Central Bank Digital Currency (CBDC)

Kaye Lynch-Sparks | klynch-sparks@aba.com | 202.663.7593 June 2025

Issue Update

Policymakers in the U.S. and around the world are exploring a form of digital asset called central bank digital currency (CBDC). CBDCs are a digital asset that would be issued by a central bank and remain as a liability on the central bank's balance sheet. Contrary to popular belief, CBDCs are not intended nor necessary to "digitize the dollar" as the dollar is largely digital today. Instead, the issuance of a CBDC would fundamentally rewire our banking and financial system by changing the relationship between individual customers and the Federal Reserve.

While there are several potential models for CBDC, in a January 2022 discussion paper the Fed indicated it is exploring a model where the CBDC is a liability of the Fed and widely available to the general public. ABA responded to the Fed's paper and has continued to advocate that there is no compelling use case for a consumer-facing CBDC. In May 2024, the House of Representatives passed a bill to prohibit the Federal Reserve from issuing a CBDC largely along party lines (three Democrats voted in favor). And the Fed, for its part, has also promised to not move forward "without clear support from the executive branch and from Congress, ideally in the form of a specific authorizing law."

In recent months momentum for a consumer-facing CBDC has waned in the U.S. We attribute this trend to public concerns about data privacy and government control and insight into consumer spending and a recognition of the risks to financial stability and the banking system that a CBDC would cause. While several public-private experiments are underway related to a wholesale CBDC (these would not be consumer-facing), President Trump prohibited the United States from developing a CBDC as part of a January 2025 executive order on the digital assets market.

Other central banks continue to pursue CBDCs, which may reinforce the narrative that the U.S. is "behind." The UK and European Union advanced to a design phase and a preparation phase, respectively for the digital pound and digital euro. Both, however, face similar public skepticism as in the U.S. with respect to the need for a CBDC and privacy.

Why It Matters

The implementation of a CBDC would change the nature of our industry, financial system, and economy. While proponents claim CBDCs could bring benefits, many of these benefits are theoretical and would be hard or impossible to realize. The risks associated with the issuance of a CBDC are tangible and in many cases unavoidable.

Importantly, the issuance of a CBDC would set the Fed up as a direct competitor for bank deposits. Because a CBDC would be a liability of the Fed, it would inevitably sit on the Fed's balance sheet instead of a bank's. Even if delivered through a bank, a CBDC would be more akin to cash in a safety deposit box than an actual bank deposit. This deposit substitution would drain our nation's deposit base and limit banks' ability to make loans that power economic growth.

More generally, it is unclear what policy goals a CBDC would achieve in the United States that cannot be better achieved by other means. For some countries, a CBDC could enhance weak or nonexistent financial systems. However, a CBDC does not appear well-positioned to enhance underlying financial capabilities or extend the reach of financial services in well-developed markets like the United States, despite the overly optimistic

American Bankers Association

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promises from proponents.

Recommended Action Items

Tell Congress to refrain from authorizing a CBDC until the purpose is clearly articulated and careful analysis demonstrates that the proposed model will deliver on the purported benefits while also mitigating the significant risks.

Tell Regulators to ensure that the issuance of a CBDC does not threaten the health of the U.S. financial system by destabilizing existing banking and payments systems that are the backbone of our economy and markets.