



The State of Central Bank Digital Currencies

🔗 industry update CBDC

Summary: People are increasingly relying on digital payments in their daily lives, a reality that has not gone unnoticed by the world's central banks, which are scrambling to develop their own digital currencies. While CBDCs remain a nascent currency, the one thing that is clear is that their development is inevitable. We provide a sample of recent global efforts.

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A father in Michigan recently learned the risk of handing a cell phone to a 6-year-old the hard way. Like many parents, Keith Stonehouse let his son Mason use his phone to play on an educational app. An hour later, however, multiple food deliveries began arriving and Keith quickly realized something was going on. Instead of playing with the app, Mason managed to order more than a thousand dollars' worth of food through Grubhub, and it was too late to cancel. The Stonehouse family was on the hook for the orders. Fortunately for them, it caught the attention of Grubhub, which gifted the family a thousand dollars in Grubhub gift cards to ease the pain of the experience.

Grubhub is just one of countless merchants and delivery services that allows consumers to instantly pay for goods with little more than a tap on their phone, the ease of which has led many people to stop carrying cash altogether. With digital payments becoming more prevalent and replacing cash as people's go-to payment method, central banks are racing to bring digital currencies to fruition so that they can reach the world's unbanked population.

Global Digital Currency Efforts

Central banks are aggressively moving forward to develop government-issued digital currencies, with [114 countries that account for more than 95% of the world's GDP](#) currently working on their own central bank digital currencies (CBDCs). "Nearly every G20 country has made significant progress and invested new resources in these projects over the past six months," said researchers from the Atlantic Council in December.

According to the [Atlantic Council's CBDC tracker](#), 11 countries have launched their own digital currencies, including Nigeria, Jamaica, the Bahamas, and eight Caribbean nations. Eighteen countries that have pilot programs of CBDC, including Australia, South Africa, Sweden, Singapore, South Korea, Thailand, and Japan, have all experimented with independent or joint pilot programs.

The International Monetary Fund recently noted that the Asia-Pacific region is leading the way in its exploration and development of CBDCs, with China, India, and Thailand out front. After launching its pilot program in several Chinese cities in 2020, by December 2022, the People's Bank of China began factoring its digital yuan, the e-CNY, into the country's calculation of its total currency in circulation. The e-CNY currency reportedly [totaled 13.6B by the end of 2022](#). In an effort to get people to embrace its CBDC and "promote consumption",

the Chinese government [gave out millions of dollars' worth of the e-CNY](#) during the country's Lunar New Year celebratory period in late January.

The Bank of Japan (BoJ) launched its pilot program for digital yen in April, following two successful "Proof of Concept" tests, each lasting a full year. The BoJ has since released [a report of their findings during the second testing phase](#), which delves into how the CBDC system connects with external systems, security considerations, and technological needs to enable a countrywide launch. France, Singapore, and Switzerland [began their joint CBDC pilot program](#) in late 2022 — the first cross-country trial of its kind, called Project Mariana. The project will investigate wholesale CBDC, decentralized finance, and foreign exchange. Findings should be published sometime this summer.

US Progress Toward CBDC

Though the [Federal Reserve of San Francisco](#) and the New York Federal Reserve Bank's Project Cedar are actively working to bring their CBDCs to fruition, the US in general lags behind in the race to digital currencies.

According to Atlantic Council, the Federal Reserve Bank of Boston is working in collaboration with the Massachusetts Institute of Technology on [Project Hamilton](#), which can reportedly process transactions in under five seconds. Their processor could potentially settle up to 1.8MM transactions per second.

A factor that could slow progress in the US is pushback against the very idea of a government-backed digital currency. While one potential benefit of a CBDC is the ability of the government to crack down on fraud, there are also concerns that such capabilities would infringe on people's privacy and could be used to collect sensitive information regarding private companies' transactions.

The Benefits of CBDCs

1. **Increase financial access and reduce underbanked populations.** This is one major reason why countries with developing economies and emerging markets such as Mexico, Nigeria, and China bring their digital currencies to fruition sooner rather than later. According to Kansas City Fed economist Ying Lei Toh, unbanked individuals comprise roughly 60% of Mexico and Nigeria's populations.
2. **Simpler, safer cross-border payments.** Several central financial institutions, such as aforementioned France, Singapore, and Switzerland, have started partnering to ensure that their CBDCs can communicate with one another. Another example is [Project Icebreaker](#), a joint effort between the central banks of Sweden, Norway, and Israel to determine compatibility between the various retail CBDCs in their countries. Their pilot just recently concluded.
3. **Reduce cost of payments.** CBDCs would eliminate processing fees for both the payer and the payee, meaning it would be one of the cheapest forms of payment available.

There are still major gaps among the efforts of central financial institutions around the world to develop CBDCs, with only a handful in circulation and the majority still in the planning and development phase. But the one thing that is clear, however, is that central bank CBDCs are inevitable and community financial institutions may want to keep a close watch on how things unfold globally.

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ECONOMY & RATES

Rates As Of: 06/22/2023 10:22AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.40	-0.12	0.98
6M	5.41	-0.05	0.65
1Y	5.27	0.12	0.57
2Y	4.78	0.37	0.35
5Y	4.05	0.29	0.04
10Y	3.81	0.16	-0.07
30Y	3.88	0.01	-0.09
FF Market	FF Disc	LOBB	
5.07	5.25	5.15	
SOFR	Prime	OBFR	
5.05	8.25	5.06	

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