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PUBLIC NOTICE

BANK OF TANZANIA PROGRESS ON CENTRAL BANK DIGITAL CURRENCY

In recent times, there has been a rapid increase of financial innovation globally due to technological advancement. One of the innovations dominating contemporary policy discussions is central bank digital currency (CBDC). Albeit defined in a variety of ways, CBDC is a digital or virtual form of a country fiat currency issued and regulated by a central bank. Therefore, when issued, CBDC becomes a legal tender, analogous to physical notes and coins. Based on the literature, CBDC is thought to offer a range of benefits to the economy.

Mindful of the fact that CBDC can only be issued by central bank, therefore, falling under its jurisdiction, the Bank of Tanzania has been researching and exploring potentiality of issuance of its CBDC. At this research stage, the Bank of Tanzania formed a multidisciplinary technical team to examine practical aspects of CBDC and building capacity to the team in various ways. Also, to enrich understanding of CBDC, the Bank of Tanzania organized the 20th Conference of Financial Institutions in Tanzania in 2021 with a thematic topic on CBDC and crypto assets. Furthermore, the Bank of Tanzania has organized sessions with stakeholders in the country on this subject and obtain their views. It has also benefited from various international fora such as Committee of Central Bank Governors of the SADC Secretariat, Monetary Affairs Committee of the EAC Secretariat, IMF through IMF AFRITAC, and Association of African Central Banks. The Bank of Tanzania also had several sessions with international private firms which are involved in providing technical infrastructure and solutions to CBDC.

The key considerations during this research stage involve choosing a suitable approach to CBDC adoption based on Tanzania context. This includes type of CBDC to be issued (wholesale, retail or both), models for issuance and management (direct, indirect, or hybrid), form of CBDC (token-based or account-based), instrument design (remunerated

or non-remunerated) and degree of anonymity or traceability. A particular attention also is paid on risks and controls associated with issuance, distribution, counterfeit and usage of currencies.

The outcome of the research at this point revealed that more than 100 countries in the world are at different stages of the CBDC adoption journey with 88 at research, 20 proof of concept, 13 pilot and 3 at launch. Analysis of these findings indicate that majority of central bankers across the world have taken a cautionary approach in the CBDC implementation roadmap, in order to avoid any potential risks that can disrupt financial stability of their economies. Further, it was observed that, 6 countries have cancelled their CBDC adoption mainly due to structural and technological challenges in the implementation phase. The structural challenges include dominance of cash in making transactions and existence of inefficient payment systems, high implementation cost and risk of disrupting existing ecosystem.

In this consideration, the Bank of Tanzania has adopted a phased, cautious and risk based approach to adoption of CBDC. The Bank of Tanzania will continue to monitor, research and collaborate with stakeholders, including other central banks, in the efforts to arrive at a suitable and appropriate use and technology for issuance of Tanzanian shillings in digital form. Upon conclusion of research phase, the Bank will provide information to the general public on the way forward, which may include a roadmap for transition to adoption of CBDC.

**DIRECTORATE OF FINANCIAL DEEPENING AND INCLUSION
BANK OF TANZANIA**