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The future of money

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Key issues

- The ongoing transition from physical to digital forms of money will have substantial implications for both the economy and wider society.
- The future of digital currencies is expected to encompass both government and privately issued initiatives.
- As with many technological advancements, digital currencies pose significant regulatory challenges that will need to be addressed in Australia and globally.

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Introduction

Money is an abstract construct that takes form as tokens (usually called currencies) to fulfill its purpose. The most common forms are gold, notes and coins (cash), and increasingly digital currencies. The evolution from physical forms of money towards various digital currencies raises several issues requiring government consideration, including:

- the speed at which digital payments replace physical cash, and the transition to a cashless society
- the role and place of private digital currencies such as cryptocurrencies and stablecoins
- the role of central bank digital currencies as a new form of government-issued money.

Governments must also consider the global implications and opportunities of digital currency, particularly in the context of international trade.

The functions and forms of money

Alongside the imperative of being easily usable, money must perform 3 core functions to be considered fit-for-purpose:

1. It must be a trusted medium of exchange, where the currency is widely accepted and can facilitate the exchange of goods and services between buyers and sellers, and creditors and debtors.
2. It must be a stable unit of account where the currency's value does not change significantly from day-to-day, week-to-week, month-to-month and year-to-year. A stable currency does not incorporate a risk of its own; it is risk neutral.
3. It must be a store of value – if the currency is a trusted medium of exchange and a neutral unit of account, it can be stored or saved for future use.

The 4 forms of money considered in this article are commodity (e.g. gold); fiat (government-designated legal tender); private digital commodity (e.g. cryptocurrency) and private stablecoins.

From commodity to fiat form

Commodity money must be considered to have value, and must be easy to use (durable, divisible and portable). For example, gold is durable, relatively easy to turn into different sized coins (divisible), and portable in small quantities. As a form, however, commodities fail as a stable unit of account because the value fluctuates. Following World War II, the internationally-supported Bretton Woods monetary system sought to remedy this issue.

Participating governments issued country-specific currencies redeemable on demand for gold pegged at US$35 per ounce. Concurrently, to stabilise the monetary system governments introduced a major innovation – a government decree, or 'fiat', making their currencies the only legal tender. In Australia this is legislated through section 36(1) of

the *Reserve Bank Act 1959* for banknotes and section 16 of the *Currency Act 1965* for coins (with some exceptions).

Problems arose when the quantity of gold stored in central banks began to limit the supply of available currency and constrain economic activity. The early 1970s saw the beginning of the transition away from gold-backed currencies. Fiat money enabled governments to influence the supply of money for stability and economic growth. However, as economic systems grew more complex and globalised, cash became increasingly cumbersome to use. Simultaneously, the rise of digital systems has stimulated an evolution towards a digital type of money.

From physical to digital fiat currencies

The present: digitisation of fiat currency

Digital forms of money have enabled payment systems to become progressively more efficient and easier to use. There are currently 2 systems of payment coexisting in Australia:

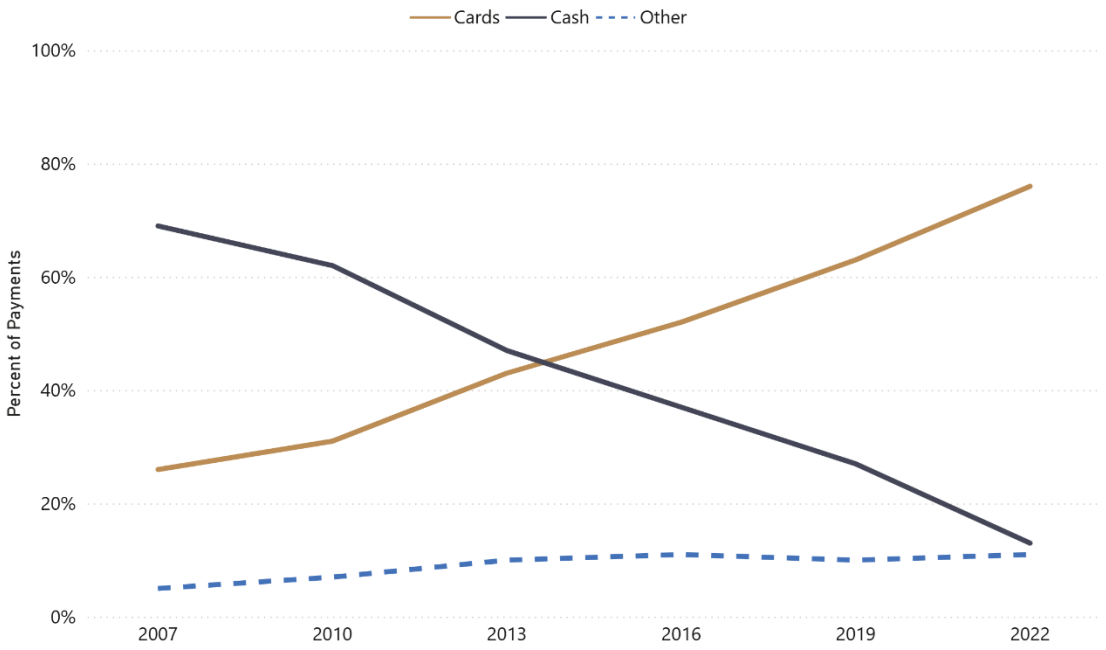
- **Cash**—Payments between economic actors are conducted anonymously using physical currency. At regular intervals, cash totals are added up and deposited in banks (retail money). Because people might use different banks, banks must reconcile cash balances between themselves. The central bank (Reserve Bank of Australia) assists the reconciliation process (usually overnight) by for example lending money to banks with a shortfall.
- **Electronic payments**—Payments are conducted using debit or credit cards. The system first verifies that the card holder has sufficient funds or credit available, then transfers the relevant amount to the recipient's bank. The reconciliation between banks is completed electronically and facilitated by the central bank.

While the functions of fiat currencies are retained with electronic payments, there are some key differences between electronic and cash payments:

- electronic payments are more convenient and easier to use for many people
- cash transactions are anonymous whereas electronic payments are traceable.

The convenience of electronic payments (and the fact that most businesses don't have to accept cash) has led to a significant decline in cash payments (Figure 1). Cheque use has similarly declined and will close as a payment system on 30 September 2029.

Figure 1 Consumer payment methods by number of payments



Note: 'Other' includes payment via BPAY, cheque, gift/prepaid cards and internet/phone banking.
Source: Tanya Livermore, Jack Mulqueeney, Thuong Nguyen and Benjamin Watson, *The evolution of consumer payments in Australia: Results from the 2022 consumer payments survey*, Research discussion paper, (Sydney: Reserve Bank of Australia, November 2023), 19.

The future: Central Bank Digital Currencies

Electronic payments rely on complex verification and bank reconciliation systems. To simplify this process, Australia and other countries are exploring a new type of electronic fiat currency called Central Bank Digital Currency (CBDC). While not currently intended to replace cash or banking accounts, CBDCs could offer significant benefits through broadly removing the cumbersome necessity for bank-to-bank interactions.

As an example, the Reserve Bank of Australia (RBA) could issue tokens (e.g. an 'e-dollar') to be purchased at $1 dollar per e-dollar. The simple characteristics of a hypothetical e-dollar might be:

- they are issued by the RBA
- a banking account is not needed – rather, e-dollars are stored in a digital wallet
- they are legal tender and can be used instead of electronic payments or cash
- they are redeemable into a banking account at a 1:1 rate guaranteed by the RBA.

A notable application of e-dollars would be in the international market. Currently, a foreign purchase generally requires a bank-to-bank transfer. Before the purchase is confirmed, each bank must verify that the buyer's domestic bank account has funds to cover the purchase, and that the seller's foreign bank can receive the funds from the domestic bank. Both domestic and foreign banks must agree on an exchange rate, and the currency transfer must be facilitated through each country's central bank.

With large numbers of international transactions occurring, facilitated between many banks in many countries, this payments system can quickly become overburdened and

cumbersome. CBDCs may help solve this problem by enabling direct trade between people and companies, thus bypassing interbank complexities.

The emergence of privately issued digital currencies

A new form of money has recently emerged in the form of privately issued digital currencies. The key differences between government and private issue of currency are that private issue is not enforceable as legal tender, and transactions using private currency are anonymous, whereas transactions using government issued digital currency are traceable.

Currently, the 2 main forms of privately issued digital currency are cryptocurrencies and stablecoins.

Cryptocurrencies

Fundamentally, cryptocurrencies are secure numbers in a computer system, with Bitcoin the best-known example.

Cryptocurrencies can be used as a medium of exchange, but price fluctuations make them an unstable unit of account. Additionally, while similar in form and function to gold or any other asset (and taxed accordingly), cryptocurrencies are a risky store of value.

Cryptocurrencies operate outside of centrally coordinated frameworks through a distributed ledger system, supported through blockchain technology.

Stablecoins

Stablecoins purport to solve the unit of account problem inherent in cryptocurrencies through their value being tied to some stable asset or currency. The stable assets may be fiat currencies, treasury bonds, a share portfolio, or a mixture of these or other assets. Most of the price fluctuation inherent in cryptocurrencies is thus removed making them a more stable medium of exchange and unit of account.

Like CBDCs, stablecoins have the potential to bypass the cumbersome international payments system which may make them useful in international trade. However, there are also risks associated with their use. Analysis published by the International Monetary Fund cautions that:

> ... they also could threaten government revenues and take us back to a 19th century world of private money issuers competing for seigniorage, which would fragment and destabilize the international financial system.

The future of money

The transition to digital forms of currency raises several challenges and issues in Australia, and around the world. In particular, governments and parliaments will need to consider how best to regulate and control:

- the phasing out of cash
- the potential disruption that private digital currencies may cause, including through their use in criminal activities
- the phasing in of CBDCs
- the problem of establishing a well-functioning international digital currency.

The phasing out of cash

While digital currencies are likely an inevitable part of the future, people will need time to adjust to digital forms of money. Some consumers still prefer notes and coins, as the physical form provides a sense of trust in money, and the appearance that money is real.

As recently noted by the RBA (p. 8) cash is, and is expected to remain, important for many Australians:

> Maintaining adequate access to cash in Australia is important as cash is relied on by a significant number of Australians to make their everyday payments and participate in the economy. Cash is also widely held as a store-of-wealth and plays a role as a backup to electronic payments.

In recognition of the importance of cash, the Treasury recently closed a stakeholder consultation on mandating cash acceptance by businesses when selling essential items.

Regulation of privately issued digital currencies

Privately issued digital currencies are playing an increasing role in the quickly growing group of non-bank finance providers, which exist outside of government licencing and regulation arrangements. These institutions often provide loans to people who would otherwise be unable to access credit. However, the lack of a central bank guarantee or restrictions on reckless lending also create significant risks in using these providers for savings or borrowings. These risks may grow even more pronounced if such institutions gain a significant market share, with potential to destabilise the broader financial system.

Privately issued digital currencies can also provide anonymity, a feature linked to criminal activities such as money laundering and terrorist financing. To minimise disruption and instability, and criminal activity, the orderly licencing and regulation of privately issued digital currencies will need to keep pace with their development.

The case for CBDCs as an option for consumer payments

CBDCs can be a stable and efficient consumer (retail) payment system as an alternative to, for example, privately issued stablecoins. They can also facilitate international consumer payments and enable unbanked individuals to conduct on-line purchases.

However, the introduction of retail CBDCs would represent a significant shift in Australia's monetary system. Accordingly, in September 2024 the RBA and Treasury jointly published an analysis of CBDC use, covering the potential benefits, implications for cash access and effect on financial institutions. Notably, in launching this report the Assistant Governor Brad Jones stated that:

> … the RBA and Treasury are committed to reassessing the merits of a retail CBDC over time, with a follow up paper to be published in 2027.
>
> …
>
> As a practical matter, any form of CBDC would be issued by the RBA. However, the introduction of a retail CBDC for use among the public would raise important political economy issues and give rise to significant changes to Australia's financial arrangements. As such, the Australian Government would ultimately decide whether to introduce a retail CBDC. Enabling legislation would very likely be required, consistent with the international experience. (pp. 13-14)

The problem of international payments

Agreeing on an efficient, easy to use and secure international currency is a significant global challenge. Currently, the US dollar is used as a benchmark and practical currency. A possible alternative may be for a 'trading bloc' of countries, such as the BRICS, to establish and use their own mutually accepted currency for trade between member states. While unlikely in the immediate term, a privately issued stablecoin could effectively become a dominant international currency at some point in the future.

Conclusion

The emergence of digital forms of money, particularly those issued by private companies, provides significant regulatory and broader societal challenges. These challenges will likely become more complex as the use of, and technology behind, private currencies continues to evolve. The current patchwork of physical cash and public/private digital currencies will also likely continue to shift, exacerbating the already substantial challenges. However, this transition arguably also offers multiple opportunities especially in streamlining payment systems.

Private stablecoins can provide an efficient payment system for some, but their overall use is still limited compared to digital fiat currencies, and there is a risk of financial destabilisation if they become more widely used. CBDCs on the other hand, can provide both an efficient and stable payment system, will have legal tender status and can be easily transferred into banking accounts as needed. Yet, while many countries are considering introducing CBDCs,

few have done so. This is likely indicative of the scope and scale of policy required, in addition to the significant reform ambition needed for such an initiative.

Further reading

- Eswar S. Prasad, *The Future of Money: How the digital revolution is transforming currencies and finance*, (Cambridge: Belknap Press of Harvard University Press, 2021).
- Reserve Bank of Australia and The Treasury, *Central Bank Digital Currency and the Future of Digital Money in Australia*, (Sydney: Reserve Bank of Australia, September 2024).
- International Monetary Fund (IMF), 'Stablecoins and the future of finance', *Finance and Development*, (September 2025); IMF, 'The Money Revolution', *Finance and Development*, (September 2022).

Acknowledgement of Country

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