

Time for central bank digital currencies to prove their worth

By [Marc Jones](#)

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A milestone move by the European Central Bank (ECB) toward launching a digital euro within a few years means the time has come for the newest incarnation of money to prove its worth.



Source: Reuters.

A few countries have introduced central bank digital currencies (CBDCs), China is trialling a prototype yuan with 200 million users, India is gearing up for a pilot and some 130 countries representing 98% of the global economy are exploring digital cash.

The ECB's move on Wednesday, 25 October, to establish a pilot that could lead to a digital currency for the 20 countries that use the common currency - making it the first heavyweight Western central bank to formally forge ahead - could become a global blueprint.

Supporters say CBDCs will modernise payments with new functionality and provide an alternative to physical cash, which seems in terminal decline.

But questions remain why CBDCs represent an advance, with uptake low in countries such as Nigeria that have adopted

them, as well as protests against the ECB's plans, showing public concern about snooping.

Commercial bankers fret about the costs and possible deposit bleeds as customers could move money into central bank accounts, while developing countries worry that an easily accessible digital dollar, euro or yuan could cause havoc in their systems.

'What is money?'

The ECB's plan "is a very big deal, and a lot of the rest of the world is watching this closely", said Josh Lipsky, who runs a global CBDC tracker at the Atlantic Council.

"It is one of the biggest central banks, so if it comes up with answers to the privacy and cyber-security issues and the ability to use it offline, it will be very influential."

Central banks were spooked into action five years ago when Facebook floated plans for a breakaway currency. Now, though, policymakers have yet to fully persuade many why CBDCs are needed.

Fabio Panetta, the ECB executive board member overseeing the bank's digital euro work, said it would help "future-proof" the currency and reduce what he called an over-reliance on the payment systems of US.-based credit cards.

But experts are scratching their heads.



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"It's not yet clear what the thing is that could be done with a retail CBDC that couldn't also be replicated with commercial-bank money," said Barclays' managing director of advanced technologies, Lee Braine, who has been involved in some of the Bank of England's digital pound projects.

"You are potentially breaking some of the singleness of money," he said, flagging the risk of a two-tier system if CBDCs are allowed different functionality or data-disclosure rules than bank accounts.

"This all comes down to, what is money?"

Defining a global standard

A key unknown is whether the US Federal Reserve or Bank of Japan will launch retail CBDCs.

India could be a more effective test environment than China because, while each Asian giant has more than 1 billion people, India has a far more open economy.

In contrast, Canada and some others appear to be tapping the brakes, while most of those already using CBDCs are seeing very little interest.

Data this month from the Bahamas, which launched the world's first digital currency in 2020, showed personal transactions of its SandDollar were down 11% in the first seven months of the year while wallet top-ups had plunged four fold.

An International Monetary Fund (IMF) paper in May described public adoption of Nigeria's eNaira as "disappointingly low", with 98.5% of wallets never even used.

"The current adoption level of eNaira has been reflective of the early stage of CBDC awareness," the country's central bank said in a written response to questions, adding it had been "consistent" with expectations.

Bo Li, an IMF deputy managing director, said this month the multilateral lender was helping dozens of countries with CBDC plans and would soon publish a how-to guide. It is building what it calls its XC platform, meant to process or "settle" CBDCs transactions.

The Atlantic Council's Lipsky said this, along with the technology choices the ECB and India make, could start defining a worldwide standard, as VHS did early in videotape era.

"The overarching question" about developing CBDCs, Lipsky said, "is how does this improve the financial system? That it really does what it's all about."

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