



Institute of  
Economic Affairs

# CBK Discussion Paper on Digital Currency

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# Outline

1. Objectives of Presentation
2. Properties of Money
3. What's a CBDC?
4. Rationale for CBDC
5. Kenya's Payment System
6. Historical Demand for Cash

# Objectives

1. Create, maintain and open up spaces for debate and deliberation
2. Monitor and audit public policy or behavior
3. Offer public education
4. Attempt to influence the policy process (Policy Brief)



**Central Bank of Kenya**

# **Discussion Paper on Central Bank Digital Currency**

February 2022

IEA Webinar #10 of 2022

# Properties of Money

- **Store of value**

- to transfer purchasing power from today to the future

- **Medium of exchange**

- to make payments for goods and services

- **Unit of account**

- to measure the value of a particular good or service

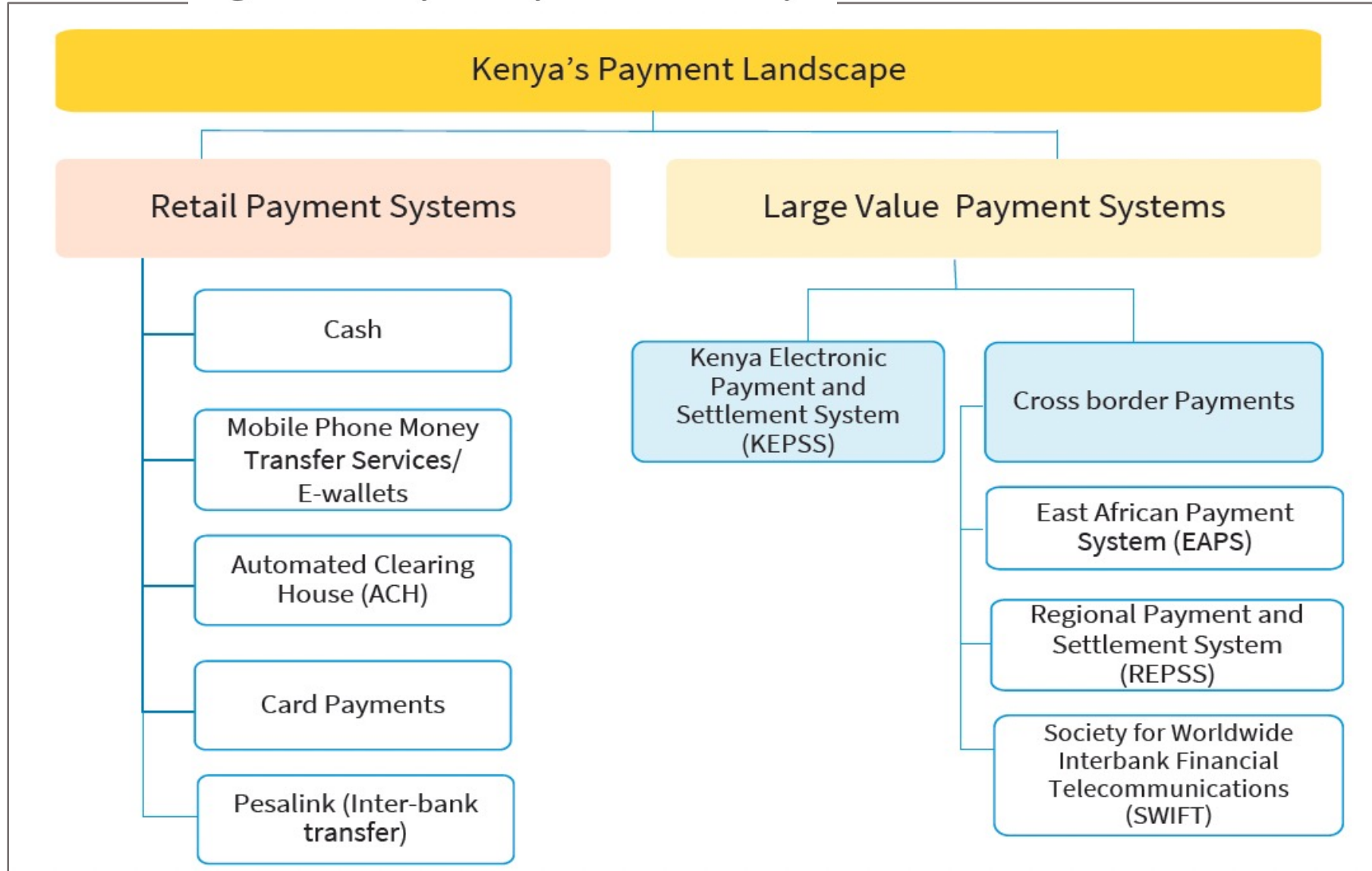
# What's a CBDC?

- CBDC -> Central Bank Digital Currency issued by the central bank and intended to serve as **legal tender**
- Other forms of digital currencies: electronic money, cryptocurrency, stable coin
- Meets all the 3 properties of money:
  - ✓ **Store of value**
  - ✓ **Unit of account**
  - ✓ **Medium of exchange**

# Rationale for CBDC

- Declining use of **bank notes** (England)
- Increasing use of privately issued money and **alternative payment methods** (England)
- **Geographical constraints** (Eastern Caribbean, Bahamas)
- To boost **digital economy** (India)
- **Complement** bank notes in retail use (Canada) – contingency plan
- Shorten and reduce the cost of **cross border payments** (m-Bridge: Hong Kong, Thailand, UAE & China)

Figure 1: Kenya's Payment Landscape



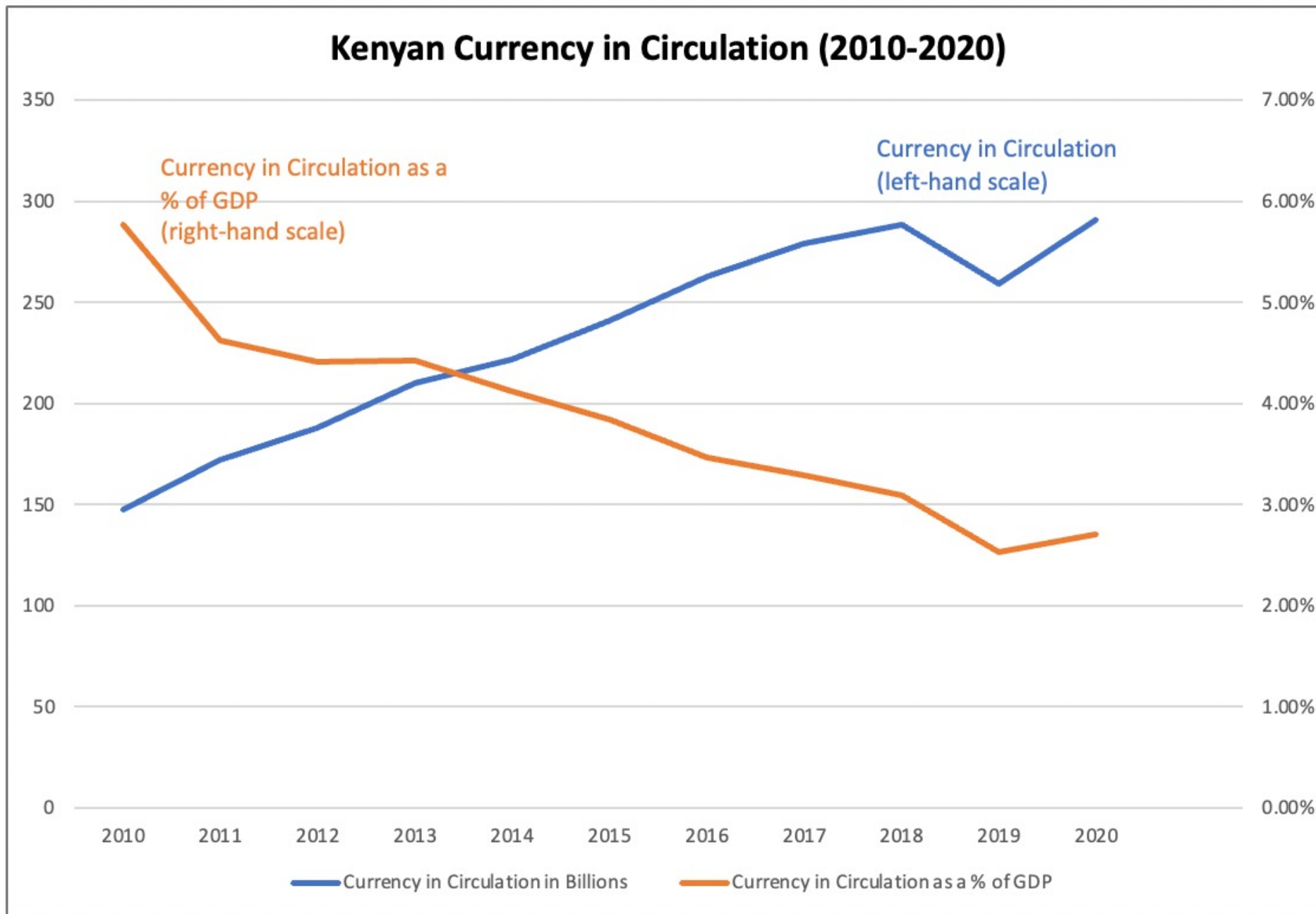
Source: Discussion Paper on Central Bank Digital Currency, CBK

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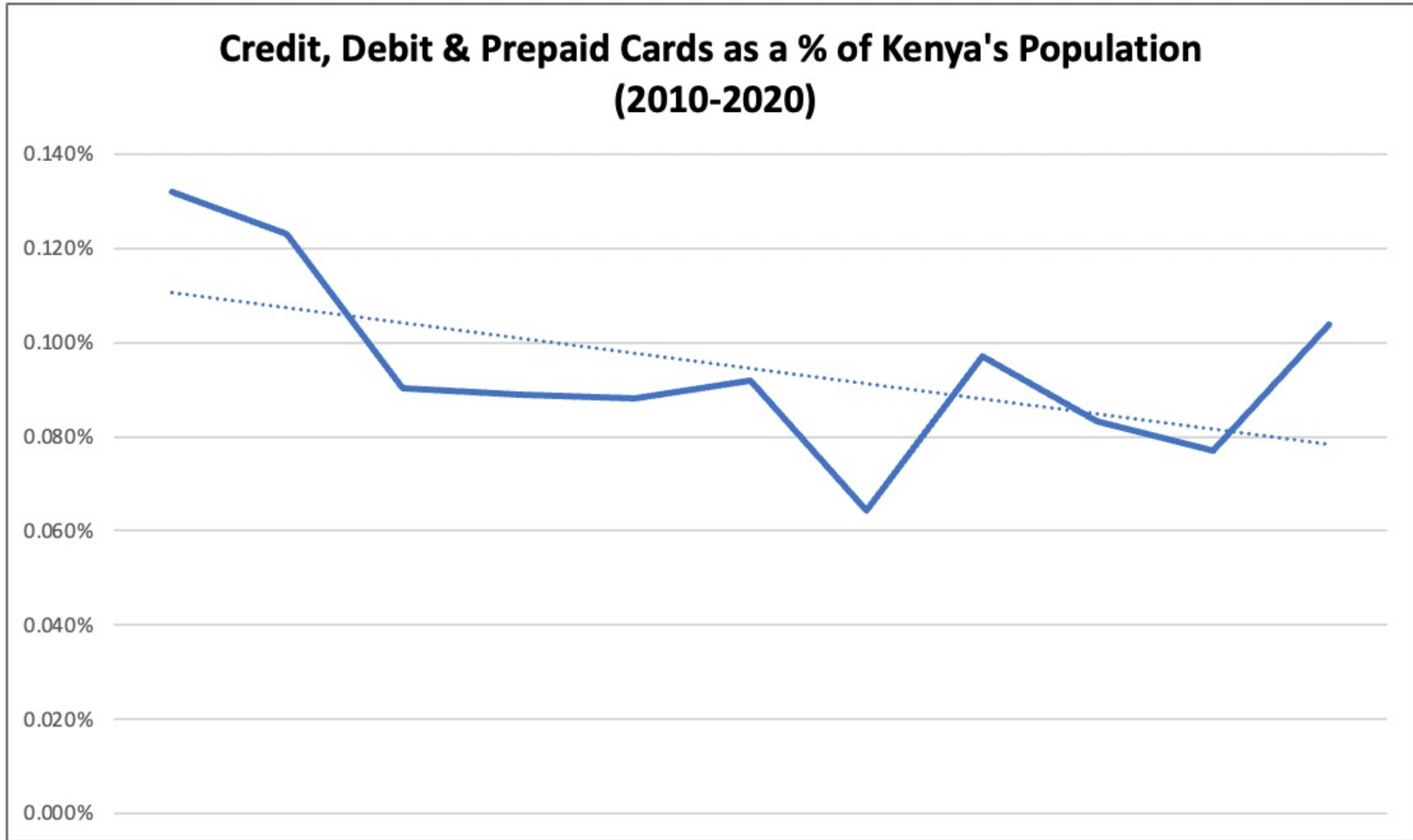


# Historical Demand for Cash

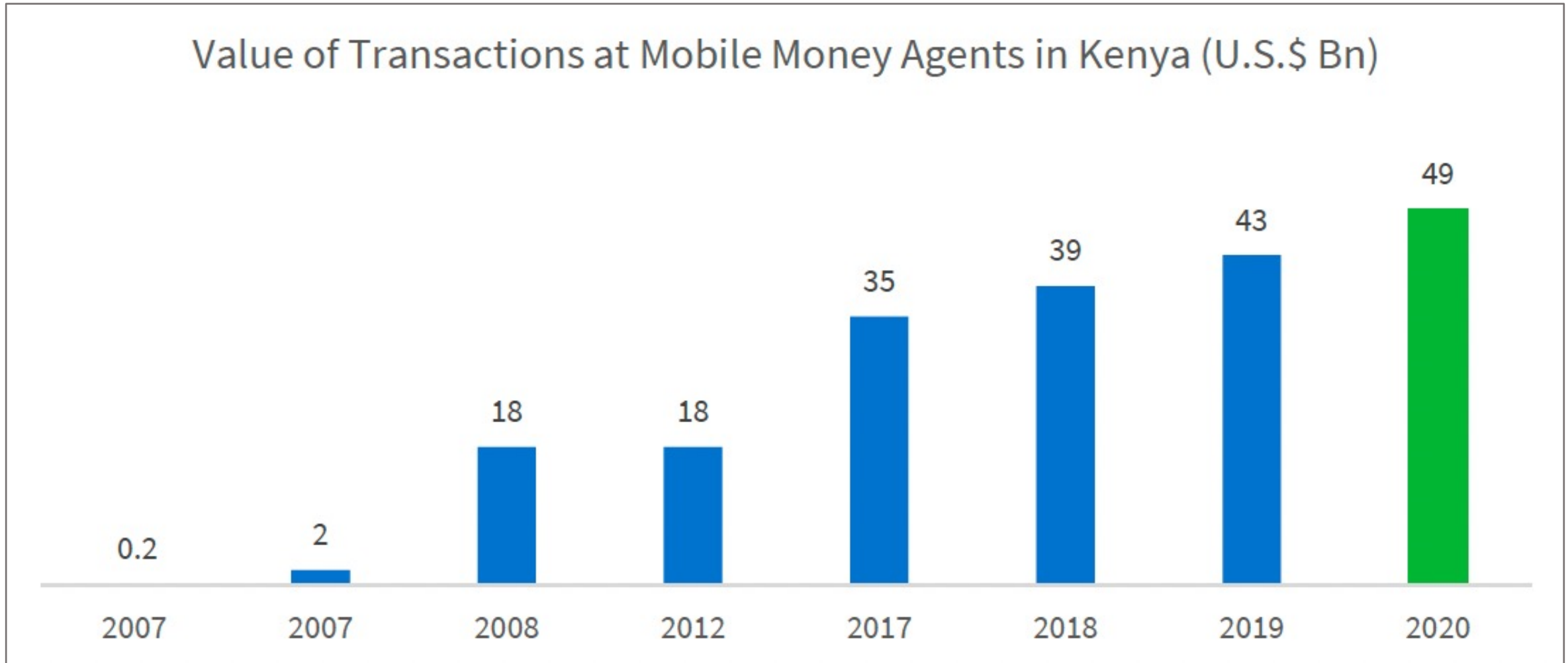
- Kenya's currency in circulation
- Credit, debit and prepaid cards in Kenya per capita
- Value of transactions at mobile money agents



Source: Discussion Paper on Central Bank Digital Currency, CBK IEA Webinar #10 of 2022



Source: Discussion Paper on Central Bank Digital Currency, CBK



Source: Discussion Paper on Central Bank Digital Currency, CBK

# IEA Assessment of CBDC Suitability

Opportunities	Rationale	Strong/moderate/weak case
Supporting a resilient payments landscape	<ul style="list-style-type: none"> <li>• Diversification of choice</li> <li>• Creates reliability in the system</li> </ul>	Strong case
Avoiding the risks of new forms of private money creation	<ul style="list-style-type: none"> <li>• Risks of fraud</li> <li>• Stability</li> <li>• Data</li> </ul>	Weak case
Supporting competition, efficiency and innovation in payments	<ul style="list-style-type: none"> <li>• Incentive to use different forms of payment</li> <li>• High velocity of transactions</li> <li>• Business being built around CBDC</li> </ul>	Strong case
Meeting future payment needs in a digital economy	<ul style="list-style-type: none"> <li>• Divisibility</li> <li>• Strong solution at the retail level</li> <li>• Changes in some forms of business(brokerage)</li> </ul>	Moderate case

Opportunities	Rationale	Strong/moderate/weak case
Improving availability and usability of central bank money	<ul style="list-style-type: none"> <li>• Financial Inclusion</li> <li>• Storage (long economic useful life)</li> </ul>	Weak case
Addressing the consequences of a decline in cash	<ul style="list-style-type: none"> <li>• Preference in use of digital forms of money (safe and faster)</li> </ul>	Weak case
As a building block for better cross-border payments	<ul style="list-style-type: none"> <li>• Remittance report on transfer costs</li> </ul>	Strong case
Would solve counterfeiting problem	<ul style="list-style-type: none"> <li>• Better security</li> </ul>	Moderate case

# Concerns

- Would CBDC be a complement or a substitute?
- What effect would CBDC have on money creation in banks because of fractional reserve banking policy

- Privacy question(security)
- Money laundering: Is this a political problem or a national payment systems question?



# Thank You

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