

# Central Bank Digital Currency

The Central Bank of Eswatini (CBE) is currently conducting research and experimentation on Central Bank Digital Currency (CBDC). The Bank is carefully examining whether there is a need to issue a CBDC in Eswatini and how such a CBDC could work. (Click [here](#) to read press release) However, the Bank has not yet decided whether to introduce one.

## 1 WHAT IS A CBDC?

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A central bank digital currency (CBDC) is a form of central bank issued money that exists only in digital form. A CBDC is fully backed by the central bank similar to other forms of central bank money such as cash. Unlike most privately issued cryptocurrencies, A CBDC, being digital fiat currency, could be made legal tender and should be capable of achieving all four conceptual uses of money; 1) as means of exchange 2) as a measure of value 3) as a store value and 4) as a unit of account.

There are two main types of CBDCs, a wholesale CBDC and a retail CBDC:

- A **wholesale CBDC** is a digital currency issued by the central bank directly to commercial and other financial institutions which have reserve accounts at the central banks. A whole CBDC is used by banks for settlement amongst themselves and is not accessible to the general public.
- A **retail CBDC** is similar to cash in that it is available to the wider public. This means users can be able to pay for service in a retail CBDC.

## 2 WHAT IS RETAIL CBDC?

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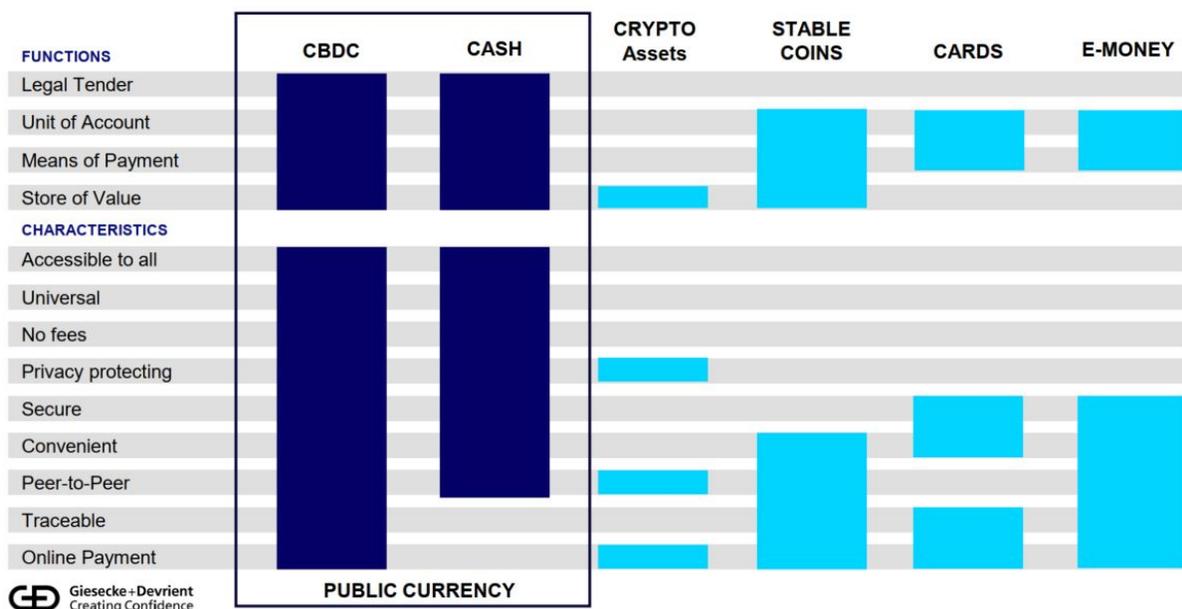
A retail central bank digital currency (CBDC) is a digital currency that is made available to the general public and is issued by the central bank. It differs from private digital currencies in that it continues to be a liability of the central bank, just like actual fiat currency (banknotes and coins). A CBDC only exists in digital form, and all transactions must be completed via a computer, smartphone, or other digital device.

The Central Bank of Eswatini is now conducting research and testing to determine whether to issue a CBDC and how to do so.

### 3 HOW IS A RETAIL CBDC DIFFERENT FROM OTHER FORMS OF DIGITAL CURRENCY?

The following table depicts the key differences between a retail CBDC and other forms of digital money.

#### Forms of Money | Functions and characteristics



Source: [Giesecke+Devrient](https://www.giesecke-devrient.com)

### 4 WHY IS THE CBE CONSIDERING A CBDC?

Consumer needs have shifted as a result of the increase in digitalisation, with consumers increasingly preferring digital financial services that are available 24 hours a day, seven days a week, and expect transactions to settle instantly. Central banks around the world are increasingly moving beyond theoretical research and into practical experimentation on retail CBDCs in response to the growing demand for secure central bank money in digital form. CBDCs have the potential to provide numerous benefits to both consumers and businesses, including

faster and more secure payments, increased financial inclusion, more innovation, and cost and inefficiency elimination. CBDCs have the potential to increase the resilience of domestic payment systems while also encouraging more competition and innovation.

## 5 WHAT ARE THE OBJECTIVES OF THE CBDC PROJECT?

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Through this project, the Bank seeks to identify and define motivations for issuing and evaluate the different design considerations including the design principles and technical considerations. The research and experimentation will help the Bank address the following questions and issues amongst others:

1. What design principles should be considered for the development of a digital Lilangeni, including the governance, accessibility, and interoperability requisites.
2. Define the potential use cases specific to Eswatini.
3. What distribution model will be most suitable for the Eswatini market?
4. Technical design considerations including the architecture and implementation of an operational system.
5. Legal considerations for issuing a retail CBDC in Eswatini.

The project began with a series of training sessions on CBDCs designed to equip the Bank for working on this project. The project will produce a concept design paper for the Digital Lilangeni that is based on sandbox testing. Sandbox experimentation enables improved comprehension of CBDC characteristics in a controlled setting while minimizing risks to customers and financial systems. All of this effort will result in the creation, implementation, and deployment of **PROOF-OF-CONCEPT** projects. Select participants, including actual customers, business owners, and financial service providers, will participate in a pilot project that will be carried out outside of sandbox testing.

## 6 HOW MIGHT A DIGITAL LILANGENI WORK

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If the banks issue a digital Lilangeni, it will be in cash-like denominations such as E10, E20, E50, E100, and E200. Consumers and businesses would be able to use the digital Lilangeni to pay for goods and services as well as conduct remittances. If issued, a digital Lilangeni will not replace cash. Instead, a CBDC is meant to compliment cash and other existing means of payment and transacting.

## 7 WHO IS THE CBE ENGAGING ON CBDC?

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The Bank has engaged technical project consultant Giesecke+Devrient (G+D) to walk with us in our journey as we explore and formulate the foundational policy considerations and use cases of a localized CBDC. G+D is a global security company based in Munich, Germany. G+D offers solutions for building and running a Central Bank Digital Currency (CBDC) as well as to end-to-end cash management solutions. G+D has worked on a number of retail CBDC projects, including the Bank of Ghana's retail CBDC pilot, the Bank of Thailand's retail CBDC, and the Monetary Authority of Singapore's 2021 global CBDC challenge.

We are confident that G+D's technological expertise and their strong regional presence in our continent will allow us to realize all possible advantages of a Digital Lilangeni and ensure we're fully equipped to issue a CBDC

## 8 WHEN WILL THE CBE MAKE A DISCUSSION TO ISSUE A CBDC?

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The Bank has yet to decide whether to issue a retail CBDC. The Bank is carefully considering whether it is necessary to issue a retail digital Lilangeni. In 2019 the Bank concluded a diagnostic to evaluating whether clear use cases exist for the introduction of a retail and/or wholesale CBDC specifically within the context of Eswatini. Following which, the Bank has established a CBDC working group tasked with conducting research and experimentation to determine how issuing a digital Lilangeni might work in practice and what it might mean for the Eswatini financial system.