Cryptocurrencies

Will the cautious Swiss embrace an e-franc?

The SNB is not (yet) rushing to offer an official crypto version of the currency

Markets Insight

The design of the new 10-franc banknote was unveiled earlier this month © Bloomberg

YESTERDAY by Ralph Atkins in Zurich

At 8am one day earlier this month, a queue had formed outside the Swiss National Bank's imposing Zurich offices. Thankfully, there was no run on the country's banks. Instead, the interest was in a new series of Swiss 10 franc notes.

The scene was a reminder of the enduring popularity of currencies in physical form, especially in conservative, German-speaking parts of Europe.

Inside Switzerland's central bank, quite a few employees might have asked: for how much longer?

The small Swiss town of Zug, a 20-minute high-speed train journey from Zurich, has become a cryptocurrency hub, bringing together technology experts, financial specialists and capital providers. Zug authorities accept payments in bitcoin and a local foundation is behind ethereum, the second-biggest digital currency.

Switzerland has accounted for four of the top six largest "initial coin offerings" by which start-ups have raised funds selling digital tokens to investors.

Switzerland's politicians, meanwhile, are keen to develop a regulatory environment that gives a competitive edge in financial technologies, building on the country's reputation as a European haven for pro-business, government-lite thinking. In a few years, it is quite possible that even cautious Swiss consumers will have switched to electronic wallets.

That prospect creates a dilemma for the SNB. Soon the traditionally cautious central bank might have to decide whether to hand over completely the establishment of new currencies to a “wild west” private sector, or consider offering a crypto version of the franc — an e-franc — as an efficient, electronic alternative to notes.

The idea of such officially backed cryptocurrencies is a hot topic for all central bankers globally. But the relative size of its cryptocurrency ambitions, and the contrast with the caution of its central bank, could push Switzerland into the spotlight.

Bitcoin and its rivals have captured the popular imagination, and quite possibly created a frenzied, speculative bubble. Central bank-issued cryptocurrencies would be something else. Like a bank note, they would represent a claim against the central bank, and should thus act as a reliable store of value (unlike bitcoin) as well as provide a safe and efficient means of payment.

In Europe, Sweden’s Riksbank is furthest advanced in its thinking, or at least most public. A Riksbank report last month argued that e-kronas, which would give consumers access to “risk-free” central bank money, were not only possible but necessary. As use of cash declined, payment systems might otherwise become concentrated among fewer private sector actors, making them more vulnerable to disruption.

The Riksbank reckoned e-kronas could be designed to allow anonymous transactions up to a certain value — preserving an important feature of cash — while still complying with anti-tax evasion and money laundering laws. Nor would the Riksbank lose control over monetary policy, even though e-kronas would circulate beyond the traditional banking system.

Yet it is hard to see the SNB rushing to copy the Riksbank. It is not just worries about cyber attacks. In the current deflationary environment, the Swiss might reasonably worry that e-francs would be an easy way to impose negative interest rates by electronically eroding their value.

A bigger concern of financial supervisors would be the impact on conventional banking, especially at times of crisis. In normal times, traditional bank accounts would have to offer better interest rates if e-francs offered greater convenience. But if there was a panic, banks could see sudden and large withdraws — regardless of interest rates — as funds are switched into safer e-francs.

In other words, financial crises might become more severe.

But if physical notes and coins disappear, private sector-dominated financial systems might prove equally dangerous.

These are issues facing all central banks. Unlike others, the SNB has not yet addressed them publicly. In contrast to Sweden, use of cash remains high in the affluent Alpine nation. That could change quickly, however. It may not be too long before Swiss are clamouring not to get hold of new bank notes but to know when — or if — e-francs will arrive.

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