

# Analysis on the Reasons for Issuing E-CNY,Its Challenges and Countermeasures

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**Abstract:** Digital currency is an inevitable outcome of the era of digital economy,and e-CNY belongs to the digital currency of the central bank.Its issuance has both internal reasons for reshaping the main payment status of commercial banks,enhancing financial stability,improving the effectiveness of monetary policy,reducing costs and increasing efficiency,and external reasons for promoting the internationalization of CNY.At present,the development of e-CNY is faced with the challenges of lack of policy protection,difficult promotion,impact on the financial system and other aspects,so we should perfect laws and regulations,promote through multiple channels and accurately prevent risks,and take effective development countermeasures to promote the healthy development of China's digital economy.

**Keywords:** Digital economy; E-CNY; Challenge

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## 1. Propose the Problems

Digital Currency(DC)is derived from the Electronic Payment,Electronic Money,and E-Cash systems of the 1980s and 1990s<sup>[1]</sup>. Digital Currency can be divided into Digital Fiat Currency(DFC)and private digital currency.DFC is usually issued by Central banks of various countries,also known as Central Bank Digital Currency(CBDC)<sup>[2]</sup>.It is the inevitable result of the development of digital economy and digital finance.Instead,digital currencies that are not based on state credit and are issued by private individuals or markets are referred to as private digital currency.

Electronic China Yuan(e-CNY)is a digital legal currency issued by the People's Bank of China.Its currency positioning is digital cash.It has the characteristics of high security,controllable anonymity,dual offline payments,and traceable transactions,and can support the loose coupling of bank accounts<sup>[3]</sup>.Since the issuance of e-CNY is the inevitable result of the joint action of internal and external factors,it has encountered many challenges in the promotion process,and it is necessary to put forward solutions in time to ensure the smooth progress of promotion activities.

## 2. Analysis of the Reasons for the Central Bank to Issue E-CNY

### 2.1 Intrinsic cause

One is to reshape the main payment status of commercial banks.With the popularity of mobile payment methods such as Alipay,WeChat Pay and 99 Bill in urban and rural areas,the main payment status of commercial banks has been gradually weakened. At present,mobilizing the cooperation of commercial banks,third-party payment platforms,Internet technology companies,core technology enterprises and other operating institutions to jointly promote e-CNY can reshape the payment main position of commercial banks to a certain extent.

The second is to enhance financial stability and improve the effectiveness of monetary policy.Compared to cash,e-CNY has the characteristics of controllable anonymity and traceable transactions,which enables financial regulatory authorities to not only monitor the flow direction of funds in real-time,but also predict risk events in advance and take timely measures to hedge risks,so as to prevent systemic financial risks.In addition,the central bank can accurately allocate a certain amount of e-CNY to financial institutions,which can quickly flow into the market and improve the effectiveness of monetary policy.

Thirdly,e-CNY is safer and more convenient.Compared with cash,e-CNY is easy to carry and store,less prone to loss or theft,requires no change or identification of authenticity during payment,and with fast transaction speed and high security;Compared

with third-party payment methods,e-CNY can still be used normally without the network and without financial accounts,and its application scenarios are richer.

Fourthly,it helps to reduce costs and increase efficiency.E-CNY can reduce the management cost of currency issuance,anti-counterfeiting and security;At the same time,it can also reduce the financing costs of micro,small and medium-sized enterprises and promote the development of the real economy.With the help of the traceable transaction of e-CNY,financial institutions can obtain the asset liability situation,credit rating,and debt repayment ability of enterprises at low cost,and even predict the risks of enterprises,which can improve their willingness to issue loans,promote the healthy development of micro,small and medium-sized enterprises,and strengthen financial institutions to better serve the real economy<sup>[4]</sup>.

## **2.2 External reasons:It is conducive to promoting the internationalization of CNY**

E-CNY has the characteristics of efficient transfer and loose coupling of bank accounts,and its application in the field of international trade settlement helps promote the internationalization of CNY.Firstly,e-CNY payment is fast,low fees,and high security,which effectively makes up for the shortcomings of traditional CNY with a long turnaround period in cross-border payment and high processing fees;Secondly,e-CNY settlement is not restricted by network signals and financial accounts,which will attract potential users around the world.Of course,the above is the ideal state without considering the regulatory and cross-border clearing system barriers.But the use of digital currencies for international clearing is the future trend.

## **3. Challenges Faced by the Development of E-CNY**

At present,the pilot testing of e-CNY is steadily advancing.According to the latest data released by the central bank in 2023,the pilot cities for e-CNY have been expanded to all or part of 17 provinces and cities.During the pilot process,the e-CNY mainly faces the following challenges.

### **3.1 Lack of policy guarantees**

The promotion of e-CNY cannot do without the support of relevant laws and regulations,and currently the relevant national laws and regulations are not yet perfect.The Law of the People's Republic of China on the People's Bank of China stipulates that the CNY shall be uniformly printed and issued by the central bank,and the Regulations on the Administration of CNY of the People's Republic of China define the CNY as a coin or paper currency.Currently,the laws and regulations that have been issued do not involve e-CNY,which results in a lack of legal protection during its promotion process.

### **3.2 Difficulty in promoting e-CNY**

Although the promotion of e-CNY has been more than 4 years,the promotion process is not ideal.The reasons include: firstly,the public is not familiar with the e-CNY,and even has misunderstandings about its security.Some people believe that there are risks of fraud and theft in digital currencies,and are unwilling to use e-CNY.In the short term,it will take time to change the payment habits of enterprises and residents.Secondly,the application scenarios are limited.The current application scenario is mainly limited to pilot provinces,cities,and regions,with limited coverage.There is a lack of rigid demand for e-CNY in daily consumption.Thirdly,a mature e-CNY business model has not yet been formed.For commercial banks,operating e-CNY does not charge transaction fees and lacks motivation to promote product research and development,marketing,and customer maintenance based on e-CNY.

### **3.3 E-CNY may impact the financial system**

The current promotion strategy of e-CNY is to carry out pilot projects in multiple batches in regions and industries that are more developed and receptive to new things,and then promote it to all parts of the country from point to plane.In the pilot test process,both financial practitioners and resident enterprises need to learn the knowledge related to e-CNY and adapt to the new equipment related to e-CNY.At the same time,the anonymity of the digital RBM may cause certain troubles to social stability,and may facilitate illegal and criminal activities such as tax evasion,money laundering,and drug trading.In addition,the peer-to-peer transaction of e-CNY changes the pattern of payment transaction risk borne by the financial system,and distributes the transaction risk to each individual participating in the transaction,which will have an impact on the risk management control of the financial system<sup>[5]</sup>.

## **4. Countermeasures for the Development of E-CNY**

### **4.1 Improve laws and regulations to ensure the legal tender status of e-CNY**

At present,although the frequency of trading activities of e-CNY in China is not high,various problems have gradually emerged with the gradual promotion of the pilot scope of e-CNY by the central bank.In order to avoid irreconcilable contradictions after large-scale promotion,it is necessary for relevant national departments to estimate possible negative situations in advance,improve existing laws and regulations or directly enact relevant laws in advance,crack down on illegal transactions using e-CNY,and ensure the safe,or-

derly, healthy and stable promotion of e-CNY<sup>[2]</sup>.

## **4.2 Equal emphasis should be placed on knowledge popularization and promotion activities, and multi-departments should promote mutual assistance**

In order to carry out the promotion and application activities of e-CNY more smoothly, government departments, financial institutions and media should publicize the relevant knowledge of e-CNY in advance, answer questions for residents, and then carry out the promotion activities of e-CNY simultaneously and deeply before the promotion. For example, short videos popular with the public are used to popularize the tutorial on the use of e-CNY, create a good circulation environment, and promote the smooth development of promotion activities<sup>[6]</sup>.

The promotion of e-CNY cannot simply rely on regulatory authorities or financial institutions, but should be promoted by multiple departments. Because the application scenarios of e-CNY involve not only individuals participating in payment activities, but also related enterprises. However, the one-way promotion efforts and effects of regulatory departments or financial institutions are limited, so government departments at all levels need to take active actions, especially in the popularization of e-CNY knowledge, policy support, training and explanation, etc. to create a good environment for the circulation of e-CNY, and enable consumers to feel secure and worry free when using e-CNY.

## **4.3 Clear division of responsibilities and accurately prevent and control risks**

Before the large-scale promotion of e-CNY in China, China's Central People's Bank needs to do a good job of coordinating the work, clear the division of work and job responsibilities of the corresponding departments, and improve the institutional setup. For example, e-CNY telephone consultation and network service departments should be set up to be responsible for providing the general public with question-answering services, which facilitates enterprises and individuals to consult and understand related business; It should set up the skills training and logistics support department for the maintenance of e-CNY application facilities and software apps. The Skills training Department is responsible for providing professional training to operators of related hardware and software to ensure that relevant personnel are familiar with the operation process and ensure the normal operation of corresponding facilities. The logistics support Department is responsible for the maintenance and upgrade of hardware and software facilities to ensure that citizens have a good user experience.

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