

Digital RMB - DC/EP – A new digital currency for China?

Economic Impact of COVID-19 – Special Snap-Shot May 7th, 2020



Photo of the test version of digital wallet of DC/EP

Source: ChinaNews.com

With its test launch end of April, China is the first G-20 country to implement an official electronic currency. The following report aggregates information on how it works and what is different to existing digital payment methods. The expected economic impact as well as comments from experts inside China can also be found in the latter half of this report. Presently, most information available on this new currency is only available from Chinese state media which implies that presently it is hard if not impossible to verify and / or double-check the relevant facts. Nevertheless, we at MFC believe the step into this direction is very noticeable by itself. While we saw e-commerce boom, boosted by SARS in 2003, you may wonder, will COVID-19 trigger e-currencies?

a) What is DC/EP?

DC/EP stands for Digital Currency Electronic Payment. It is a state-backed legal currency launched by China's central bank as the digital version of the RMB. Much like cash, the central bank will exchange the digital currency with banks and payment operators, which will then distribute the digital renminbi. That way, the People's Bank of China (PBoC) keeps control over the cash.

According to information by Yi Gang, China Central Bank Governor [PBoC], in September 2019, the goal of China's digital currency and electronic payment in the future is to replace part of the monetary base. The digital RMB will be pegged to the national currency, the RMB.

To avoid overselling, commercial institutions must pay a 100 % reserve in RMB to the central bank. A PBoC representative assured that the implementation will not cause inflation.¹

The origins of DC/EP can be traced back to as early as 2014. Although the development started to accelerate more recently. In 2017 the Digital Currency Research Institute (DCRI) of the PBoC was founded. Three years later, in May 2020, the digital currency is finally launched for pilot testing in four selected locations in China – Shenzhen, Suzhou, Chengdu, and Xiongan [a newly build city South of Beijing]. The digital currency is also planned for testing in the [2022] Winter Olympics areas.²

In Xiangcheng District, Suzhou, staff from district-level enterprises and institutions whose wages are paid through the four state-owned banks in China (ICBC, ABChina, BoC and CCB) will receive 50% of their traffic allowance as digital currency beginning in May, 2020.¹

The pilot testing in Xiongan is different. Here the focus is mainly on catering and retail enterprises. A total of 19 companies have been invited to the Xiongan's pilot presentation of DC/EP on April 22nd as pilot merchants, which include McDonald's, Starbucks [both companies yet to formally confirm or disconfirm this information] and JD unmanned supermarket [A chinese retail store that has no service personnel or cashiers in the store. Payment is handled through a smartphone application and is supported by AI and RFID technology].³

b) What is the difference between DC/EP and Alipay / WeChat Payment?

DC/EP is a legal currency, while Alipay / WeChat Payment are just methods of payment. This means an agency or person could reject receiving payment via Alipay / WeChat, but is illegal to refuse a payment with cash or digital currency.

Secondly, DC/EP is state-backed, while Alipay / WeChat Payment are only company-backed, therefore DC/EP has higher safety and wider range of use.

Another difference is that money transfers between third-party payment tools such as Alipay and WeChat is not possible. But DC/EP could be transferred between any supported bank and online payment platform. Unlike Alipay / WeChat Payment, DC/EP does not require a bank account or payment account for initiating a digital wallet registration and transfers.

Furthermore, transfer via digital wallet of DC/EP can be done through the APP when

both parties are offline, just put both the sender's and receiver's phones closely together to start the transaction. Alipay and WeChat Pay require the user to be online. ⁴

c) Economic impact of DC/EP

China Daily states that the digital currency will provide a functional alternative to the Dollar settlement system, and it will blunt the impact of any sanctions or threats to both country and company level and It may also facilitate integration into globally traded currency markets with a reduced risk of politically inspired disruption.⁵ Another state-run media, People's Daily, stated that this new currency could be used during the post-epidemic economy recovery period for subsidies.⁶

Opinions on the impact of the e-RMB vary. IMF's chief economist Gita Gopinath stated in an article in the Financial Times that digital currencies won't be able to replace the Dollar as the dominant currency in worldwide trade because advances in payment technologies don't address fundamental issues of what it takes to be a global reserve currency.⁷

The current testing phase is still too short to give a reliable outlook of what might happen. Hence, there are hardly any comments on the new currency from outside China.

d) Comments from China about DC/EP

- Huang Qifan, Columnist of Sina Finance Opinion Leader
finance.sina.com.cn, May 6th, 2020
The value of DC/EP is not limited to the replacement of traditional paper money M0[the total amount of bank notes and coins in a country]. The important value of it is that it can participate in the construction of a new digital settlement system in future international trade, so it is one of the foundations for forming a new order of the internet economy.⁸
- Wang Jian, Chief Analyst, Financial Industry, Guosen Securities
Economic Research Institute
Tianyan News, April 19th, 2020
On occasions where you can connect to the Internet and do not care about anonymity there is no problem with using mobile payments. But if you cannot connect to the internet, and users want to maintain privacy anonymously, the digital currency becomes useful. In some buildings, the mobile network signal is poor, and most aircraft flights do not yet provide WiFi. To deal with these situations, users can download and install digital wallets in advance to receive and pay in digital currency.⁹

- Dong Ximiao, Chief Researcher of XWBank
finance.sina.com.cn, April 29th, 2020
For the entire society, the common application of digital currency can reduce transaction costs and improve the efficiency of financial operations, while also preventing illegal activities such as money laundering. However, it is still in the testing stage, and it will take time for the widespread implementation. It will take some time for everyone to perceive and recognize the advantages of digital currency.⁴

¹ [什么是中国版数字货币？央行权威回应 不会引通胀](#)

News.cctv.com, 19th April, 2020

² [数字人民币内测，功能超牛！会取代现金吗？](#)

chinanews.com, May 3rd, 2020

³ [雄安召开法定数字人民币试点推介会 麦当劳等 19 家单位参与](#)

finance.sina.com.cn, April 24th, 2020

⁴ [苏州相城数字货币 5 月到账 使用前你还要知道这些知识](#)

finance.sina.com.cn, April 30th, 2020

⁵ [China starts major trial of state-run digital currency](#)

Guardian, April 28th, 2020

⁶ [State media on China's digital currency](#)

Ledgerinsights, 1st May, 2020

⁷ [Digital currencies will not displace the dominant Dollar](#)

Financial times, January 7th, 2020

⁸ [黄奇帆：数字人民币在未来互联网经济中将发挥重要作用](#)

finance.sina.com.cn, May 6th, 2020

⁹ [数字人民币来了？央行回应！这部分人将率先用上](#)

Tianyan News, April 19th, 2020