

Speech by Governor YI Gang at the 30th Anniversary Conference of the Bank of Finland Institute for Emerging Economics



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Ladies and Gentlemen, distinguished guests, greetings to you all.

First I would like to convey my sincere congratulations on the 30th anniversary of the Institute for Emerging Economies of the Bank of Finland. I also thank Governor Olli Rehn for inviting me to discuss the important topic of central bank digital currencies. I'd like to briefly introduce the progress of e-CNY, how we deal with privacy protection and financial stability, and finally a few words on the next steps.

On the progress of e-CNY

In recent years, we've seen fast development in electronic payment in the world. The trend is more so during Covid-19. Last year, mobile payment in China increased by 25%, with a penetration rate of 86%, which greatly helped facilitate people's daily life. However, mobile payment services are mainly provided by the private sector, brewing risks of market fragmentation and privacy infringement. CBDC allows central banks to continue to provide a credible and secure means of payment in the digital era, while improving efficiency and integrity of the payment system.

At present, over 110 countries are at “some stage” of exploring CBDC. For China, the main purpose is to meet the need for domestic retail payment and improve financial inclusion.

The PBOC started to study digital fiat currency in 2014 and developed a Proof of Concept in 2016. From 2017, we cooperated with commercial banks and Internet companies to conduct e-CNY R&D project. Since late 2019, e-CNY pilots have been launched in 10 cities and the 2022 Beijing Winter Olympics. In July this year, we released the e-CNY white paper. As of October 8, pilot scenarios have exceeded 3.5 million, over 123 million personal wallets have been opened, with transaction volume totaling RMB 56 billion. E-CNY scenarios are wide-ranging, including green transportation to support carbon reduction.

Going forward, we will continue to prudently advance R&D of e-CNY, improve its design and use. Efforts will be made to establish a management model with reference to cash and bank accounts, enhance efficiency, privacy protection and anti-counterfeiting features, increase interoperability with existing payment tools, and improve the e-CNY ecosystem.

On CBDC's implications for financial stability and privacy protection

CBDC's impact on monetary policy and financial stability mainly depends on the design. If a CBDC is more like cash, the impact would be relatively limited. If a CBDC has the attributes of deposits and other financial assets, deposit substitution is likely, which could lead to disintermediation and less efficient monetary policy transmission.

We have explored how to reduce the negative impact. **First**, e-CNY is positioned as M0 and bears no interest, to reduce competition with banks for deposits. **Second**, e-CNY adopts a two-tier system, where the central bank is at the core to control the issuance, and commercial banks and payment institutions act as intermediaries to provide exchange and payment services. **Third**, we have introduced some "frictions" such as upper limit of wallet balance and transaction amount, to minimize the risk of bank runs. We also aim to test e-CNY's impact on monetary policy and financial markets in the pilot.

A delicate balance needs to be made between privacy protection and crime prevention. It is an international consensus that CBDCs cannot be completely anonymous. Then comes a question: would central bank have too much information at its control?

We attach great importance to protection of personal information. E-CNY follows the principle of "anonymous for small-value and traceable for large-value transactions". Information is collected in the principle of "minimum and necessary", which is less than collected by the existing electronic payment instruments. The PBOC mustn't hand over information to third parties or other government agencies unless otherwise stipulated in laws and regulations. China has recently introduced the Data Security Law and the Personal Information Protection Law, to strengthen privacy protection.

Finally, on the way forward

We have always stressed that use of e-CNY should be market-oriented. In other words, we will issue as much e-CNY as consumers need. China has a vast territory, a large

population and diverging regional development. Cash will not demise in the foreseeable future. As long as there is demand for cash, we will continue to supply cash.

Cross-border use of CBDC involves more complicated issues such as anti-money laundering and customer due diligence. Therefore, e-CNY focuses on domestic retail payment at this stage.

We would like to strengthen cooperation with other central banks and international organizations on CBDC. The PBOC, the BIS, the Bank of Thailand, the Central Bank of the UAE and the Hong Kong Monetary Authority jointly launched the multilateral CBDC bridge project, to explore the role of CBDC in cross-border payment. We also have regular technical exchanges with the ECB. Going forward, the PBOC will continue to study the standards and rules governing CBDCs in an open-minded and inclusive manner, in order to promote the development of the international monetary system while addressing potential challenges.

I wish this conference a great success! Thank you!

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