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COVID-19 DOES NOT SLOW DOWN THE TESTING OF THE CHINESE DIGITAL CURRENCY

Screenshots of online wallets used in testing China's central bank digital currency ("CBDC") emerged last week. The e-wallet refers to the Agricultural Bank of China, one of the big four state banks, and WeBank, Tencent's digital bank. The People's Bank of China confirmed the authenticity of the screenshots via the Beijing News, a state-owned media.

Research on CBDC started officially in 2014 in China. The testing phase is marking a milestone, with experiments conducted in Shenzhen, Suzhou, Xiong'an and Chengdu. The official launch date has not been released yet, but the government wants to be ready for the 2022 Winter Olympics in Beijing. A nationwide launch is hence likely in 2021.

The current series of tests include the payment of transport subsidies to government workers through a dedicated app. The funds on this app can then be transferred into existing bank accounts or used directly at merchants participating in the test.



China's CBDC development plan relies on a two-tier system, where the cash is distributed to intermediaries such as state banks. There should be no impact on inflation; this e-money is a direct replacement for currency currently in circulation. The Chinese digital cash does not require any bank account and can be transferred peer-to-peer even when there is no network signal. A "controllable anonymity" was assured, although the same level of anonymity that bitcoin or other cryptocurrencies offer will not be reached.

Digital currencies will reduce issuance costs and ease transactions. They will also help combat fraud and money laundering.

The advanced-stage test of the Chinese digital currency is not a big surprise. The country is well-known to be a leader in the fintech revolution, thanks to an accommodative regulatory framework. This dominant position is also a consequence of the necessity to fulfill the unmet financial needs of a large population and of the desire of the government to develop its social credit system.

At a time of geopolitical tensions, China wants to show the world its technological know-how by being the first superpower to issue a CBDC. The timing of these tests is important and shows that the COVID-19 won't stop innovation, which is rather speeded up by pandemics.

As we outlined in our special bi-weekly dated 18 March 2020, Towards a New Paradigm, we expect central banks and governments to accelerate the development of digital currencies. The relationship between people and cash is evolving due to the COVID-19 outbreak. The shift to cashless societies has started, and CBDCs will play a key role in this new environment.

According to the Bank for International Settlements, more than 50 central banks were engaged in some form of work surrounding CBDCs at the end of 2019. We expect many countries to follow China's lead and issue some form of e-money, once the Chinese CBDC will go live.

As Facebook tries to revamp its Libra cryptocurrency, countries should not wait too long if they want to keep the control on their currency.

The leaked screenshots confirm that China is getting closer to launch its digital currency. Given the country's economic weight, we believe such development will help people familiarize with the concept of e-money and will accelerate similar tests around the world. It should ultimately increase the adoption rate of digital payments, which will be beneficial for the cashless industry and many of our holdings, especially in the Mobile Payments portfolio.

■ Mobile Payments



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