



What Are Central Bank Digital Currencies (CBDCs) And Why Should You Know About Them?

Article

06.02.2023

Central Bank Digital Currencies (CBDCs) have been gaining worldwide attention as governments consider adopting this new form of digital fiat currency. A CBDC is essentially a digital version of a fiat currency, which is a currency decreed by the government. Fiat currency differs from currencies established through societal consensus, such as gold and silver, which had been the consensus form of currency for centuries. Though fiat currencies can be backed by commodities like gold or silver, and have been in the past, currently, all fiat currencies are backed solely by faith in the governments issuing the currencies.

CBDCs offer several potential benefits over existing fiat currencies, such as faster, cheaper payment transactions, and greater financial inclusion of unbanked populations. However, the more likely reason governments are exploring CBDCs is the growing popularity of Bitcoin and other cryptocurrencies, which could develop into competing monetary systems that reduce governments' control of money. This raises the issue of whether governments should be in control of the creation and supply of money, but that is an issue for another discussion.

Despite the potential benefits, the development of CBDCs comes with a number of concerns. Observers of China's CBDC warn that it "opens up new forms of government surveillance and social control."^[1] The digital yuan makes it easier for the Chinese Communist Party (CCP) to view users' financial data and censor their activity, similar to how the CCP can view and shut down citizens' internet access.^[2] China's model also increases the CCP's ability to direct spending by placing time limits and purchase

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restrictions on the currency.[3] In addition to these concerns, CBDCs could be vulnerable to cyberattacks and hacking, putting individuals' finances at risk.

The impact of CBDCs on traditional banks is uncertain. CBDCs could pose a competitive threat to traditional banks by offering consumers an alternative means of storing and transferring funds, thus depriving banks of their deposit base. On the other hand, CBDCs could present new revenue opportunities for banks by providing CBDC-related services.

CBDCs are a rapidly developing area of the financial world: almost 30 countries have launched or piloted a CBDC, and around 60 countries are in the research or development stage.[4] In 2022, President Biden issued an executive order that called for "urgency" in the United States' efforts to research and develop a potential United States CBDC.[5] While there are potential benefits of CBDCs, governments and their citizens should approach them very cautiously as there are known concerns, such as the ones identified above, and there are likely to be a number of negative, unintended consequences as well.

[1] Jennifer Conrad, *China's Digital Yuan Works Just Like Cash—With Added Surveillance*, Wired Mag. (Nov. 8, 2022), <https://www.wired.com/story/chinas-digital-yuan-ecny-works-just-like-cash-surveillance/>.

[2] Paul Mozur, *China Cuts Mobile Service of Xinjiang Residents Evading Internet Filters*, N.Y. Times (Nov. 23, 2015), <https://www.nytimes.com/2015/11/24/business/international/china-cuts-mobile-service-of-xinjiang-residents-evading-internet-filters.html>.

[3] *Digital Currency: Yuan comes with an expiry date: Spend or it will vanish*, ETBFSI (Apr. 14, 2021), <https://bfsi.economictimes.indiatimes.com/news/policy/digital-currency-yuan-comes-with-an-expiry-date-spend-or-it-will-vanish/82059471>.

[4] *Central Bank Digital Currency Tracker*, Atlantic Council, <https://www.atlanticcouncil.org/cbdctracker/>.

[5] Exec. Order No. 14067, 87 FR 14143 (2022), <https://www.federalregister.gov/documents/2022/03/14/2022-05471/ensuring-responsible-development-of-digital-assets>.