

THE ASCENT OF CBDCs

More than half of the world's central banks are exploring or developing digital currencies

CENTRAL BANK DIGITAL CURRENCIES (CBDCs) are digital versions of cash that are issued and regulated by central banks. As such, they are more secure and inherently not volatile, unlike crypto assets.

While some may assume that CBDCs are a new concept, they have in fact been around for three decades. In 1993, the Bank of Finland launched the Avant smart card, an electronic form of cash. Although the system was eventually dropped in the early 2000s, it can be considered the world's first CBDC.

But not until recently has research into CBDCs proliferated globally. Central banks all over the world are now exploring their potential benefits, including how they improve the efficiency and safety of payment systems.

As of July 2022, there were nearly 100 CBDCs in research or development stages and two fully launched: the eNaira in Nigeria, unveiled in October 2021, and the Bahamian sand dollar, which debuted October 2020.

Countries have different motives for exploring and issuing CBDCs, but in the case of The Bahamas, the need to serve unbanked and under-banked

populations across more than 30 of its inhabited islands was a primary driving force.

Beyond promoting financial inclusion, leading experts argue that CBDCs can make domestic payment systems more resilient and foster competition, which may lead to better access to money, increase payment efficiency, and lower transaction costs. CBDCs can improve transparency in money flows and could help reduce currency substitution.

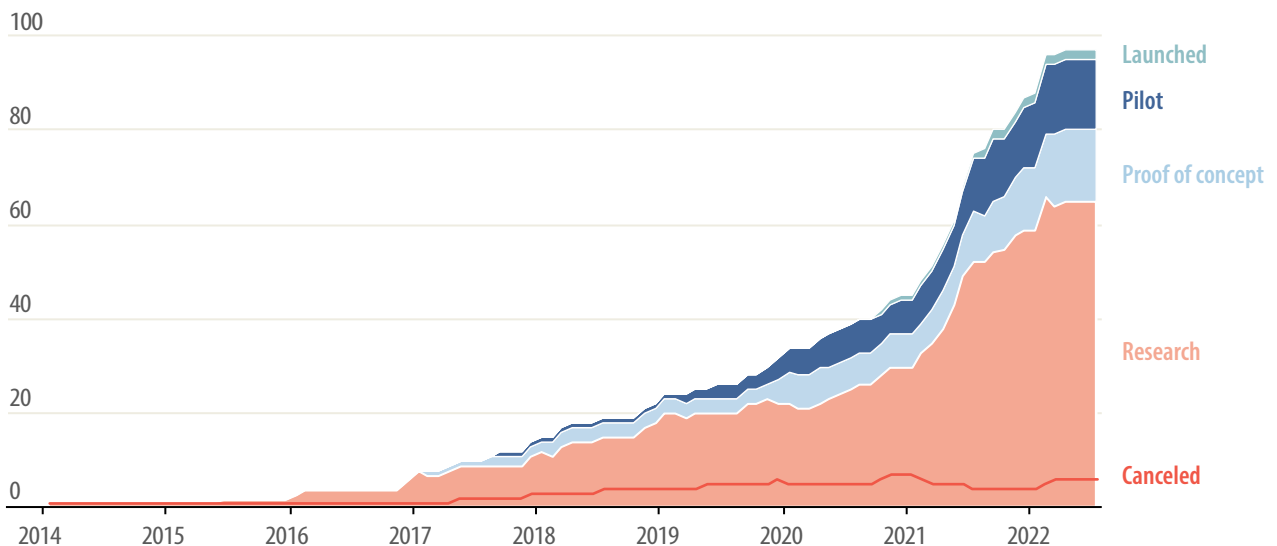
While a CBDC may have many potential benefits on paper, central banks must first determine if there is a compelling case to adopt them, including if there will be sufficient demand. Some have decided there is not, at least for now.

And, issuing CBDCs comes with risks that central banks need to consider. Users might withdraw too much money from banks all at once to purchase CBDCs, which could trigger a crisis. Central banks will also need to weigh their capacity to manage risks posed by cyberattacks, while also ensuring data privacy and financial integrity. **FD**

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Gaining currency

CBDC research and development have exploded in the past few years, with 15 pilots ongoing across the world and 15 more in an advanced research stage.



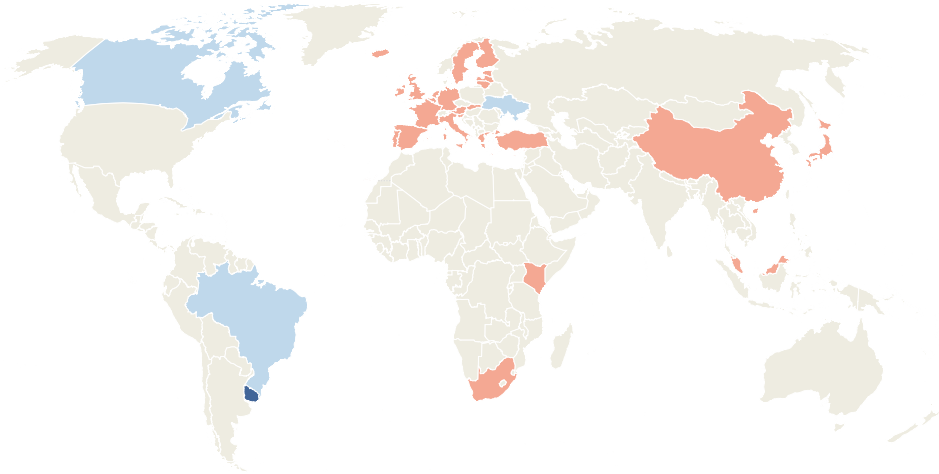
Source: CBDC Tracker (cbdctracker.org). The chart shows the status of CBDCs worldwide by month. Proof of concept = advanced research stage.

CBDC cultivation

Central banks are going through various stages of development to assess the benefits and risks of CBDCs and to consider how best to deploy them. (CBDC development status by country for stated period)

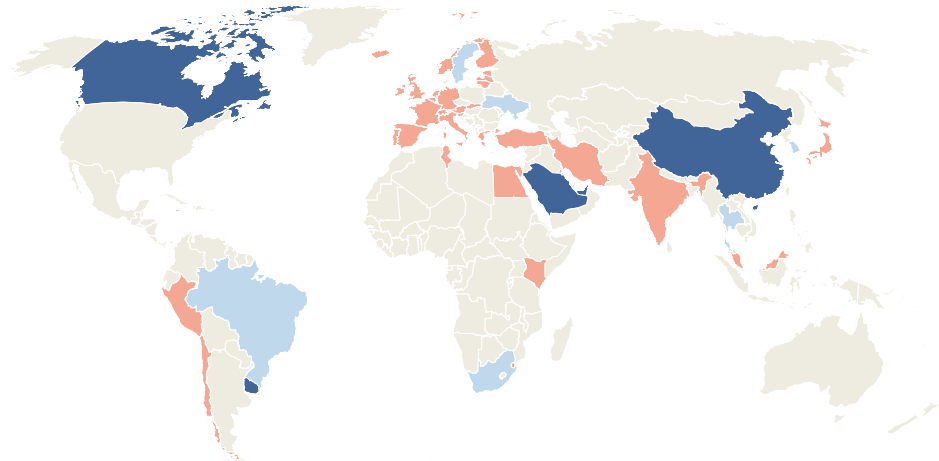
July 2018

- Launched (0)
- Pilot (1)
- Proof of concept (3)
- Research (15)



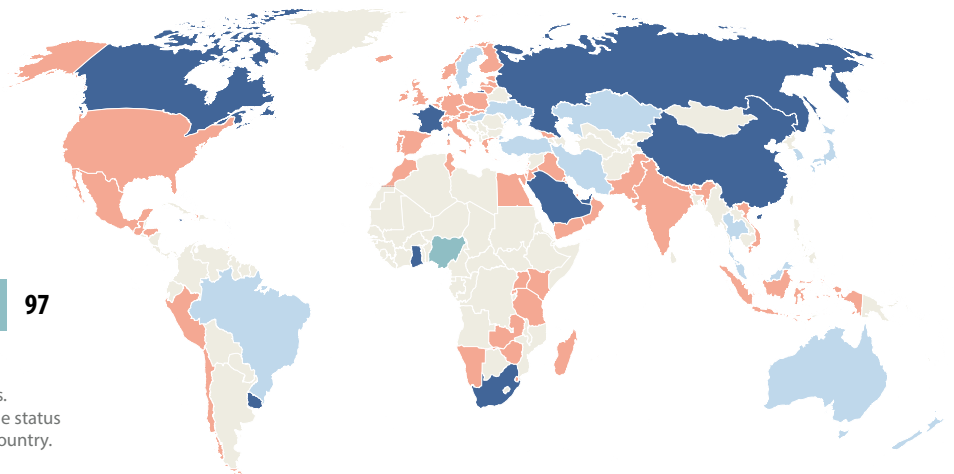
July 2020

- Launched (0)
- Pilot (7)
- Proof of concept (7)
- Research (25)



July 2022

- Launched (2)
- Pilot (15)
- Proof of concept (15)
- Research (65)



Source: CBDC Tracker (cbdctracker.org).
 Note: The map shows both retail and wholesale CBDCs. A country can have multiple CBDCs; the map shows the status of the most advanced stage of development in each country. The boundaries, colors, denominations, and any other information shown on maps do not imply, on the part of the IMF, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.