

The UK does not need a digital currency: the vanity of ...

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There is [much discussion in the media today](#) about the possibility that the Bank of England might create a digital currency for use in the UK by 2030.

I stress that all of this is speculation. No final decision on the development of such a currency will be taken until 2025. It will not, therefore, be the responsibility of the current government. Given the near certainty that the Tories will be out of office at the next election this means that, like almost any announcement that the current government now makes, the current speculation is essentially meaningless.

This does not mean, however, that this issue is not worth thinking about, although to spend more than a few minutes on it is a waste of time: there is no evidence that we require a digital currency in the UK.

The most obvious reason for saying this is that we do already have a digital currency in this country. Excepting the £80 billion or so of notes and coins that are in circulation all the money that we now have is electronic, and so digital. The only record of its existence is a digital entry in a computer maintained by a bank that produces statements of the sums owing to and from that bank. Those balances, which are without any form of physical asset backing of any sort whatsoever, are digital currency. The question as to why we need another digital currency is, in that case, hard to answer.

One answer that central banks provide for pursuing this issue is that they must provide a legitimate alternative to cryptocurrencies. This is obviously disingenuous. Given that almost no one has ever used a cryptocurrency to actually settle a real liability, at least in the normal course of trade, a digital currency is not required as an alternative to any crypto asset.

When the Bank of England is also making clear that any digital currency it creates will not carry any interest rate and will be denominated in sterling it also becomes very obvious that the digital currency that they will create will have none of the attraction of the supposed cryptocurrencies now in use. The supposed appeal of cryptocurrencies is

in their speculative worth, even though much of that appears to be entirely illusory (to use the kindest possible words). In that case, it is glaringly apparent that any central bank-created digital currency without any speculative value to it and without a rate of return paid on it is not an alternative to cryptocurrencies. To pretend otherwise is to be disingenuous.

So, what is the reason for a central bank created digital currency? The only one that appears to be available is to replace cash. The claim would appear to be that digital currencies will be available to anybody who wants them, albeit through a commercial provider, and not apparently direct from the Bank of England. They will be issued in what are being called digital wallets. I think those already used to making payments from their phones are already in possession of these, and quite how these digital wallets will in practice differ from a charge card is hard to work out.

In that case, digital currencies answer no known question unless that question is “how do we get rid of notes and coins?” Even then, however, quite how a digital currency will really work is hard to know. Are children to be forced to carry digital wallets? Similarly, will those mainly older people who still like to use cash just be told to give it up and instead use a digital wallet when that might very well be alien to them? And is the population as a whole willing to give up cash as yet? I am not sure it is, even though, somewhat to my own surprise, I now go for long periods without ever using it. I am not sure there are any good answers to these questions as yet.

That might be, especially true, if, as is likely introduction of a digital currency to replace notes and coins is really designed to, firstly, permit the possibility of negative interest rates, because the alternative of holding cash will have been eliminated and, secondly, to permit all transactions within the economy to be traced digitally, increasing the likelihood of tax compliance, albeit centrally imposed, and with significant resistance arising.

This then leads to the political questions within this proposal. Is any government willing to take the risk of introducing a digital currency to replace cash and accept the risk of political backlash from doing so?

And is any government actually so keen to introduce a digital currency, and so eliminate cash, that it is actually willing to drive people into the hands of much less stable currency providers so that those who do not wish the government to have access to information on all their transactions can continue to hide them from scrutiny (at least in their own imagination)? I think that the appeal of such currencies will rise significantly if the government tries to eliminate cash.

Finally, there is a curious macroeconomic twist to this. What is currently being made clear is that this digital currency will not be an alternative to a banking service. All that a digital wallet will apparently do is hold digital currency that is equivalent to cash. No interest will be paid. There will be no overdraft facility. There will be no loan facility.

There is, then, no banking arrangement, as such, although it is being suggested that commercial banks will actually issue these digital wallets, although why they would wish to do, so is hard to see. In that case, all that is being provided is a quite limited opportunity to deposit some funds with the Bank of England as an alternative to depositing them with a bank itself. That, however, by default means that government borrowing increases, because this is lending to the government and that always increases the national debt. I wonder if anyone in the government has thought this through because it shatters the myth that there is no money?

In summary, what the government is proposing is incoherent, makes no banking sense, makes no macroeconomic sense, answers no known problem, and would appear to be a dead cat issue, dumped on the table to distract from the reality which is that the Bank of England is currently trashing the UK economy by pushing up interest rates, wholly unnecessarily. Unless the government comes up with something much better than this I suspect we are a long way from having a digital currency unless the vanity central bankers demands it.