

2020: Are retail Central Bank Digital Currencies (CBDC) in the fast lane?

You are here

13 May 2020

A year after their 2019 paper "[Understanding Central Bank Digital Currencies](#)", the [Cashless Society Working Party](#) is revisiting the topic with a blog series. In the first of the series, Sabrina Rochemont brings you up to speed with key developments in the retail (general purpose) CBDC space this year so far.



In 2019, three forces built pressure on [Central Banks](#) to assess the potential to issue a digital equivalent of fiat money to the public.

First, the potential for new technologies such as Blockchain to address some of the current inefficiencies of the settlement infrastructures – and modernise those infrastructures – led to the ancillary question about just how adequate these technologies were for retail use, in the wake of Bitcoin. Eventually, Central Banks became cautious about Blockchain's potential to process payments at scale.

Second, the announcement of the Facebook-led Libra cryptocurrency threatened Central Banks' authority on monetary policy through a parallel, unregulated and totally private cryptocurrency that would finally deliver the ambitions of Bitcoin. Central Banks and regulators unanimously pushed back against the Libra project, which has now issued [a revised, scaled-down scope](#) that fits in with territorial regulators through single-currency stablecoins, a type of cryptocurrency that is backed by a reserve asset to offer price stability. The Libra association has also applied for its first payments license, in Switzerland. Multiple commentators view the new project as a new Paypal. Simultaneously, the G20 has set out rules for national authorities on how they should regulate stablecoins such as Libra, to align them to rules for businesses that present similar risks, and to prevent arbitrage. In addition, [a survey](#) from the Official Monetary and Financial Institutions Forum (OMFIF) dealt Libra [a further blow](#) as, in terms of public trust, Central Banks are viewed as best positioned to issue digital currencies. The public in emerging markets express confidence towards CBDCs, whereas there seems to be little interest among the public in developed economies.

Third, the People's Bank of China (PBoC) announced steps to [pilot their Digital Currency / Electronic Payments \(DC/EP\) CBDC](#). As per plans shared in summer 2019, the PBoC is moving forward with its testing plans, to start in Shenzhen, Chengdu, Suzhou, and Xiong'an New Area. The PBoC is implementing a two-tier system, issuing through financial institutions that have to keep the reserves at the Central Bank. The trial is to take place through one of the largest state-

owned lenders, and will include restaurant chains such as McDonald's, Subway, and Starbucks. Local experts have been calling for China's plans to accelerate, in order to deliver helicopter money to small and medium businesses that were most affected by the COVID-19 pandemic. If not, the DC/EP implementation seems expected by the 2022 Winter Olympics. China's plans may have kept other Central Banks on their toes sufficiently to continue researching use cases, architecture and technology for retail CBDCs. The [latest survey](#) from the Bank of International Settlements identified that emerging market economies are most motivated to issue digital currencies, with Central Banks representing a fifth of the global population likely to issue very soon. Central Banks in [advanced economies](#) have also extensively engaged in-depth research, with:

- The leading group of Central Banks from Sweden, Canada, [Japan](#), the EU, Switzerland and the UK pooling findings into a working group
- Sweden starting [e-krona testing](#)
- The World Economic Forum releasing a [CBDC policy maker toolkit](#)
- The Bank of England launching [a discussion paper](#) to explore design options for a retail CBDC
- The French National Bank engaging with experiments on interbank settlements, focused on a wholesale CBDC
- The Dutch National Bank declaring [its ambition](#) to lead the field, from the perspective of retaining the [public role of money](#)
- A US Democrat Bill planning for a Digital Dollar for stimulus to recover from the COVID-19 pandemic
- The EU forming a taskforce to consider digital currency to address cash supply issues
- South Korea declaring intent to pilot a retail CBDC.

The world has changed since [our predictions](#) earlier this year: the [COVID-19 pandemic](#) has shattered economic assumptions, and CBDCs now appear to be in the fast lane. The topic is bound to develop further throughout 2020.

The [Cashless Society Working Party](#) laid out the primary dimensions in its paper "[Understanding Central Bank Digital Currencies](#)" in 2019. Next, we will talk about helicopter money and financial inclusion. Yet many other dimensions are emerging in the areas of trust, the impacts on the fractional reserve system, geopolitical implications, the role of mobile money and more.