

What good is a CBDC, anyway?

Article

The news: Central bank digital currencies (CBDCs) may offer users “few compelling benefits” they don’t already get elsewhere—limiting adoption and turning them into an “expensive failure,” according to the Center for European Reform (CER).

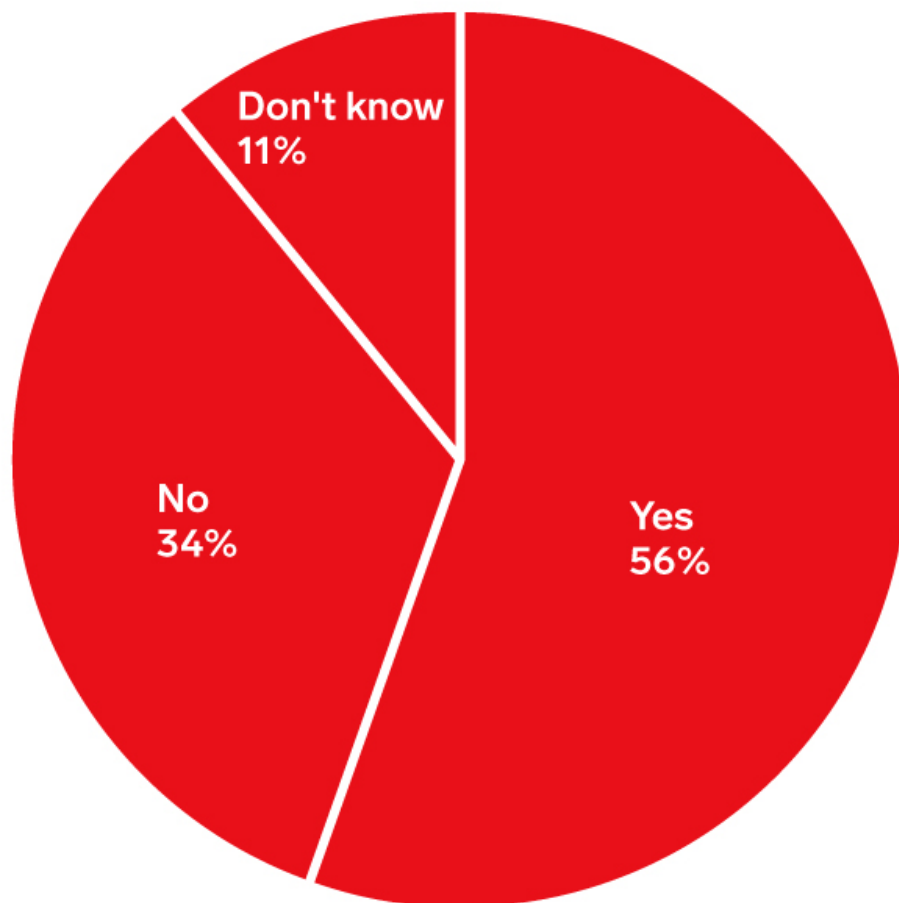
- The UK-based think tank [said](#) existing bank accounts and state-backed savings options already provide the benefits to consumers and retailers that CBDCs would bring.
- For the EU, the CER argued regulation would be a more sensible way to make European payments cheaper and more diverse, competitive, and innovative.

The global picture: More than 100 countries have considered launching CBDCs, including the UK, US, and EU. But only a handful of countries—among them Nigeria, the Bahamas, and some eastern Caribbean nations—have successfully launched a digital currency.

Part of CBDCs' appeal is that they are more stable than traditional cryptocurrencies like Bitcoin because they're backed by a central government. Having a more regulated and centralized framework will, in theory, protect consumers. And developing countries may be able to bring more underbanked citizens into the financial system.

Likelihood of Central Bank Digital Currencies (CBDCs) to Replace Physical/Fiat National Currencies in Their Country According to Institutional Investors Worldwide, March 2021

% of respondents



Note: numbers may not add up to 100% due to rounding

Source: The Economist Intelligence Unit, "Digital Currency From Fear to Inflection," May 27, 2021

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Will CBDCs take off? Despite broad expressed interest from central banks, the small number that have launched a CBDC successfully shows how hard implementing one is—and that most banks still have misgivings.

But it's not just that central banks haven't fully embraced them. The **Bahamian Sand Dollar** accounts for less than 0.1% of currency in circulation on the island, according to the International Monetary Fund, and is being held back by "limited avenues" for use.

- For CBDCs to succeed, countries must effectively educate consumers on the benefits of using them, and they need to make electronic payments and transfers as easy as possible. The regulation and liquidity that come with a government-backed instrument can help pacify fears that have impeded the adoption of other digital currencies.
- CBDCs need to offer something different from traditional bank deposits. One advantage would be that consumers could send money to each other instantly. However, it remains to be seen whether CBDCs' promised benefits like more privacy and lower costs compared with checking accounts and payment cards will materialize.

The big takeaway: Countries around the world will continue exploring CBDCs, but common problems may hinder widespread uptake. Central banks will have to iron these issues out if they want to make sure consumers embrace them as a valid alternative to existing currencies.