In the 21st century, many central banks are not allowed by law to lend money to governments or the public sector any more

Authorities also perform certain roles that are essentially assigned to central banks. It can be clearly seen that central banks need regulatory authorities to achieve financial stability, and the instruments they possess are not enough alone to maintain price stability.

In the 21st century, it is a known fact that many central banks are not allowed by law to lend money to governments or the public sector any more. Let me remind you that, in many countries, the Treasury has no longer the right to ask for a short-term debt from a central bank.

However, there are implications that some former bad habits are being re-adopted today. No matter how hard central banks try to bring the supply of money under control by using its money market instruments, they are no longer achieving success.

Today, it's simply not possible to implement a "national monetary policy" especially in developing countries.

National money is either used for buying foreign currency or it leaves the country when interest rates start falling, which leads to a decrease in the money supply, contrary to expectations.

Given that central banks can bring neither price stability nor money supply under proper control, then they are left with a sole function - the exchange rate policy

But, when interest rates start to go up, foreign funds start flowing into the country, increasing the money supply, contrary to "soft landing" expectations.

Consequently, the results turn out to be the exact opposite of what was intended in the first place. Central banks fail to maintain exchange rate stability in any case, because the narratives that determine the value of national currency are not written by central banks.

So, given that central banks can bring neither price stability nor money supply under proper control, then they are left with a sole function. "Decreasing or increasing the cost of funding". I mean the exchange rate policy.

It unfortunately looks like central banks cannot attain positive results through policy interest rates either.

There's a simple reason behind the fact that those in power criticise the centralbanks more heavily than ever: the mission of central banks is about to die. And the most convincing evidence for this is the emergence of cryptocurrencies.

No matter what your money is called, it has to be creditable and easy to be used everywhere

The fact that public banks can easily perform the duties of monetary authorities and private banks consider central banks "useful" merely in terms of "cost of funding", added to the fact that all banks and non-bank financial institutions can generate money with a deposit/credit multiplier instead of central banks, seems to have galvanised people into

action.

"Since Central Banks print money in a snap, everyone can create their own money as long as it is creditable and has the same functions". It's as simple as that.

This is the fact underlying the reason why bitcoin and other cryptocurrencies were invented in the first place. No matter what your money is called, it has to be creditable and easy to be used everywhere. Like a "medium of exchange".

All the facts I mentioned above remind us that banks will survive longer than regulatory authorities.

Banks, which are the most important product of the capitalist system, existed before centralbanks and still exist today, which can sometimes put them under the government spotlight when central banks fail to execute all their duties properly.

Given that it's quite natural for parliaments, courts, municipalities and other constitutional institutions to become subject to criticism when they fail to perform their duties, I think we should embrace the fact that "central banks can be criticised too". This should no longer be a taboo.

I can already foresee that the facts I mentioned above will not just be the undoing of central banks, but they will take down other current monetary systems as well.

But if they're lucky and wise, they will change and adapt to the new circumstances as quickly as possible. Accordingly, banks and financial institutions should better start foreseeing the forthcoming change, and take the necessary measures.

In order for cryptocurrencies to get recognised, people will need to consider them as a medium of exchange to begin with, not as a trading instrument

But what will be the future of banking in a cryptocurrency-dominated world? How far are we from a future where we may no longer need to touch a piece of paper money?

For almost 2 years now, more and more people have been keenly interested in, or been trying to create, a new cryptocurrency.

While some of the investors claim that cryptocurrency is the future of money, others fuelled by courage and a strong sense of entrepreneurship say that "it will be my cryptocurrency that will dominate the world".

I've been trying to give the following insight to people I meet in Turkey as well as in other places of the world: the foremost problem of a new value mechanism is whether it will be able to find and convince people and institutions that are willing to use this new value as a medium of exchange.

Cryptocurrencies capability of being used as a medium of exchange, transaction, investment-saving and finally as a store of value, is definitely more important than their capability of being traded as a commodity.

There's actually one thing that determines the value of this instrument (made to replace paper money) as a commodity: its "national and international recognition" as a currency.

Thus, in order for cryptocurrencies to get recognised, people will need to consider them as a medium of exchange to begin with, not as a trading instrument. However, some preparations must be made before picking cryptocurrency as a medium of exchange.

The new cryptocurrency will need to be configured as such to be compatible with credit and debit cards

That's why it's crucial to build an infrastructure to configure cryptocurrency with an interface to be integrated into Point of Sale (POS) machines before supplying it to investors.

Also, it's equally important to carry out necessary procedures to install Android/iOS-compatible cryptocurrency applications on smartphones.

Today, people are using mobile devices to do everything in their daily lives, like paying bills, or shopping online. As for cryptocurrency's supply to investors; people's and markets reaction to your new cryptocurrency on the "first day" of its launch will determine its future and value. Just like a public stock offering.

Therefore, all necessary measures must be taken and all necessary procedures must be completed before launching a new cryptocurrency.

It would also be important whether the new cryptocurrency offers consumers the capability to use credit or debit when shopping as there is a huge credit utilisation ratio per consumer around the world.

So, the new cryptocurrency will need to be configured as such to be compatible with credit and debit cards.

Another important fact is that banks today offer periodic instalments, and flexible usage opportunities in addition to their bonus and air miles offers.

We should create a new value that possesses a majority or all of money's most important functions, thus making both individuals and institutions want to have this new cryptocurrency

Cryptocurrencies inclusion in such loyalty programmes would help increase interest in them. Cryptocurrencies must be integrated into money-loan payment mechanisms in order to ensure their permanence not only in business to customer (B2C), but also in business to business (B2B) transactions.

I can almost hear you ask, "should we consider cryptocurrency as a medium of exchange or as

an investment instrument"?

My suggestion is that we should see it as both these things. Here's why: the past performance of the emerging market currencies wasn't good enough to be valued as an investment instrument.

So the new foundations of a new cryptocurrency must offer what's necessary to ensure the new cryptocurrency can be used not only as a medium of exchange, but also as an investment instrument.

As mentioned above, we should create a new value that possesses a majority or all of money's most important functions, thus making both individuals and institutions want to have this new cryptocurrency.

As a conclusion: "we don't need any authority; on the contrary, autonomy can help us prevail". In this sense, cryptocurrencies seem more tangible than paper money.