

SARB POSITION PAPER ON THE NECESSITY OF A RETAIL CBDC IN SOUTH AFRICA

November 2025



SOUTH AFRICAN RESERVE BANK



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Executive summary

This Position Paper, supported by a comprehensive Background Note, outlines the South African Reserve Bank's (SARB) policy view on the potential need for a retail central bank digital currency (CBDC) in South Africa. This follows several years of research, experimentation and stakeholder engagement and seeks to clarify whether a retail CBDC should be pursued and under what conditions such an instrument might be considered.

The Position Paper presents the SARB's policy stance, informed by domestic developments, international experiences and the technical feasibility studies. It focuses on the potential role of a retail CBDC as a digital complement to cash, particularly in the context of South Africa's evolving payment landscape and persistent financial inclusion challenges.

The accompanying Background Note provides critical context to assist readers in interpreting the Position Paper. It offers a detailed analysis of South Africa's payment ecosystem, including the role and persistence of cash and barriers to digital payment adoption. It also explores the evolution of payment infrastructure, regulatory reforms and the SARB's broader digital transformation initiatives. Additionally, the Background Note presents insights from the SARB's technical experimentation and lessons from other jurisdictions, helping to frame the strategic considerations behind the SARB's policy position.

The two documents are intended to be read in conjunction, as they complement each other. The Position Paper articulates the SARB's policy view and strategic direction, while the Background Note provides the empirical and contextual foundation for that view. Readers are encouraged to engage with both documents so as to gain a holistic understanding of the SARB's approach to retail CBDC and the broader implications for South Africa's financial system.

High-level findings and conclusion

The SARB's research and experimentation found that a retail CBDC is technically feasible and could be implemented in a way that aligns with regulatory and policy objectives. However, the analysis does not reveal a strong immediate need for such an instrument. Instead, the SARB concluded that ongoing initiatives such as the Payment Ecosystem Modernisation Programme and expanding non-bank participation in the national payment system should remain the priority in the short-to-medium-term.

In the longer term, however, the SARB notes that there may be a need for a retail CBDC to (i) safeguard public access to central bank money – a public good that remains essential in a digital economy; and (ii) unlock opportunities to complement and enhance the existing payments landscape while supporting broader financial innovation in South Africa.

In conclusion, while the SARB does not currently advocate for the implementation of a retail CBDC, it will continue to monitor developments and will remain prepared to act should the need arise. As the SARB continues its CBDC journey, the next phase will pivot toward further exploration of wholesale CBDC. This strategic shift reflects the growing global momentum around wholesale applications and their potential to enhance financial market innovation, cross-border payment efficiency and systemic resilience. The SARB will outline its plans for this next phase in due course.

1. Introduction and purpose of this paper

A market economy relies on a well-functioning monetary system for conducting transactions and establishing contracts efficiently. In a well-functioning monetary system, the state holds both monetary and regulatory sovereignty - which is the capacity to define the official unit of account¹ and to enact policies to regulate the creation of money in its jurisdiction. A well-functioning monetary system displays uniformity of public and regulated forms of private money, that is, public and private money coexist and complement each other while trading at par, allowing money to move back and forth safely and efficiently.

Over the last two decades, the landscape of payments globally and locally has undergone a profound transformation, driven by technological advancements and shifting consumer preferences. This evolution has not only revolutionised the way transactions are conducted but has also spurred discussions on the future of finance, particularly in the realm of digital payments. Several key trends have emerged, reflecting the increasing digitisation of commerce and the evolving preferences of consumers and businesses alike. These include the rapid growth of mobile payments; expansion of e-commerce platforms; growth in contactless payments; proliferation of digital wallets; as well as the growing uptake of money-like instruments, such as crypto assets.

With the rise of the digital economy and advancements in digital payment technologies, the process of paying using cash, meaning the physical banknotes and coin issued by the central bank,² has increasingly been replaced by these private-sector-based digital payment solutions. In economies where cash use is especially low (e.g. Sweden, Norway and Denmark), the general accessibility of cash is also restricted, and its acceptance has become increasingly marginalised.³

For South Africa, although cash continues to play a vital role in the economy, the value of banknotes and coin in circulation relative to nominal gross domestic product (GDP) dropped significantly after the coronavirus disease 2019 (COVID-19) pandemic compared to its long-run trend and has remained low. As cash becomes more marginalised, its cost of use as a payment instrument relative to digital alternatives increases (Bank of Japan, 2020; ECB, 2022). These factors may further undermine the usefulness of cash and exacerbate its declining use.

¹ In economics and accounting, a 'unit of account' is a standard unit of value used to measure and compare the value of goods, services, debts and wealth, enabling calculations and record keeping.

² In some economies, the issue of coins controlled by the national treasury (e.g. the United States and the United Kingdom). In others, it is controlled by a central bank (e.g. South Africa). The distinction is not critical for the purposes of this discussion.

³ For example, in Sweden (which has the lowest cash use globally), many bank branches refuse to handle cash, many retailers only accept digital payments and basic services such as hospitals have refused cash payments from patients (Sveriges Riksbank, 2017; 2021). This makes cash less accessible and its use more marginalised.

As payment habits continue to shift towards digital technology, and as both the use of and ability to access cash becomes more cumbersome and costly, the default long-term scenario facing central banks is a potential move away from a system that provides readily available, cost effective and universal public access to central bank money. In a longer-term environment where physical bank branches are few, automated teller machines (ATMs) sparse and retail outlets shun cash in favour of digital payment methods, cash may generally be inaccessible.⁴ And because banknotes and coin is the only central-bank money that the public has access to, many would lose direct access to central bank-issued money.⁵ An added complexity is the emergence of new forms of digital instruments such as crypto assets and stablecoins, which are enabled by distributed ledger technologies (DLT). These privately issued instruments may further disrupt the monetary system if consumers increasingly rely on them, in the absence of central-bank money or money issued in the national unit of account.

The rapid evolution of technology and digital payments prompted a crucial question for central banks, including the SARB: Should central banks respond to the rise of digital payments and alternative money-like instruments by introducing a digital version of public money, such as a CBDC – what benefits would this bring?

A retail CBDC is defined as a purely digital banknote, denominated in the national unit of account, that could be used by individuals to pay businesses, shops or each other (a retail CBDC), or between financial institutions to settle trades in financial markets (a wholesale CBDC). At its core then, retail CBDC aims to mirror traditional currency, but in digital form. Unlike private forms of money like bank deposits and digital instruments like crypto assets, retail CBDC is issued by a central bank, and aims to offer a secure, stable and risk-free means of payment in a manner that merges the reliability of physical cash with the efficiency of digital transactions, enabling seamless peer-to-peer, retail and potentially cross-border payments.

Majority of central banks globally are embarking on a journey to explore retail CBDC as a potential solution to further achieve their respective national policy goals and objectives. The SARB started its journey in 2021, first by commissioning a study to investigate the feasibility, desirability and appropriateness of a CBDC as electronic legal tender, for general-purpose retail use, complementary to cash. This feasibility study, which included some practical experimentation, was followed by additional targeted internal research to delve deeper into a range of themes to build-on its findings and further articulate the policy rationale and imperatives.

⁴ Some central banks have put initiatives in place to try and maintain or bolster access to cash (Mills, 2021; Zamora-Pérez, 2022) but encouraging the acceptance of cash requires complex strategies, and supplying becomes increasingly costly as economies of scale shrink. These factors diminish the cost-benefit value proposition of cash relative to a digital alternative.

⁵ Commercial banks would retain access to wholesale central bank money in the form of bank reserves held at the central bank.

This position paper is a culmination of the SARB's work on retail CBDC to date and articulates the SARB's policy position on the likely need for a CBDC that is complementary to cash and can be used by consumers and businesses in South Africa, for general retail purposes. The scope of the paper focuses on a retail CBDC used for domestic purposes and does not consider the use of CBDC (retail or wholesale) for cross-border purposes or a wholesale CBDC for domestic transactions. The SARB is exploring wholesale CBDC and cross-border CBDCs through separate, but related work, which forms part of the SARB's broader CBDC Programme of Work.

This paper is structured as follows:

- **Section 2** articulates the rationale for a retail CBDC in South Africa. It examines the evolving payments landscape, identifies persistent gaps in financial inclusion and evaluates whether a retail CBDC could serve as a complementary instrument to existing payment innovations and public policy objectives.
- **Section 3** presents the SARB's policy view on the likely need for a retail CBDC. It outlines the SARB's current position, informed by research, experimentation and international experience. It also briefly discusses the next phase of the SARB's CBDC journey.

2. Articulating the imperatives and rationale for retail CBDC in South Africa

The accompanying Background Note highlights a significant shift toward digital payment adoption, driven by rapid technological innovation and evolving consumer preferences. The proliferation of digital payment solutions – including card payments, electronic funds transfer (EFTs), fast payments and mobile money – has transformed the financial ecosystem. Yet, despite this progress, physical cash continues to play a vital role, particularly among segments of the population and regions with limited access to digital infrastructure.

Persistent barriers such as inadequate acceptance infrastructure, network and power constraints, high transaction fees and merchant practices like minimum swiping thresholds contribute to the continued reliance on cash. For many South Africans, cash offers more than convenience – it provides a tangible sense of financial control, serves as a trusted fallback in times of uncertainty and enables economic participation for those excluded from formal financial services.

In this context, a retail CBDC presents a potential opportunity to bridge the gap between cash and digital payments. If designed to be secure, efficient, low-cost and universally accessible, a CBDC is considered as an innovation that can incentivise broader digital payment adoption, particularly among underserved communities and enhance financial inclusion and social protection by enabling direct transfers such as government-to-person payments and social welfare disbursements.⁶

The considerations above raise debate regarding the necessity for a retail CBDC in South Africa, with a range of views regarding whether a CBDC is a solution that would promote digital payment adoption and/or support in achieving the objectives of the SARB's digital transformation strategies and visions.

2.1 In the context of payments

By definition, payments are a core feature of CBDC, positioning it as an integral component of the broader national payment system (NPS) architecture - both existing and evolving. Therefore, the role of retail a CBDC should be evaluated in the context of ongoing initiatives to modernise the payment system, such as fast payment systems, interoperability and expanding the range of NPS participants. Given the progress made as well as the various modernisation efforts by the SARB and the private sector, it is essential to consider whether

⁶ IMF, 2023, Central Bank Digital Currency's Role in Promoting Financial Inclusion.

a retail CBDC can further enhance these objectives and address specific digitalisation gaps within the NPS. In this context, three main considerations emerged:

a. Is there a gap that a CBDC can/should fill?

South Africa's digital payments landscape has experienced notable progress, with increasing adoption across urban, township and rural communities. This growth has largely been driven by the private sector, including commercial banks, fintechs and other third-party payment providers. However, despite these advancements, structural gaps in adoption and usage persist. Approximately 16% of adults remain unbanked, and a significant portion of the population rely on cash as their primary means of payment.

These gaps are often attributed to the commercial limitations faced by traditional financial institutions in reaching underserved segments, particularly in remote areas and within informal economic value chains. While initiatives such as PayShap⁷ and mobile money services have begun to address these challenges, concerns remain regarding limited interoperability, uneven regional coverage and the dominance of incumbent players which may inhibit broader innovation and competition.

A CBDC has the potential to serve as a complementary instrument to existing payment innovations, offering a standardised and interoperable platform that enables a wider range of providers – including fintechs and non-banks – to deliver more inclusive financial services. For example, potential use cases include goal-based savings, automated savings tools, alternative credit scoring based on CBDC transaction data and programmable retail solutions such as dynamic discounts. Furthermore, a CBDC could be leveraged as a policy tool to facilitate direct government-to-person transfers, enhancing the efficiency and transparency of social grants distribution.

Box 1: CBDCs and/or fast payment systems?

Retail CBDCs and fast payment systems share several functional similarities, including instant, low-cost transactions and enhanced payment efficiency. This overlap often raises the question of whether both instruments are necessary within a single jurisdiction. Insights from the Bank for International Settlements (BIS) research, based on interviews with central banks in 14 countries, suggest that the decision to implement either or both is highly

⁷ PayShap is South Africa's faster payment system, launched in March 2023, which enables funds transfer within 10 seconds and includes a pay-by-proxy feature that enables payment via an alias instead of a bank account. See the Background Note for more details on PayShap.

contextual – dependent on a country’s policy objectives, market maturity and the structure of the payment ecosystem.⁸

While fast payment systems have demonstrated positive impacts on financial inclusion and transaction efficiency, CBDCs offer distinct advantages as a public good. They can be designed to reach underserved populations, promote competition by lowering barriers for non-bank providers and ensure continued access to central-bank money in a digital economy. Unlike fast payment systems, which transfer privately issued money, CBDCs provide a direct claim on the central bank, reinforcing monetary sovereignty and serving as a nominal anchor.

Ultimately, the decision to pursue a retail CBDC alongside or in place of a fast payment system should be guided by strategic policy considerations. These include the central bank’s role in safeguarding financial stability, promoting inclusive access to digital payments and maintaining trust in the national currency. Lessons from other jurisdictions underscore the importance of a measured, well-informed approach that reflects local conditions and long-term national objectives.

In conclusion, although South Africa’s digital payment trajectory is encouraging, the persistence of exclusion among certain population segments – particularly in remote, informal and low-income communities – suggests a continued need for targeted public sector intervention. A CBDC is not a singular solution, but it may play a strategic role in enabling a more inclusive, innovative and resilient financial ecosystem.

Importantly, CBDC could also serve as a policy safeguard within the broader payments landscape. Should existing initiatives, such as the fast payment system, fall short of achieving their intended goals of widespread digital payment adoption and usage, the introduction of a CBDC could provide a public-sector alternative that incentivises progress, fosters competition and ensures that national financial inclusion objectives remain on track.

⁸ BIS, 2024, Central bank digital currencies and fast payment systems: rivals or partners?

b. Should a CBDC be prioritised given the existing initiatives and solutions?

While several payment modernisation initiatives (such as eKYC, QR codes and mobile wallets) can be extended to CBDCs, the key question is whether a CBDC should be an immediate priority and whether further CBDC exploration and potentially implementation should be carried out in parallel with current payment modernisation initiatives that are being implemented or planned.

As shown in the Background Note, there is a comprehensive list of initiatives underway that encompass a wide range of components of the NPS and will likely have a material impact on the structure of the payment ecosystem in South Africa. These initiatives are aimed at addressing the gaps and challenges as highlighted in the Background Note, and it is currently unclear whether there will be any remaining material gaps or opportunities for a CBDC, even when these initiatives are successfully initiated or not fully implemented.

Within this context, the necessity for a CBDC should also be assessed based on whether its implementation aligns with current and planned initiatives. In assessing the relevance of a CBDC at a particular point in time, it is also important to remain mindful that payment systems will continue to evolve as innovative technologies and rapid advances in technology introduce new underlying infrastructures, new payment instruments and new participants.

c. Will a CBDC match/beat the cash proposition?

For a CBDC to lure away consumers and businesses from physical cash, it has to offer the same benefits offered by physical cash and beyond. The benefits include:

- i. **Accessibility:** Physical cash is accessible to anyone who can handle banknotes and coin, while a CBDC – depending on how it is designed – may require access to digital devices such as smartphones, computers or other internet-enabled devices. Despite digital devices becoming increasingly prevalent globally, some populations may still lack access to such technology. The CBDC would therefore need to be designed in a manner that it can be accessed through more basic form factors such as feature phones or potentially even physical cards.
- ii. **Availability and reliability:** Like accessibility, cash transactions can be conducted entirely offline without the need for internet connectivity or digital infrastructure. This is an important feature which a CBDC would need to replicate given the connectivity (data charges and network coverage) as well as electricity constraints experienced in

South Africa. The technical feasibility of an offline CBDC has been shown in various CBDC projects or pilots.

- iii. **Trust:** According to the 2023 FinScope Consumer Survey, some consumers reported withdrawing money immediately due to trust concerns. In addition, perceptions of unclear fees and charges can influence confidence in digital payments. Introducing a retail CBDC issued by the central bank could help strengthen trust in digital transactions. As a non-commercial entity, the central bank is uniquely positioned to complement existing efforts by enhancing transparency and integrity within the payment system, thereby supporting greater consumer confidence.
- iv. **Ease of use:** Paying with cash is as simple as handing over banknotes and coin, although it can involve frictions such as managing change. Therefore, the value proposition of a CBDC should include making payments as simple and intuitive as possible.
- v. **Acceptance:** Although some merchants are starting to push towards cashless stores, physical cash is generally accepted as a medium of exchange by most merchants, especially in less urban areas such as rural areas and townships. CBDC's acceptability on the other hand may depend on factors such as government regulations (e.g. is it legal tender?), technological infrastructure and public perception and trust. Achieving widespread acceptance of a CBDC may require concerted efforts by the central bank, including cooperation between governments, financial institutions, fintechs, non-banks, businesses and communities.
- vi. **Convenience and efficiency:** CBDCs would have to offer streamlined transactions and cash flow management by removing the costly and time-consuming processes associated with physical cash handling, such as merchants having to close shop to deposit cash at a bank branch.
- vii. **Transaction speed:** Cash payments are considered immediate - a critical value proposition, particularly in the informal economy where recipients rely on instant access to funds to meet daily needs. A CBDC must therefore replicate this feature by ensuring that funds are available as soon as the payment is made.
- viii. **Low cost:** While paying with physical cash is perceived to be 'free', consumers using physical cash may face transaction costs related to the time and effort required for handling and counting cash during purchases. Waiting in line at ATMs or bank branches to withdraw cash can also be time consuming. For businesses, physical cash transactions incur costs related to handling, counting, sorting, safeguarding and verifying banknotes and coin.

Depending on how its designed, CBDC transactions may incur lower or no transaction fees compared to physical cash transactions. Digital payments can be processed more

efficiently and may not require the same level of manual handling and processing as physical cash transactions.

The CBDC platform could also leverage modern technologies such as DLT, which offer advantages in transparency, resilience, and programmability. While cost savings compared to legacy systems are not guaranteed and depend on design and integration choices, an efficiently implemented CBDC could reduce operational inefficiencies and enable lower-cost payments for consumers and merchants.

- ix. **Low payment friction:** While paying in cash is generally a seamless process (i.e. as simple as handing the cash over), it is not without friction. For example, it involves physically handling of banknotes and coin, which can be cumbersome and time-consuming, especially for large transactions or when dealing with small denominations. It often requires exact change, leading to delays and inconvenience when making purchases or receiving change. CBDC on the other hand, depending on its design, may require several steps to make payment such as accessing an app, entering the recipient's detail and authentication. These may create frictions that deter customers, and so the design and user experience will need to be as seamless as possible.
- x. **Security:** Physical cash is tangible and can be stored securely in safes, vaults or other physical locations. However, its physical nature also makes it susceptible to theft, robbery and loss. CBDC therefore needs to offer enhanced security features compared to physical cash. Digital wallets and payment systems can incorporate encryption and authentication mechanisms to protect consumer funds and personal information. As a growing number of consumers are using alternative money-like instruments for payments such as crypto assets, retail CBDC would be a safer form of digital money, with similar security features as these instruments, but with the added safety of central-bank issued money.
- xi. **Privacy:** Cash offers a level of privacy that is not inherently present in a CBDC. While CBDC transactions may offer privacy features such as pseudonymity (where transactions are linked to account numbers rather than personal identities), they are still recorded on a centralised ledger. CBDC transactions therefore leave a digital trail that can be recorded and tracked by central banks or financial institutions – although some privacy may be built into the design of the CBDC such that the central bank does not have sight of transactions. Cash transactions are also generally anonymous and untraceable. From the literature and stakeholder consultations, this feature of cash is not seen as one that should place a CBDC in poor favour. Features such as anonymity and untraceability raise concerns around illicit flows and money laundering - and therefore are not features that a CBDC necessarily needs to replicate.

- xii. **Value added services:** The cash value proposition is mostly limited to localised payments, savings and credit. A CBDC on the other hand could support more value-added services such as digital wallet integration, e-commerce, contactless payments, automated bill and utility payments and even next generation solution such as programmability and smart contracts. In summary, the more functions consumers can perform with a CBDC without having to cash it out or transfer it to other platforms, the more attractive it will likely be to consumers.

As seen above, it may be possible to design a CBDC and introduce public-sector driven initiatives (e.g. G2P and P2G payments, consumer awareness and education) in such a way that could promote widespread uptake and usage. These, however, also depend on various resource and ecosystem considerations that come into play, such as technological infrastructure requirements, availability and readiness; regulatory frameworks; cybersecurity measures; interoperability with existing systems; privacy and data protection; collaboration and partnerships; and ethical and environmental considerations. These are issues that would need to be further unpacked, in collaboration and consultation with a broader range of stakeholders (e.g. industry, government, academics and fintechs), should there be further work undertaken to progress the implementation of a retail CBDC.

There will also be a need to conduct more in-depth consumer consultation, for example, using surveys and/or focus group discussions to gain a better understanding of consumer perceptions, needs and preferences.

Reflecting on lessons from abroad

As detailed in the Background Note, the SARB also studied the experiences from other jurisdictions to help inform its position. At present, empirical evidence on the implementation of retail CBDCs remains limited, as most central banks are still engaged in research, pilot programmes and monitoring early-stage adoption. As a result, it is premature to draw definitive conclusions regarding their success. A consistent observation across jurisdictions that have launched retail CBDCs is the challenge of low adoption, often attributed to limited merchant uptake, subdued consumer demand and competition from existing digital payment solutions.

The discourse in academic literature and media reflects divergent views. Some commentators argue that retail CBDCs could achieve greater success if accompanied by robust investment in merchant enablement and consumer education. Others suggest that adoption rates should not be the sole measure of success and recommend viewing retail CBDC as a strategic option for addressing future digital payment needs in increasingly digital economies. Conversely,

critics contend that retail CBDCs may be premature, describing them as ‘solutions in search of a problem’, and advocating for more rigorous market analysis prior to deployment.

These varied perspectives underscore the importance of a context-sensitive approach to retail CBDC design and implementation. Success will depend not only on technological readiness but also on inclusive stakeholder engagement and alignment with broader public policy objectives.

2.2 Beyond payments – a more conceptual conversation

Depending on its design, a CBDC has the potential to enable additional use cases that support innovation in the financial sector beyond payments. One significant example is the opportunities availed by a CBDC in leveraging technological innovations such as programmability, composability, tokenisation and use of DLT as a catalyst for innovation in South African payments and financial markets. These technological advancements are relevant and can be applied across both retail and wholesale domains, which underscores the importance of not viewing retail and wholesale CBDCs in isolation. For example, both wholesale and retail CBDCs can leverage the same underlying technological infrastructure such as DLT. This shared infrastructure could enable interoperability and seamless integration between different types of transactions, whether they are large-value interbank settlements or everyday retail payments. By way of illustration, CBDC and DLT could act as catalysts for innovation by enabling the following examples of use cases:

- **True trustless non-repudiation:** DLT ensures transactions are recorded immutably and transparently across a distributed network, providing a foundation for trust without relying on intermediaries.⁹ This feature enhances security and reduces the risk of disputes or fraud, thereby bolstering confidence in financial transactions.
- **Atomic and instant transacting and exchange through tokenisation:** DLT facilitates atomic transactions where all parts execute simultaneously or none, ensuring seamless and secure exchanges. Combined with tokenisation, which represents real-world assets digitally on a blockchain, DLT-powered CBDCs can enable instant settlement and enhanced liquidity in financial markets.¹⁰
- **Smart contracts:** CBDCs can leverage smart contracts to automate key financial processes, including payment settlements, loan agreements, and trade finance. They can also enable the creation and management of sophisticated instruments such as

⁹ Don Tapscott and Alex Tapscott, 2018, Blockchain Revolution: How the Technology Behind Bitcoin Is Changing Money, Business, and the World

¹⁰ BIS Innovation Hub and Banque de France, 2021, Project Jura - Blockchain Revolution: How the Technology Behind Bitcoin Is Changing Money, Business, and the World

programmable securities, including derivatives and structured products.¹¹ By embedding business rules into code, smart contracts can enable faster transaction processing, reduce operational costs and mitigate risks associated with manual errors.¹²

- **Level playing field and reduced barriers to entry:** A CBDC can create a level playing field by providing all financial institutions, including smaller banks and fintech firms, equal access to central bank money. This could reduce the advantage currently held by larger incumbents that have easier access to liquidity and cheaper funding. Smaller banks and fintech startups can leverage CBDC to offer innovative financial products and services without relying heavily on traditional banking infrastructure.
- **Enablement of truly digital products:** DLT-based innovation enables the creation and management of digital assets and tokens that represent ownership or rights in a transparent and decentralised manner. These digital products can be traded globally, fostering innovation in financial services, investment products and market infrastructure. In addition, the convergence of online and real-life experiences in digital ecosystems, including gaming and virtual reality (e.g. the Metaverse¹³), highlights the growing relevance and potential of CBDCs in facilitating digital transactions and economic interactions.¹⁴

Central bank money provides the safest and most liquid settlement asset available and is based on a clear institutional framework geared towards public policy objectives. The settlement of transactions between commercial banks and other eligible entities in central bank money supports the 'singleness of money'.¹⁵ With the singleness of money, monetary exchange is not subject to fluctuating exchange rates between public and private forms of money. The singleness of money is maintained through regulatory and supervisory frameworks that oversee issuers of private forms of money. The singleness of money is a crucial factor for a currency to effectively become the primary measure of economic value or the unit of account, within a modern economy.¹⁶ In sum, the coexistence of central and commercial bank money, convertible at par, provides the backbone of the monetary system.¹⁷

¹¹ Swift, 2024, Connecting digital islands – Swift CBDC sandbox project – Phase 2

¹² People's Bank of China, 2021, Progress of Research & Development of E-CNY in China

¹³ The term 'metaverse' refers to a collective virtual shared space, created by the convergence of virtually enhanced physical reality and physically persistent virtual worlds. It is a concept that envisions a seamless and immersive virtual universe where individuals can interact with each other and digital objects, usually in real time.

¹⁴ BIS, 2023. BIS Annual Economic Report, Chapter III: Blueprint for the future monetary system: improving the old, enabling the new.

¹⁵ The principle of 'singleness' in money is the essential idea that all types of money (e.g. cash, bank deposits and e-money) should carry equal worth in a given denomination, be universally recognised for transactions and be freely exchangeable with any other currency form without diminishing in value – i.e. ZAR100 should be worth ZAR100 and not a cent less, no matter who it is issued by.

¹⁶ Committee on Payments and Settlement Systems, 2003: The role of central bank money in payment systems.

¹⁷ BIS, 2023. Blueprint for the future monetary system: improving the old, enabling the new, Annual Economic Report 2023.

Given this significant economic role of central bank money, a key consideration in the context of tokenisation is determining the circumstances, conditions and methods by which central banks should provide it as a settlement asset for token arrangements. This would also involve identifying which form of central bank money – e.g. retail, wholesale or both – would be most suitable for facilitating transactions in tokenised environments for the South African context. Additionally, it is important to consider the role of non-central bank money, such as tokenised deposits and stablecoins, and how these forms of money interact with central-bank money and each other.

These potential innovative opportunities, while still nascent, warrant deeper analysis to further inform and shape the SARB's policy views. As these areas evolve, future work will be developed to approach them in a more structured and strategic manner.

3. The SARB's policy perspective on the necessity of CBDC in South Africa

Central bank money plays a crucial role in the financial system for two primary reasons: (i) it represents the highest quality of money, reducing risk and enhancing payment system efficiency and (ii) its accessibility through convertibility with commercial bank money fosters trade efficiency and mitigates financial instability in a dual money system.

From the research and analysis conducted as part of this study, there is evidence of significant growth in the adoption and use of digital payments in South Africa. This has been driven by innovative solutions introduced by commercial banks, fintechs and the efforts of the SARB and other public sector agencies and partners. These are anticipated to continue having a positive impact on financial inclusion, and it is expected that a growing number of South Africans will adopt and use digital payments on a regular basis.

Notwithstanding the progress made, evidence also shows that physical cash continues to play a significant role in South Africa, particularly for certain segments of the population. This prevailing cash reliance is due to barriers such as infrastructure availability, costs of digital payments and network and power issues.

More importantly, the continued ability to redeem private money into safe and liquid public money (i.e. banknotes and coin) provides a safety net in times of economic stress and maintains confidence in the financial system. Further, balancing access to both central bank and commercial bank money is essential for maximising trade efficiency. This balance requires careful consideration of the unique benefits each type of money provides.

These issues have raised the need to consider whether, in light of increasing digitisation, the SARB should consider issuing a retail CBDC to maintain public access to cash, and as an

alternative and supplementary solution to further promote financial inclusion and digital payment adoption and use.

From the analysis, experiments and lessons from other jurisdictions, the SARB has not identified a compelling immediate case for implementing a retail CBDC at this point. In the SARB's view, continued commitment and resources should be dedicated to realising the opportunities of existing payment modernisation initiatives, such as expanding the PayShap value proposition, enabling interoperability of different stores of value, allowing non-banks to issue electronic money and participating directly in the NPS, QR code standardisation, introducing an open banking/open finance framework, among others.

This should, however, not be interpreted as a view that South Africa should not implement a retail CBDC in future. From the research, there are several arguments that can be made in favour of a retail CBDC. For example, the need to provide a digital payment option for segments of the population that are likely to remain excluded, as well as opportunities presented by a retail CBDC and other emerging technologies in pushing the frontier of innovation in the financial sector (through use cases such smart contracts, programmability, direct access to citizens and tokenisation).

In conclusion, **the work done to date did not find a strong argument for South Africa to implement a retail CBDC in the short to medium term. However, in the longer term, there may be a need for a retail CBDC to (i) maintain public access to central bank money – a public good that will remain important even in the digital age and (ii) realise opportunities to complement and further enhance payments and support innovation in South Africa.** The SARB will therefore continue to monitor developments relating to retail CBDC, without actively pursuing the implementation of a retail CBDC.

Next phase of CBDC exploration

At this stage and considering the growing global momentum around wholesale CBDC and its potential for financial market innovation, cross-border payment efficiency and systemic resilience, **the SARB will pivot its immediate focus toward further exploring wholesale CBDC. This shift allows the SARB to build on the foundational work already undertaken – particularly in areas such as technology architecture, DLT experimentation and design principles – which are relevant across both retail and wholesale domains. Continued active exploration of a wholesale CBDC will also provide valuable insights into interoperability, programmability and settlement efficiency, which may inform future decisions on retail CBDC should the need arise. This next phase of the SARB's**

CBDC work will allow the SARB to remain well-positioned to implement a CBDC if the need arises in the future and remain close to global CBDC developments.

The SARB will communicate its plans regarding the wholesale CBDC work in the near future.

