



Central bank digital currencies in emerging market economies: the case of Mexico

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Digital innovation and the payments ecosystem

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Public policy principles to promote innovation

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Key features for an architecture to develop a CBDC in Mexico

1. Digital innovation and the payments ecosystem

- Technological advances and innovation are changing payments and financial services, causing a structural transformation in the industry.
- Innovation has focused on increasing convenience by improving ways to initiate payments.
- Technology evolution and its adoption for retail payment solutions can contribute to improve financial inclusion and become the cornerstone of improved forms of digital money.

1. Digital innovation and the payments ecosystem

- Safety and efficiency are imperative for new payment solutions and financial authorities – in particular, central banks – play a critical role in promoting state-of-the-art financial infrastructures.
- Innovation should not be exclusive to private sector players. Central banks play an integral role in the provision of means of payment and they can take advantage of the latest technology to develop fast retail payments systems.
- No need to reinvent the wheel. Central banks can leverage technology and innovation to amplify the payment and financial services provided under the current monetary and financial architectures.

1. Digital innovation and the payments ecosystem

- Since central banks already provide means of payments and have the exclusive right to issue domestic currency, the next step in the evolution would be to provide a new generation of money.
- **Central bank digital currencies are digital money denominated in the national unit of account and are a liability of the central bank.**
- **The motivation to create a CBDC is multifaceted:**
 - **Response to changes in behavior (less use of cash)**
 - **Boosting financial inclusion**
 - **Reduce the cost of financial services and increasing efficiency in the system**

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2. Public policy principles to promote innovation

- The development of an open finance ecosystem should consider some basic principles:
 - Avoid market failures associated with concentration, vertical integration and lack of interoperability.
 - Strengthen consumer protection.
 - Promote financial stability.
- An open finance ecosystem without adequate regulation and incentives will not deliver the desired public goods.
- Payment networks of big techs and fintechs cannot be left to evolve outside our financial ecosystem. We must work on the necessary regulatory and technological conditions to ensure these are part of our financial systems.

2. Public policy principles to promote innovation

- Banco de México's vision to develop the best digital payment ecosystems and a more inclusive and efficient financial system relies on seven policy anchors:
 - **Same risk/same regulation.**
 - **Interoperability and network neutrality.**
 - **Fostering competition to avoid kingmakers.**
 - **Ensuring business continuity with large foreign providers.**
 - **Global coordination to address jurisdictional gaps.**
 - **Client protection.**
 - **Cyber security.**

Outline

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Key features for an architecture to develop a CBDC in Mexico

3. Key features for an architecture to develop a CBDC in Mexico

- The project for the implementation of a CBDC in Mexico is under a definition phase.
- The key features for the CBDC project are proposed as follows:
 - The design is focused on a solution for retail payments.
 - The specific implementation must be flexible.
 - An architecture where the liability remains at the Central bank.
 - It will seek to leverage the cybersecurity, resilience and operational continuity measures that have already been tested and have proven their efficiency in other systems.



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