

Brazil wants to build on digital payment success with CBDC pilot

Article

The news: Brazil's central bank launched a CBDC pilot focused on wholesale transactions with a full rollout expected by the end of 2024, per Reuters. Brazil hopes the digital real will help make financial services more accessible.

What's the appeal? CBDCs blend the best features of fiat and digital currencies. Payments benefit from fiat's stability, but blockchain technology can make transactions faster and cheaper.

CBDCs can also democratize the payments market. Transactions that previously were too expensive for anyone except banks to conduct—like repo operations—can be completed with CBDCs instead. Fintechs and service providers can use CBDCs to make the payments market more competitive and to offer new services.

Why it could work: The central bank is focusing on wholesale transactions rather than a retail CBDC because the country already has strong digital payment uptake thanks to the success of Pix. Instead, Brazil wants to emulate Pix's success in other areas of financial services.

- Launched in 2020, the country's instant payment system boasts almost 132 million registered users—about 62% of Brazil's population.
- Pix is already the second-most-accepted ecommerce payment method in Brazil, according to Gmatos. Seventy-eight percent of sellers accept Pix.

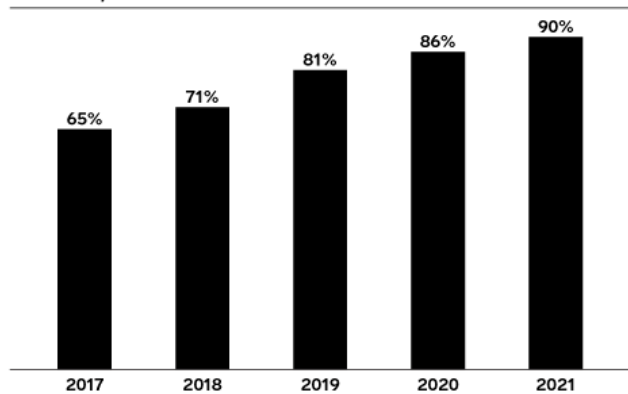
The bigger picture: Brazil joins 17 other countries that have piloted CBDCs, along with 11 that have launched digital currencies and 32 with CBDCs in development, per the Atlantic Council. But Brazil's ambitious plans for its CBDC has a few hurdles to overcome.

- China—the first major economy to debut a CBDC—has shown how difficult encouraging CBDC adoption can be. Cumulative digital yuan transaction value remains minuscule versus China's total retail sales, which will hit \$6.435 trillion in 2023, per our forecast. And while the digital real will focus on wholesale transactions, it may still face this issue: Brazil wants to enable retail access through tokenized bank deposits.
- And there are risks inherent to any new payment method—like privacy and data breaches, cyberattacks, or disrupting the stability of the financial system.

Brazil will likely look at what is and isn't working for CBDC rollouts in China and other regions, like India, to ensure the digital real can meet the central bank's high hopes.

Central Banks Worldwide Engaging in Work Related to Central Bank Digital Currencies (CBDCs), 2017-2021

% of respondents



Source: Bank for International Settlements (BIS), "BIS Papers No 125: Results of the 2021 BIS Survey on Central Bank Digital Currencies," May 6, 2022

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