

The fiscal benefits of a digital pound

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Key points

The government would benefit from a significant fiscal windfall if it goes ahead with plans to introduce a digital pound.

The Treasury and Bank of England judge that a digital pound is likely to be necessary by the end of the decade, to safeguard the stability of the monetary system and enable innovation in payments. A digital pound would be a central bank digital currency - a new form of money issued by the Bank of England which, like physical cash, would also generate 'seigniorage' revenue for the government.

Seigniorage is the profit from issuing money, derived from exchanging non-interest bearing liabilities for interest-bearing assets. The Bank of England previously generated billions of pounds for the Treasury in this way through the issuance of banknotes, but such revenue has increasingly been yielded to commercial banks with the decline of cash as a means of payment.

Analysing a range of potential scenarios, **Positive Money estimates that the government could expect to gain between £15bn and £30bn a year of fiscal headroom from a digital pound**, depending on the level of adoption. In a higher adoption scenario, where 30% of bank deposits are converted into a digital pound, seigniorage revenue would average as much as £28.4bn a year between 2022/23 and 2028/29, reaching more than £30bn by the end of this period.

Recommendations

- 1) The government and OBR should forecast the potential impact of a digital pound on the government's fiscal position.
- 2) The government should seek to maximise the full fiscal benefit of a digital pound by using it for its own disbursements and cash management.
- 3) The government should develop a framework for reinvesting seigniorage profits from a digital pound into the real economy, such as through a national development bank which could channel funds into a just green transition.

For further reading, see 'The Fiscal Benefits of a Digital Pound'

[Positive Money](#) is a not-for-profit research and campaigning organisation, working towards reform of the money and banking system to support a fair, democratic and sustainable economy. We are funded by trusts, foundations and small donations.

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