



## **IMF Spring Meetings 2022**

IMF New Economy Forum-Fintech

Intervention of Governor Harvesh Seegolam

during discussion on

**'CENTRAL BANK DIGITAL CURRENCIES AND FINANCIAL INCLUSION'**

**on Thursday 14 April 2022**

(10.30 AM, Washington DC time)

Martin Cihak, Advisor, Monetary and Capital Markets Department, IMF

Panellists

Ladies and Gentlemen

It is a pleasure for me to address a few remarks today on such an important theme which will surely revolutionise the payments landscape in future. The buzzword these days is no doubt CBDCs and developments over the past couple of years have provided added impetus to the work in this area.

I therefore, at the very outset, thank the IMF for putting up this discussion panel on such an important issue.

Ladies and gentlemen

According to the BIS, 68 countries have communicated publicly on their CBDC work as of January 2022. However, the motivations, policy approach and technical designs vary across countries. CBDCs do allow us to address some key issues including, but not limited to access to financial services, and efficiency and resilience in the payment landscape, while mitigating risks stemming from privately developed cryptos to the monetary system.

As per the World Bank Global Findex 2017, over 1.7 billion adults across the globe are excluded from the formal financial system. Financial inclusion is positioned prominently as an enabler of other developmental goals in the 2030 Sustainable Development Goals, where it is featured as a target in eight of the seventeen goals. While financial inclusion in Mauritius stands at more than 90%, in several other countries it is one of the overarching priorities and concerns.

In the Republic of Mauritius, we are giving an increased attention to digital financial inclusion. And in this process, CBDCs can have a positive effect by further lowering the barriers and reducing costs. At the same time, CBDCs can contribute to more efficient payment systems and plug in the loopholes in cross-border payments. CBDCs could provide more affordable options for transfer of funds internationally and compensate for the decline in correspondent banking services that many countries would have experienced as a result of several international banks reviewing their strategy or exiting from certain market segments and countries. For this, central banks will have to further develop collaborative ties among themselves, to start off at a regional level at least.

By reducing the dependency on cash, CBDCs would definitely help lower financial exclusion.

However, as we develop and roll out CBDCs, we need to consider a number of parameters. As with any development, it could have unintended consequences if not properly implemented.

The reliance and necessity of smart devices and smartphones, which might not necessarily be easily and readily accessible to every citizen, especially in the least developed countries and emerging world, continues to be a major challenge. It is equally important to consider how to reach those who do not have easy access to IT facilities and internet. As per the ITU, 2.9 billion people in the world do not have access to internet.

The elderly people who may not be tech-savvy remain yet another challenge. These factors should be considered in the design and

implementation of the CBDC and technology choice to ensure it becomes an important tool to further facilitate financial inclusion.

Let me here share a few updates on what we have embarked on in Mauritius with respect to our CBDC project. The Bank of Mauritius is working on the introduction of a retail CBDC, under a 2-tiers hybrid model, for the Republic of Mauritius, the Digital Rupee. This is being done with the technical assistance and guidance of the IMF.

This project is in line with our digital strategy as well. The Digital Rupee will provide a digital payment instrument that will further advance the cause of digitalization while providing a safe, reliable and trusted form of digital money to households and businesses.

Ladies and gentlemen

In our case, we have an ageing population. Through ongoing financial literacy and awareness programmes, we will reach out to this specific target group and ensure a proper understanding and acceptance of the Digital Rupee in view of further enhancing digital financial inclusion.

The Bank of Mauritius has deemed it appropriate to explore the implementation of its CBDC for the various merits it offers. We have been systematically upgrading our payments infrastructure over the past two decades and are optimistic about the acceptance of the Digital Rupee.

As we go along this journey, we are taking into consideration risks that a CBDC will bring along in designing the Digital Rupee. Cybersecurity is one of the biggest risks associated with digitalization. A CBDC will open our systems to more participants and also more points of attack. The severity of frauds could be more significant given the ease with which data and large funds could be transferred electronically.

One of the criteria for the success of a CBDC is the degree of privacy it offers to its users. We will need to carefully consider the appropriate degree of privacy of the end-users of the CBDC, while taking into account AML/CFT concerns and requirements.

At the same time, countries embarking on the introduction of digital currencies cannot also ignore the energy requirements associated with such a project. My call is to consider the use of sustainable energy sources for such projects.

Ladies and Gentlemen

Decisions on the issuance and design for CBDCs are likely to be sovereign to each jurisdiction based on their own assessment of CBDC objectives and country specificities.

Authorities – be it the Government or the central bank – need to understand the requirements of people, the causes of the barriers to financial access and the implications of the introduction of a CBDC.

Distributing the CBDC is also not costless. Both the central bank and banks will need to develop a customer service infrastructure. This calls for further understanding of the set-up requirements, related costs and the need to maintain a secure digital currency network. The central bank also needs to ensure that access to this digital form of money remains free, just like for cash.

In our case, we have adopted a cautious approach. We are working with the IMF Team on a feasibility study, which includes research and an in-depth analysis on implications of a CBDC for the country from monetary policy, legal and regulatory, design and technology perspectives.

We believe that the buy-in of all stakeholders is crucial in this process. We have engaged with banks already and will be shortly issuing a paper for public consultation. Our next step will be carrying out proof of concepts with the support of technology providers and academics before finalising our pilot phase. The IMF will accompany the Bank up to the pilot stage. At the same time, we are also collaborating with select counterparts globally — that is, other central banks — to better onboard all considerations.

Ladies and Gentlemen

In conclusion, I would say that a CBDC has the capabilities to enhance financial inclusion but it should be designed in such a way that it meets the country's objectives while mitigating all associated risks.

I thank you for your attention.

*Governor Harvesh Seegolam  
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