

CBDC



Central Bank Digital Currency: Initial Considerations

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The views expressed in this presentation are mine and do not necessarily reflect those of the IMF.

What is special about CBDC?



- Central bank money is the safest, the most liquid, and the ultimate settlement asset
 - Cash and reserves
- CBDC brings central bank money into the digital world
 - Retail and wholesale—cash and reserves in digital forms empowered by new technologies
 - Serves as the monetary foundation and infrastructure of the digital economy

Diverse International Landscape

- Three jurisdictions have officially **launched** CBDC: The Bahamas, Jamaica, Nigeria.
- Leaders and followers in **exploring** CBDC. Some central banks are devoting large resources, e.g.: China, Euro area, and India.
- A few central banks have **paused** their CBDC exploration: Kenya and Uruguay.
- International organizations are also **partaking** in CBDC exploration: BIS, IMF, WB.
- Many central banks are **approaching** the IMF for advice and technical assistance.
- The IMF is ideally positioned to **share knowledge** on CBDC exploration.
 - Virtual CBDC Handbook; initial wave of five chapters to be launched in November 2023

CBDC Exploration

Exploring CBDC is both a policy decision-making process and a process of product development

- Policy management
- Product development

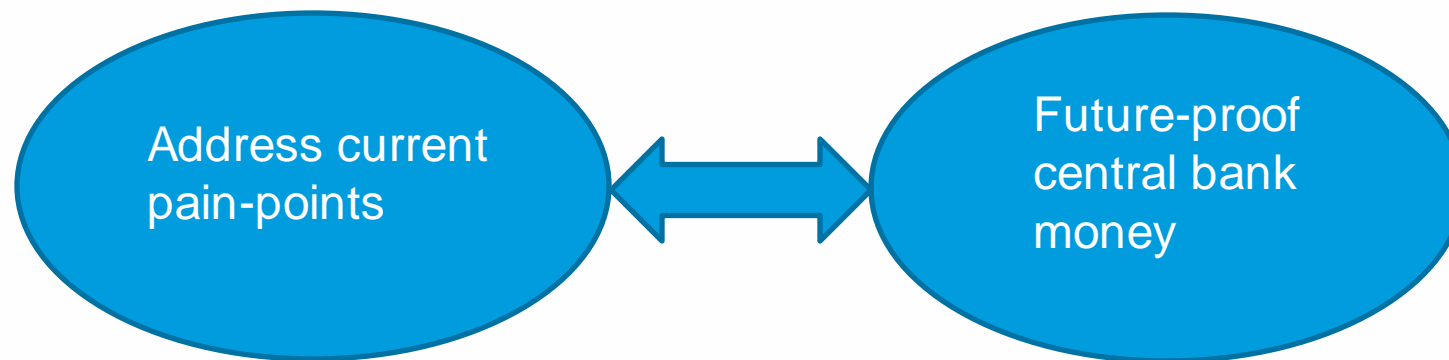
Exploring CBDC needs both structure and flexibility

- Complex decisions in a fast-moving digital environment
- Central banks must plan for the long term – but the digital future is inherently difficult to predict

Chapter 1: A Dynamic Decision-Making Framework

- Clearly define and prioritize **policy objectives**.
- Establish a clear view of **macro-financial risks**.
- Assess **capacity** to explore and potentially issue CBDC.
- Identify, and engage with, **key stakeholders**; identify their **needs** and **communicate** clearly.
- Lay out key **feature requirements** (e.g., off-line functionality; safeguards to protect user privacy while ensuring compliance with AML/CFT standards)
- **Legal and regulatory** foundations

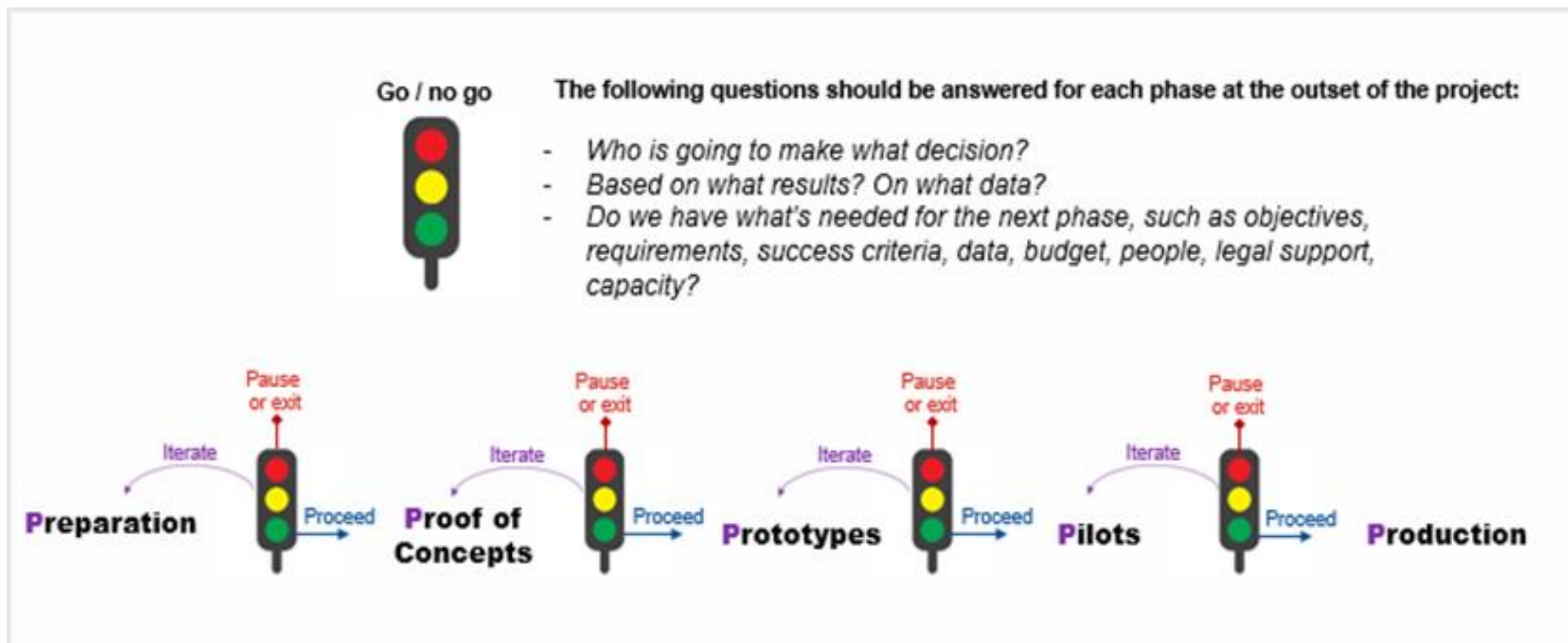
Policy objectives should be crystally clear



Access and inclusion	Improve Payments	Monetary stability
Financial inclusion	Efficiency	Monetary sovereignty
Government transfers	Competition	Singleness of money
Cross-border payments	Resilience	De-cryptoization

Chapter 2: A Guide on CBDC Product Development

The “5P” Methodology



Chapter 3: Monetary Policy Transmission

- The impact will depend on **country circumstances and design features**.



- Transmission could **strengthen**, through increased competition, higher financial inclusion, and de-dollarization/de-cryptoization.
- In general, unless holdings of CBDC are very large, the effects on monetary policy transmission are expected to be **relatively small in normal times**,
 - but could be more significant when policy rates are low and there is financial market stress.

Chapter 4: Capital Flow Management Measures

CBDCs could be designed to facilitate cross-border payments while still managing capital flows if warranted (e.g., when consistent with the IMF Institutional View).

- CBDCs can be designed to **accommodate the implementation of CFMs**.
- Thanks to **programmable** CBDC transactions, certain CFMs could be implemented more efficiently and effectively than in today's environment.
- Implementing CFMs on foreign CBDC requires central banks to **collaborate** on practices and standards.
- Operational risks from “**smart CFMs**” could arise and need to be explored further in operational settings.
- Issues surrounding the **legal framework** of smart CFMs warrant further careful investigation.

Chapter 5: Promoting Financial Inclusion

- CBDC has the opportunity to gain acceptance among the financially excluded if it is designed to replicate some of the desirable properties of cash, as “**digital cash**”.
- CBDC, once adopted by the financially excluded, then can serve as an **entry point** to the broader formal financial system.
- **Complementary policies** to address digital exclusion are needed to maximize the potential of CBDC; CBDC alone **is not a panacea** to financial inclusion.
- CBDC has **unique properties** and may offer additional features that other solutions may not provide.

Summary

- If appropriately designed, CBDC **has the potential** to improve payment systems and support the demand for central bank money even as other digital solutions proliferate.
- But the appropriateness of CBDC will vary with **country circumstances**. If poorly designed, CBDC could pose risks.
- Given the **complexity and the novelty** involved, policymakers need to explore CBDC carefully and systematically.
- The virtual CBDC Handbook aims to offer **guidance** to policymakers on how to explore CBDC and investigate its macro-financial implications.
 - This presentation summarizes the messages of the initial five chapters

Next Steps

Possible topics in the 2nd wave of virtual Handbook chapters

- Implications for financial stability
- Data frameworks and privacy protection
- Cyber security
- The relationship between CBDC and other payment systems
- CBDC distribution, incentives, and adoption
- CBDC and cross-border payments

Timing

- Fintech Notes throughout 2024, edited into Handbook chapters by the Annual Meetings

Continued collaboration

- Both inside and outside the Fund
- The Fund stands ready to provide TA to country authorities