



Central Bank Digital Currency

Understanding CBDC



CBDC stands for Central Bank Digital Currency, which is controlled directly by the country's central bank and is backed by national credit and government power.

In most simple words, CBDC is an electronic form of central bank money that can be used to store value and make digital payments seamlessly.

Three aspects that define a central bank digital currency:

- **Digital assets**
- **Central bank-backed**
- **Central bank controlled.**

Categories of CBDC

Wholesale CBDC

- This type of CBDC can be exchanged and traded between central banks and private banks.
- Such exchanges help in streamlining payments between these institutions and enable faster cross-border transactions and reduce counterparty credit and liquidity risks.
- These CBDCs are considered to be the most attractive project because of its ability to make existing wholesale financial systems faster, economical, and safer at the same time.

Retail CBDC

- It is digital money meant for ordinary consumers and average people who will use it to conduct transactions for their daily activities.
- Such CBDC is based on distributed ledger technologies like Blockchain offers, traceability, anonymity availability 24/7/365, and the feasibility of an interest rate application.
- It mitigates third-party involvement, thereby eliminating the chances of criminal activities.

Benefits of Wholesale CBDC and Retail CBDC



Benefits of Wholesale CBDC

- Increased availability
- Streamlined reconciliation process
- Encouraged use of digital technology
- Enhanced monetary policy

Benefits of Retail CBDC

- Improved settling of interbank payments
- Reduced risk of a counterparty
- Increased participation in the digital asset markets
- Enhanced competitive edge in the market

Can CBDC Drive Financial Inclusion?

- Lack of money and inadequate knowledge of the importance of financial inclusion are the main reasons for people being unbanked.
- CBDCs can play a crucial role in promoting financial inclusivity.
- In developing countries, CBDCs can allow and enhance public access to government-backed payment methods even without requiring bank accounts.
- Experts believe that if utilized well, they have the potential to create frictionless economic opportunities as well. But for all this to happen, CBDC needs universal acceptance.
- Moreover, it should be interoperable with other payment methods and other digital currencies as well.