



SUMMARY

TECHNICAL ASSISTANCE

REPORT

JORDAN

Retail CBDC Exploration

December 2022

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PARTNERS: The Government of Japan



JORDAN

TECHNICAL ASSISTANCE REPORT-HIGH LEVEL SUMMARY REPORT—RETAIL CBDC EXPLORATION

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Summary Technical Assistance Report Monetary and Capital Markets Department

Retail CBDC Exploration

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The *Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: The International Monetary Fund (IMF) analyzed the retail payments markets of Jordan to identify pain points that retail Central Bank Digital Currency (rCBDC) could address. Retail payment systems in Jordan are highly integrated, enabling customers to make interoperable transactions between banks and non-bank Payment Service Providers (PSPs).¹ The country's cross-border remittance market is competitive, but may benefit from the reduced transactions cost associated with rCBDC. Despite generally accessible and appropriate product offerings and an enabling environment, various barriers prevent customers from extensively using digital means of payment. rCBDC might create an opportunity to overcome these barriers, thus making a cross-border rCBDC worth consideration. However, the Central Bank of Jordan (CBJ) should rigorously evaluate benefits against risks and costs before forging ahead. Meanwhile, the CBJ should develop capacity to address technology, cybersecurity, financial integrity, and legal issues.

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¹ Throughout this report, we use PSPs to refer to non-bank Payment Service Providers.

Background

At the request of the CBJ, the IMF conducted a mission from July 2022 to September 2022 to assist the authorities in exploring retail Central Bank Digital Currency (rCBDC) and laying the foundations for a feasibility study report. The mission aimed to identify sets of policy objectives and use cases where rCBDC could add value. To this end, the mission assessed the retail payment landscape, including the national payment system and related services offered by banks and PSPs to identify pain points—obstacles to financial market development—that rCBDC could address. The mission also reviewed the areas for capacity development to address technology, cybersecurity, financial integrity, and legal issues. It documented key findings and recommendations.

Summary of Findings

Retail payment systems in Jordan are well integrated, enabling customers to make transactions between banks and PSPs through JoMoPay and CliQ. The cross-border remittance market is populated by many service providers. Despite generally accessible and appropriate product offerings and an enabling environment with high smart phone penetration and a young population, there are barriers preventing customers from extensively using digital payments, including limited financial literacy, high transaction fees, cash-oriented business models, and the persistence of a "cash culture."

The mission explored three policy objectives that a potential rCBDC may help achieve, namely, financial inclusion, domestic payment improvement, and cross-border payment improvement. The potential benefits of rCBDC for these objectives are as follows:

- rCBDC could enhance *financial inclusion*, by instilling more trust among the population and by servicing residents without smartphones.
- rCBDC could improve *domestic* payments through enhanced interoperability across digital payment platforms by allowing banks and PSPs to use the rCBDC's public infrastructure.
- rCBDC could reduce *cross-border remittance costs* by lowering transaction costs, by allowing foreign PSPs to have access, and/or if rCBDCs were used reciprocally with counterparts in remittance corridors.

The mission also identified associated policy tradeoffs and potential risks in issuing rCBDC:

- Domestically, improper design could lead to *financial disintermediation*. In stress periods, rCBDC could potentially aggravate liquidity risks.
- A cross-border rCBDC could potentially increase *exchange rate volatility* due to larger and more volatile capital flows and present a heightened risk for use in illicit activity.
- rCBDC could amplify *cybersecurity risk* by being an attractive target for cyber-attacks.

Given the potential benefits and risks, a cross-border rCBDC is worthy of consideration. In the domestic digital payment market, rCBDC may offer some benefits, but it does not necessarily address pain points. On the other hand, a cross-border rCBDC could add value, particularly if the authorities coordinate with other countries in the region.

If the CBJ pursues further work on rCBDC, it should rigorously evaluate benefits against risks and costs. It should also consider the best non-rCBDC solutions to address pain points and compare the merits, risks, and costs of rCBDC against those of alternatives.

Cybersecurity and privacy risks pose a potential concern for financial institutions, merchants, and customers, which may impact rCBDC adoption. The CBJ is still exploring several technologies for issuing rCBDC, and is planning to establish technology, cybersecurity, and privacy requirements. Despite good information security governance and management practices in the financial sector, the robustness and cyber resiliency of Jordan's technology infrastructure can be challenged by evolving cyber threats and cybersecurity resources.

If not properly designed, the proposed rCBDC may also potentially present money laundering/terrorist financing (ML/TF) risks. Jordan is currently subject to increased monitoring by the Financial Action Task Force due to strategic deficiencies in the country's anti-money laundering/countering the financing of terrorism (AML/CFT) framework. Left unaddressed, these deficiencies would greatly undermine the integrity of the proposed rCBDC and there are no alternative measures planned.

Because rCBDC constitutes a new function for the CBJ, it should be made based on a sound legal underpinning under both public and private laws. The authorities are encouraged to reflect on specific legal issues related to (i) cross-border use of rCBDC, (ii) the consistency of rCBDC payments related restrictions with treaty obligations, including the IMF's Articles of Agreement, (iii) the legal classification of rCBDC in private law, and (iv) agreements to be signed by the CBJ with tech providers related to the deployment of rCBDC infrastructure.

The IMF stands ready to provide further technical assistance to the CBJ in exploring rCBDC. The CBJ has begun a long journey by taking the critical step of clarifying policy objectives. This will save considerable time and effort at the later stages.

Summary of Recommendations

Prepare analytical note(s) on policy objectives (e.g., financial inclusion), use cases (e.g., cross-border payments), costs and benefits, various policy implications, and design options. Set up a forum to discuss a possible rCBDC with stakeholders, including the Jordan Payments and Clearing Company (JoPACC), banks, non-bank payment service providers, exchange houses, consumers, merchants, and government departments.

Explore ways to ensure that fee/commission structures do not become a barrier for digital payment services. Explore ways to further raise the public's access to and usage of digital payment services. Consider possible measures to integrate exchange house payment activities into the domestic payment infrastructure.

Enhance capabilities to protect critical payment infrastructure, including establishing a 24/7 Securities Operations Center for the financial sector. Early decisions on rCBDC policy objectives and early engagement of rCBDC stakeholders will help authorities address CBDC technology, cybersecurity, and privacy requirements. If the CBJ decides to adopt a rCBDC, its success will hinge on active engagement with various stakeholders: to raise cybersecurity and privacy awareness; to facilitate rCBDC adoption; and to establish strategies for attracting, upskilling, and retaining cybersecurity talents.

Before issuing rCBDC, the CBJ should assess the ML/TF risks related to its domestic and cross-border use. Mitigate the risks identified in respect of rCBDC, including by addressing the deficiencies identified in the Mutual Evaluation Report, and taking the required legal, regulatory, and policy measures to mitigate new risks associated with rCBDC.

Based on the decisions on the design and use cases, the CBJ should assess the existing legal framework to evaluate: (i) the readiness for the issuance of a rCBDC; and (ii) the need for any required legal amendments.