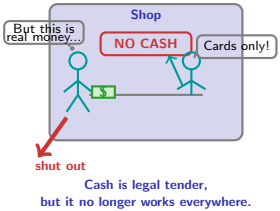
Why Would a Central Bank Want to Create Its Own Digital Currency?

In some economies, cash use has dropped below a tenth of all transactions. Shops refuse coins. Buses no longer take bills. For people without bank accounts or smartphones, an entire payment system is vanishing.

Meanwhile, a handful of private companies now control the digital payment rails. If they fail, raise fees, or deny access, there is no public alternative.

Three motivations driving central banks to respond:

1. **Financial inclusion** — ensure everyone can transact, even without a commercial bank account
2. **Payment sovereignty** — maintain a public payment option that no private firm can switch off
3. **Monetary policy tools** — create new channels for transmitting policy directly to holders



A CBDC is not about replacing private innovation — it is about ensuring that public money remains usable in a world that is going digital.

What Makes a CBDC Different from All the Other Digital Money?

	Cash	Bank Deposit	Stable-coin	Crypto	CBDC
Issuer	Central bank	Commercial bank	Private firm	No one	Central bank
Backing	Sovereign	Deposit insurance	Reserves (varies)	None	Sovereign
Supply	Controlled	Elastic (lending)	Algorithmic/reserve	Fixed/rule	Controlled
Privacy	High (physical)	Low (tracked)	Medium	Pseudonymous	Tunable
Programmable	No	Limited	Yes	Yes	Potentially
Offline use	Yes	No	No	No	Possible

The pattern to notice: look at the first and last columns. A CBDC shares the sovereign backing and controlled supply of cash, but adds the programmability and digital reach of crypto. It is a hybrid — public money with digital capabilities.

The middle columns show what already exists. Bank deposits are digital but private. Stablecoins are digital but only as reliable as the firm behind them. Crypto has no issuer at all.

The key distinction:

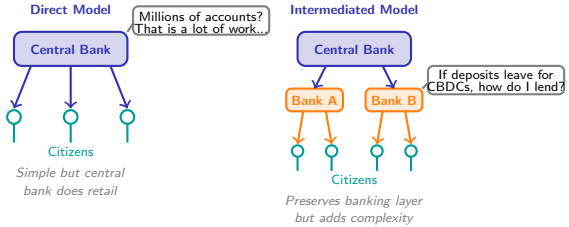
A CBDC is a **direct claim on the central bank**. Today, only commercial banks hold such claims (as reserves). Citizens hold either physical cash or deposits at private banks.

A CBDC extends the central bank's balance sheet to ordinary people — for the first time in history, a digital form of sovereign money in citizen hands.

Why this matters:

- If your bank fails, your deposit is at risk (up to insurance limits)
- If a stablecoin's reserves are insufficient, your token may lose value
- A CBDC carries the credit risk of the sovereign itself — the same risk as holding cash

Who Should Run a CBDC — the Central Bank, the Banks, or Both?

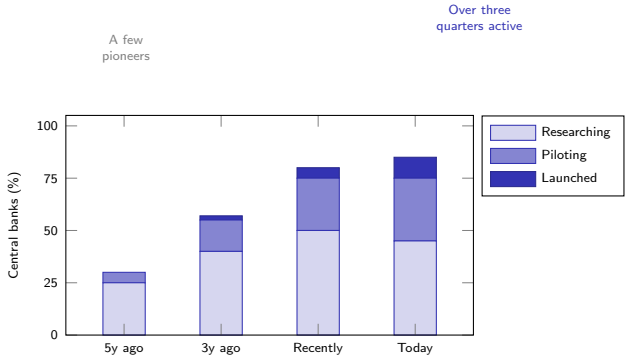


Three architecture models:

Direct	Central bank issues CBDC straight to citizens. Simple, but the central bank must handle millions of accounts, customer service, and compliance — tasks it has never done.
Intermediated	Central bank issues wholesale CBDC to commercial banks, which distribute it to citizens. Preserves the existing banking system, but the CBDC is only as accessible as the banks that offer it.
Hybrid	Both paths exist. Citizens can hold CBDC directly, but banks provide wallets and services. Most flexible, but the most complex to build and regulate.

Most ongoing projects favor the hybrid model — but every design choice involves a trade-off between simplicity, inclusion, and financial stability.

Why Are So Many Central Banks Exploring This at the Same Time?



Illustrative trend based on published central bank surveys.
The acceleration is striking: most central banks went from "watching" to "building" within a few years.

Different motivations by economy type:

Advanced economies	Cash use declining rapidly. A few private firms dominate digital payments. CBDCs restore a public option and preserve monetary sovereignty.
Emerging economies	Large unbanked populations. High remittance costs (often above five percent). A CBDC can reach people that commercial banks have not.
Small open economies	Vulnerable to "dollarization" — citizens preferring a foreign digital currency over the local one. A domestic CBDC defends the local monetary system.

The common thread: every central bank faces some combination of declining cash, rising private payment power, or financial exclusion — and a CBDC is the tool that addresses all three simultaneously.

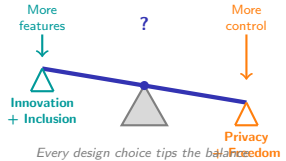
Three Questions That Reveal Any CBDC's True Design

Every CBDC proposal — regardless of the economy or technology — can be evaluated by asking three questions. The answers determine whether the system empowers citizens or concentrates control.

1. **Who has access?**
   Universal access promotes inclusion. Restricted access (requiring bank accounts, smartphones, or identity documents) reproduces the exclusion that CBDCs are meant to solve.

2. **Who sees the transactions?**
   Cash is anonymous. A naive digital system logs everything. The design choice between full privacy and full transparency has profound civil-liberties implications.

3. **What can the money be programmed to do?**
   Programmability enables smart contracts, conditional transfers, and automated tax collection — but also expiration dates on stimulus payments or spending restrictions by category.



The same technology that enables financial inclusion also enables financial surveillance. Whether a CBDC is a public good or a control mechanism depends entirely on the answers to the three questions on the left.

A CBDC gives a central bank unprecedented reach into everyday transactions. Whether that is a feature or a threat depends on the design choices above.