Digital GEL project announcement – inviting digital currency innovators for PPP

The National Bank of Georgia (NBG) is considering launching a publicly available Central Bank Digital Currency (CBDC) to leverage new technologies to enhance efficiencies of the domestic payment system and financial inclusion. The CBDC is a direct liability of the central bank that can be used to settle payments, or as a store of value and will have legal tender status. In this journey, NBG is inviting technology firms, fintech companies, and interested financial institutions to join efforts to explore the frontiers of financial technology and solve technological, regulatory, and financial issues facing CBDC adoption through a public-private-partnership (PPP).

NBG has the mandate to maintain price and financial stability. The key instrument through which these policies are maintained is central bank money - the Georgian Lari (GEL). The rise of digital technologies underscores the necessity to update central bank money - by creating a digital version of the GEL - to better serve the digital economy and increase public policy efficiency.

CBDC holds the promise to unlock the tremendous value of innovative business models for the benefit of society. The introduction of CBDC could increase financial intermediation efficiency, help introduce new financial technologies, facilitate financial inclusion, and reach previously unbanked populations. It could also increase monetary policy efficiency by improving monetary transmission mechanism and welfare effects for the society.

NBG shares the principles outlined in BIS (2020) and aims to develop CBDC technology based on the following features:

- **Modular approach.** CBDC features should promote and enable the rapid introduction of new fintech solutions and additional digital GEL upgrades. It is essential to start from simple solutions which can efficiently upgraded/updated and increase the scale and scope of CBDC over time. Not all features outlined below are necessary to be operational from the very beginning of live operations and use of simple solutions could be reasonable. For example, starting with synthetic CBDC, and later upgrade to full-fledged CBDC could be an option. What is important is to maintain modular approach in this process for the benefit of flexibility and risk management.
- **Low cost**. Cost is a significant factor given the small size of the Georgian financial market. Priority will be given to economical solutions with low fixed and variable costs.
- **Convenience for retail.** The primary focus is retail consumers and Micro, Small, and Medium Enterprises (MMSE). CBDC technology must be easy to use, with different options for the end-users.
- **Instant**. Settlements should be near-instant, and the system should support a very large volume of transactions.
- **Interoperability and coexistence**. CBDC should not contribute to the fragmentation of payments systems. It is essential to achieve seamless operation with other payment systems, bank and card payments, Stable Coins, e-Money, and other cross-border CBDCs.
- **Open technological architecture.** The platform underpinning the CBDC should be simple to integrate for commercial financial institutions and fintech companies.

- **Smart contract layer**. Should support the implementation of smart contracts and automatic payments. For example automatic tax accounting and tax collection for simple transactions.
- **Information layer**. Should support optional passing of information along transaction. For example, receipt, transaction, and contract details.
- **GDPR compliant**. CBDC parties should maintain control of the information passed via CBDC transactions. The technology should ensure personal data integrity and compliance with GDPR standards.
- **Statistical information**. CBDC should enable the collection of statistical information without de-anonymizing personal information. For example, the calculation of price indexes.
- **AML/CFT compatible**. Transaction traceability should comply with AML standards especially FATF Recommendation 16. The solution should seek an optimal balance between ensuring privacy and AML/CFT risks.
- **Cyber Resilience.** The system should be resistant to active operational threats, especially cyberattacks.
- **Offline payments.** Ability to make limited p2p offline transactions.
- **Interest payments.** CBDC should support interest payments to the owner of the CBDC as well as interest rate tiering.
- **Operational limits.** There should be an ability to impose limits on individual holdings and transactions.
- **Operation approvals.** Possibility of multi-signature approvals for certain operations.

Due to the completely new and potentially disruptive technology of CBDC, it is essential to ensure sound risk management during the development process. There are many risks that theoretical literature attributes to CBDC. There may be even more new and unforeseen risks, which will only be found in a live and controlled environment. NBG aims to use its Open Regulatory Framework tools, to facilitate CBDC development. For example, NBG's RegLab facilities and its principles can be utilized to insure a regulatory sandbox approach for CBDC developers. Rapid live testing in a controlled environment should enable the agile development of CBDC technology and an impetus to develop underlying technology to full potential, enhancing risk management and user experience. Interaction with the RegLab should also help NBG to develop its regulatory approach and update legal framework to enable smooth and sustainable CBDC technology operation. Furthermore, as an option, the Digital Bank Framework, could be utilized to facilitate CBDC development.

CBDC's may become essential for the financial ecosystem and spur private innovation and development of new financial technologies. Therefore, full private sector involvement in technology choices, interface design, customer management, KYC and AML/CFT, regulatory compliance, and data management will be crucial. If you are developing CBCD technology and are interested in joining us in this ambitious journey, please contact us via the Financial Innovation Office at InnovationOffice@nbg.gov.ge. Please title the subject "PPP on CBDC" and provide a brief introduction about your company and your technology. Also, indicate whether you would like to offer solutions to a CBDC operator or be an operator of CBDC. NBG will consider range of proposals that facilitates the direct management of the CBDC by either the NBG or by a regulated private company.