FREQUENTLY ASKED QUESTIONS

CENTRAL BANK DIGITAL CURRENCY

Friday 2 June 2023

(1) What is a Central Bank Digital Currency (CBDC)?

A CBDC is a digital form of central bank money. It can be exchanged one to one with the country's banknotes and coins. It is risk free in the same manner as banknotes and coins, as the holder of a CBDC has a monetary claim on the central bank. CBDC can be in both retail and wholesale form. A retail CBDC refers to CBDC that can be held and used by individuals and firms, whereas wholesale CBDCs are available only to banks.

(2) Is the Bank of Mauritius the only central bank exploring a CBDC?

No. More than 100 central banks around the world are currently exploring the introduction of a CBDC, while some countries, like The Bahamas, Jamaica, India, the Eastern Caribbean Currency Union, Ghana, Nigeria, Uruguay, and China, have already launched or are piloting their CBDCs.

(3) Why are so many countries interested in CBDCs?

Different countries have their own motivations for issuing a CBDC. Some countries intend to introduce CBDCs in response to a decline in the use of cash, especially since the outbreak of the COVID-19 pandemic. Others want to facilitate financial inclusion, increase competition, and ensure resilience of payments sector. CBDC explorations have also been accelerated to secure monetary sovereignty in response to the proliferation of crypto assets.

(4) What is the difference between a CBDC and cash?

Cash refers to banknotes and coins issued by a central bank. The CBDC, on the other hand, is a digital representation of cash with the same functions as banknotes and coins and is issued by a central bank. It will contribute to faster, cheaper, and more efficient payments.

(5) How does e-money differ from a CBDC?

E-money is monetary value stored in an electronic form on device such as a card or mobile phone. CBDC, on the other hand, is the digital form of the national currency. E-money is issued by institutions licensed by the Bank to issue e-money, whereas CBDC is a digital form of money issued by a central bank. E-money is a claim on the issuer and is issued on receipt of funds of an amount equivalent to the monetary value issued for the purpose of making payment transactions, whereas a CBDC is a monetary claim on the central bank.

(6) **What is the difference between a CBDC and crypto assets such as Bitcoin?**

A CBDC is a digital form of the national currency. It may be granted a legal tender status and is issued and regulated by the central bank. In contrast, crypto assets are privately issued digital tokens. Crypto assets have been used for a variety of purposes, such as payment, store of value, and investment. In Mauritius, crypto assets do not have legal tender status, that is, there is no obligation to accept them as a means of payment. The value of crypto assets fluctuates over time, whereas the value of the Digital Rupee will always be the same as the bank notes and coins.

(7) **What is the difference between a CBDC and commercial bank money?**

Commercial bank money is deposit with commercial banks created through lending. It is a liability of the commercial bank and is subject to credit risk. It cannot be redeemed if the commercial bank becomes insolvent. A CBDC, on the other hand, is issued by the central bank and is thus a liability of the central bank. It is risk-free.

(8) **Will a CBDC compete with existing methods of payment such as card and electronic instant payments?**

A CBDC will complement the existing payment landscape. The use of cards and electronic instant payments will continue as usual. Similarly, CBDC will not replace cash but co-exist with or complement cash and other payment modes. It may provide opportunities for innovative services and offer a wider range of payment options and bring more competition and efficiency in the payments ecosystem, while ensuring the availability of central bank money in a digital form.

(9) **What are the forms in which a CBDC may be made available?**

CBDC may be either account-based or token-based.

- In the account-based model, ownership is linked to a customer with known identity and records of all transactions and balances are maintained by a third party, such as a bank or any other authorized financial institution, in the same way as bank accounts.
- In the token-based model, ownership is linked to proof, meaning authentications are required to show that the user is the holder of the token. A token provides privacy for users and is the same as holding cash physically. A customer can validate ownership of its retail CBDC with a digital signature. No third party is required to transfer value from one holder to another similar to exchange of physical cash.

(10) **How will privacy be impacted?**

Full privacy, as is with use of bank notes and coins, may not be possible with CBDC systems. However, it is possible to design CBDC systems which can protect privacy through well-designed policy and privacy-enhancing technologies.

(11) **Does CBDC require a review of the legal framework?**

Yes, the law, both public and private law, of a country needs to be reviewed to provide the CBDC with the necessary legal certainty. The public law should be amended to empower the central bank to issue a CBDC which may be granted legal tender status. Private laws should also be amended to, amongst others, make provision for holding structures, and the ways in which the CBDC can legally circulate and be utilized in the monetary system.

(12) How is the issuance of a retail CBDC expected to impact monetary and financial stability?

A retail CBDC could influence the structure of the banking system and the ability of the central bank to maintain monetary and financial stability as some people may convert their deposits to CBDC. However, the CBDC could be designed so that it mitigates possible adverse impact on monetary policy transmission and financial stability.

(13) What domestic risks are countries evaluating?

Countries are evaluating risks on financial stability and monetary policy, financial integrity risks, as well as operational and cybersecurity risks to ensure achieving policy objectives.

(14) What is the purpose of the Public Consultation Paper issued by the Bank of Mauritius?

The issuance of a CBDC has a number of implications. The Public Consultation Paper aims to seek the views and suggestions of the public on the Digital Rupee. This feedback will allow the Bank of Mauritius to extend its analysis further on the relevant technologies, the regulatory and legal aspects as well as the opportunities and risks, as the Digital Rupee will impact the way in which we will use money in our day-to-day life.

(15) What are the key motivations behind the potential issuance of a retail CBDC?

With the issuance of a retail CBDC, the Bank of Mauritius intends to:

i. reduce cash in circulation and provide the population with a cash-like digital form of money;

ii. enhance the resilience of the current payment infrastructure of the country. As an island economy, Mauritius is prone to cyclones and flash floods which can cause internet disruptions and power outages. The two lockdowns following the outbreak of COVID-19 also encouraged Mauritians to use more electronic means of payment;

iii. prepare the economy to accommodate innovative products that would automate payments through smart contracts;

iv. preserve the sovereignty of the Mauritian rupee; and

v. preserve financial integrity by reinforcing AML/CFT measures.

(16) Which type of distribution model will the Bank of Mauritius consider?

The Bank of Mauritius is considering a two-tier model. That is, it will be the sole issuer of the CBDC and the sole operator of the CBDC payments infrastructure. Commercial Banks will have the responsibility of making the CBDC available to the general public.

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