
What Does Digital Money Mean for Emerging Market and Developing Economies? (Digital Money Note) by Erik Feyen, Jon Frost, Harish Natarajan, and Tara Rice

Physical cash and commercial bank money are dominant vehicles for retail payments around the world, including in emerging market and developing economies (EMDEs). Yet payments in EMDEs are marked by several key deficiencies—such as lack of universal access to transaction accounts, widespread informality, limited competition, and high costs, particularly for cross-border payments. Digital money seeks to address these deficiencies.

This note categorizes new digital money proposals. These include crypto-assets, stablecoins, and central bank digital currencies (CBDCs). It assesses the supply and demand factors that may determine in which countries these innovations are more likely to be adopted. It lays out particular policy challenges for authorities in EMDEs. Finally, it compares these with digital innovations such as mobile money, retail fast-payment systems, new products by incumbent financial institutions, and new entrants such as specialized cross-border money-transfer operators.

Proposals for global stablecoins have put a much-needed spotlight on deficiencies in financial inclusion, and in cross-border payments and remittances in EMDEs. Yet stablecoin initiatives are no panacea. While they may achieve adoption in certain EMDEs, they may also pose particular development, macroeconomic, and cross-border challenges for these countries and have not been tested at scale. Several EMDE authorities are weighing the potential costs and benefits of CBDCs. We argue that the distinction between token-based and account-based money matters less than the distinction between central bank and non-central bank money. Fast-moving fintech innovations that are built on, or improve existing financial plumbing, may address many of the issues in EMDEs that both private stablecoins and CBDCs aim to tackle.