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CBDCs for Financial Inclusion: Risks and Rewards
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FRIDAY, October 14, 2022
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**CBDCs for Financial Inclusion: Risks and Rewards**

Sponsored by the IMF’s Monetary and Capital Markets Department and Strategy, Policy, and Review Department

Central bank digital currencies (#CBDC), if appropriately designed, can help improve #financialinclusion. Effective implementation needs a proportionate, risk-based approach and the support of complementary policies. The session will share knowledge and lessons learned thus far.
Alliance for Financial Inclusion. 2022.

This special report on CBDC and financial inclusion aims to unpack considerations for developing and emerging countries by evaluating the extent to which CBDC can advance financial inclusion. It offers an overview of the landscape of CBDC in developing and emerging countries and the specific motivations for AFI members to pursue one. It looks at the current state of financial inclusion across different developing and emerging countries and regions, and identifies the main use cases CBDC can contribute to. It identifies the relevant barriers to these use cases and the unique CBDC features that address them. It introduces the potential risks and unintended consequences for consumers, central banks, and payment service providers before setting out a framework and roadmap to assist central banks on their CBDC journey from exploration to implementation.


Central banks are considering how retail central bank digital currencies (CBDCs) may help support financial inclusion. While they are not a magic bullet, central banks see CBDC as a further tool to promote financial inclusion if this goal features prominently in the design from the get-go. In particular, central banks are considering design options around promoting innovation in the two-tiered financial system (eg allowing for novel non-bank payment service providers), offering a robust and low-cost public sector technological basis (with novel interfaces and offline payments), facilitating enrolment and education (via simplified due diligence and electronic know your customer) and fostering interoperability (both domestically and across borders). Together, these features can address a range of existing barriers to financial inclusion. The paper draws on interviews with nine central banks with advanced work on CBDCs and financial inclusion, as well as ongoing research and policy work at the BIS and World Bank. It gives concrete examples from the central banks’ work and discusses challenges, risks and regulatory and legal implications. It aims to facilitate peer learning on a key set of issues around CBDCs and financial inclusion policy faced by societies around the world.


In recent years, emerging market economy (EME) central banks have increasingly engaged in projects related to central bank digital currencies (CBDCs). The stage of their engagement – research, pilot or launch – varies according to differences in country circumstances, including the availability of digital infrastructure, their focus among different policy objectives, and the attendant motivations and concerns. This volume contains papers that were prepared for a meeting of Deputy Governors of central banks from EMEs, which took place on 9–10 February 2022 and explored issues such as: the main objectives of introducing CBDCs; the guiding principles of CBDC design and data governance; challenges of CBDCs for monetary policy, financial intermediation and financial stability; the implications of CBDCs on financial inclusion; and the cross-border aspects of CBDCs.

Čihák, Martin, and Ratna Sahay. 2020.
“Finance and Inequality,” Staff Discussion Notes No. 2020/001, International Monetary Fund, Washington, DC.

The study examines empirical relationships between income inequality and three features of finance: depth (financial sector size relative to the economy), inclusion (access to and use of financial services by individuals and firms), and stability (absence of financial distress). Using new data covering a wide range of countries, the analysis finds that the financial sector can play a role in reducing inequality, complementing redistributive fiscal policy. By expanding the provision of financial services to low-income households and small businesses, it can serve as a powerful lever in helping create a more inclusive society but—if not well managed—it can amplify inequalities.


If well-designed and implemented, central bank digital...
currencies (CBDCs) likely offer the best solution to the financial inclusion and remittance problems that bedevil the Pacific region. However, the CBDC is a complex piece of software and a complex digital framework capable of generating economywide benefits and shocks. The development of a safe, efficient, and accessible CBDC by any Pacific country will require considerable expertise and a deep understanding of the design issues this fundamentally new form of currency gives rise to in this context. It will require Pacific island finance sector regulators to redirect scarce resources away from currently pressing challenges to undertake years of preparatory research and then pilot programs. For this reason, this brief concludes that now is not the time for countries in the region to issue a CBDC, but now is the time to begin laying the groundwork for this potentially game-changing innovation by building specific knowledge and expertise within the region’s central banks.

International Monetary Fund. 2022.


This special issue of Finance & Development (F&D) focuses on the ongoing money revolution and its implications for finance, monetary policy, international capital flows, and society at large. “The future of money is undoubtedly digital,” writes F&D editor-in-chief Gita Bhatt. "The question is: what is it going to look like?” F&D attempts to answer that question, drawing on cutting-edge research and analysis from economists and other leading experts including Agustín Carstens, Eswar Prasad, Ravi Menon, Tobias Adrian and many others.

International Monetary Fund. 2021.


Following the companion paper on the new policy challenges related to the adoption of digital forms of money, this paper presents an operational strategy for the IMF to continue delivering on its mandate of ensuring domestic and international financial and economic stability. The paper begins by summarizing the forces driving the adoption of digital forms of money, and the new policy questions that emerge. It then focusses on how the IMF’s core activities and output will need to evolve, including surveillance, capacity development, and analytical foundations. It ends by discusses how the IMF intends to partner with other organization, and to grow and structure internal resources to fulfill this vision.

Juhro, Solikin M. 2022.


The complexity and uncertainty of issues faced by central banks have and will continue to evolve in line with the advancement of digital technology. Navigating central banking practices in the digital era, therefore, is a very challenging task that requires the central bank’s ability to create breakthroughs and orchestrate policy innovations. While the central bank policy mix is still a viable strategy, central banks are required to operate beyond conventional wisdom, with novel practices. Optimizing the benefits of technological advances and becoming a relevant regulator in the digital era must anchor the central bank’s strategy in the future.

Keister, Todd, and Daniel Sanches. 2022.


We study how introducing a central bank digital currency affects equilibrium allocations and welfare in an environment where both currency and bank deposits are used in exchange. We highlight an important policy tradeoff: while a digital currency tends to improve efficiency in exchange, it may also crowd out bank deposits, raise banks’ funding costs, and decrease investment. We derive conditions under which targeted digital currencies, which compete only with physical currency or only with bank deposits, raise welfare. If such targeted currencies are infeasible, we illustrate the policy tradeoffs that arise when issuing a single, universal digital currency.

Khiaonarong, Tanai, and David Humphrey. 2022.


Cash use in most countries is falling slowly. On the margin, younger adults favor cash substitutes over cash. For older adults it is the reverse. Revealed preference tied to a changing population age structure seems to be the main influence on the demand for cash
and why it is falling. Cash use may continue to fall, and
card use (the main cash substitute) may fall by more, if
CBDC is issued. The extent of this reduction depends
on the demand for retail CBDC and the incentives
(primarily transaction fees) that can play a determining
role in CBDC adoption and use.

Sahay, Ratna, Martin Čihák, Papa M. N’Diaye,
Adolfo Barajas, Srobona Mitra, Annette Kyobe, Yen
Mooi, and Reza Yousefi. 2015.

“Financial Inclusion: Can It Meet Multiple
Macroeconomic Goals?” Staff Discussion Notes
No. 2015/017, International Monetary Fund,
Washington, DC.

Using several recently available global datasets, this
Staff Discussion Note examines macroeconomic
effects of financial inclusion. It finds significant
benefits to economic growth from financial inclusion,
but the benefits diminish as financial inclusion and
depth become large. Broadening access to credit can
compromise economic and bank stability in countries
with weak bank supervision. Other forms of financial
inclusion—such as access to and use of bank accounts,
branches, and ATMs—do not hurt stability, and can
be promoted extensively. The note finds that gaps
in financial inclusion are associated with economic
inequality, but the association appears relatively weak.

Sarmiento, Adolfo. 2022.

“Seven Lessons from the e-Peso Pilot Plan: The
Possibility of a Central Bank Digital Currency.” Latin
American Journal of Central Banking 3 (2): 100062.

The decision to introduce a central bank digital
currency (CBDC) is part of the new challenges that
central banks are facing as technology keeps moving.
The e-Peso pilot plan, implemented between 2017
and 2018, could provide some key findings for central
banks. In this sense, we can learn seven lessons from
the e-Peso pilot plan: (i) reputation is key for central
banks’ decision to introduce a CBDC; (ii) financial
inclusion and cultural reasons are the main motivations;
(iii) keep the technological solution as simple as
possible; (iv) security aspects and traceable transfers are
central for operational risk problems; (v) a token was
a good solution for CBDC implementation; (vi) digital
money was used for small payments and transfers;
and (vii) CBDCs complement the existing means of
payment. The conclusions highlight that CBDC choices
are based not only on technical considerations but also
on the cultural implications of money use. The adoption
of this new means of payment will be incremental but
not reversible.

Soderberg, Gabriel, Marianne Bechara, Wouter
Bossu, Natasha X. Che, Sonja Davidovic, John Kiff,
Inutu Lukonga, Tommaso Mancini Griffoli, Tao Sun,
and Akihiro Yoshinaga. 2022.

“Behind the Scenes of Central Bank Digital
Currency: Emerging Trends, Insights, and Policy
Lessons.” FinTech Notes No. 2022/004, International
Monetary Fund, Washington, DC.

Central banks are increasingly pondering whether to
issue their own digital currencies to the general public,
so-called retail central bank digital currency (CBDC).
The majority of IMF member countries are actively
evaluating CBDCs, with only a few having issued CBDCs
or undertaken extensive pilots or tests. This paper
shines the spotlight on the handful of countries at the
frontier in the hope of identifying and sharing insights,
lessons, and open questions for the benefit of the many
countries following in their footsteps. Clearly, what can
be gleaned from these experiences does not necessarily
apply elsewhere. The sample of countries remains small
and country circumstances differ widely. However, the
insights in this paper may inspire further investigation
and allow countries to gain time by building on the
experience of others.

Sahay, Ratna, Ulric Eriksson von Allmen, Amina
Lahreche, Purva Khera, Sumiko Ogawa, Majid

“The Promise of Fintech: Financial Inclusion in
the Post COVID-19 Era.” Departmental Paper
No. 2020/009, International Monetary Fund,
Washington, DC.

Technology is changing the landscape of the financial
sector, increasing access to financial services in
profound ways. These changes have been in motion
for several years, affecting nearly all countries in the
world. During the COVID-19 pandemic, technology has
created new opportunities for digital financial services
to accelerate and enhance financial inclusion, amid
social distancing and containment measures. At the
same time, the risks emerging prior to COVID-19, as
digital financial services developed, are becoming even
more relevant.

Tok, Yoke Wang, and Dyna Heng. 2022.

“Fintech: Financial Inclusion or Exclusion?” Working
Paper No. 2022/080, International Monetary Fund,
Washington, DC.

This paper examines the role of Fintech in financial
inclusion. Using Global Findex data and emerging
fintech indicators, we find that Fintech has a higher positive correlation with digital financial inclusion than traditional measures of financial inclusion. In the second stage of our empirical investigation, we examine the key factors that are correlated with the Fletcher School’s three digital divides – gender divide, class (rich-poor) divide and rural divide. The results indicate that greater use of fintech is significantly associated with a narrowing of the class divide and rural divide but there was no impact on the gender divide. These findings imply that Fintech alone may not be sufficient to close the gender gap in access to financial services. Fintech development may need to be complemented with targeted policy initiatives aimed at addressing the gender gap directly, and at changing attitudes and social norms across demographics.

**World Bank, and Bank for International Settlements. 2022.**


Physical cash and commercial bank money are dominant vehicles for retail payments around the world, including in emerging market and developing economies (EMDEs). Yet payments in EMDEs are marked by several key deficiencies, such as lack of universal access to transaction accounts, widespread informality, limited competition, and high costs, particularly for cross-border payments. Digital money seeks to address these deficiencies. This note categorizes new digital money proposals. These include crypto-assets, stable coins, and central bank digital currencies (CBDCs). It assesses the supply and demand factors that may determine in which countries these innovations are more likely to be adopted. It lays out particular policy challenges for authorities in EMDEs. Finally, it compares these with digital innovations such as mobile money, retail fast-payment systems, new products by incumbent financial institutions, and new entrants such as specialized cross-border money-transfer operators.
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