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The Shift in China's CBDC (Digital Yuan) Policy and Key Implications

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<Summary>

- In January 2026, the People's Bank of China (PBOC) repositioned the digital yuan (e-CNY), China's central bank digital currency (CBDC), from "digital cash" to "digital deposits."
- Initially, the digital yuan was designed as a liability of the central bank and was intended primarily as a substitute for cash in domestic retail payments. Although it has not been formally issued, the PBOC has conducted pilot tests involving real-world use since 2020.
- However, the use of the digital yuan has stagnated in China, where private mobile payment platforms such as Alipay and WeChat Pay are already widely used, offering superior convenience. In addition, financial institutions responsible for its distribution face heavy operational burdens, including AML/CFT compliance, while having limited revenue opportunities, thereby weakening incentives for adoption.
- Against this backdrop, the PBOC decided on three changes to the digital yuan: (1) reclassifying it from cash to deposits, (2) integrating it into the reserve requirement system, and (3) allowing it to bear interest. As a result, the digital yuan is defined as a liability of commercial banks, covered by deposit insurance, and structured to support credit creation, including lending.
- Domestic and international think tanks have assessed that, following this policy change, the digital yuan has come to resemble tokenized deposits more closely than a conventional CBDC. They point out that allowing commercial banks to treat it in the same way as deposits could improve their incentives to support its adoption. Some also note that its use may increasingly shift toward corporate payments and that it could be utilized as a means of expanding cross-border transactions denominated in RMB.
- Given these developments, there are two key points to watch regarding the digital yuan:
  1. Amid a wide range of digital currency options – including CBDCs, tokenized deposits, and stablecoins – the digital yuan, which has come to resemble tokenized deposits, could gain

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traction as a new means of payment in China.

2. Through mBridge, an international project aimed at promoting CBDC-based cross-border payments, China is seeking to expand RMB-denominated transactions, including in areas such as energy trade. The digital yuan could serve as a catalyst for RMB internationalization.

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https://www.jri.co.jp/MediaLibrary/file/report/researchfocus/pdf/16766.pdf**)**

1. Introduction

On December 29, 2025, the People's Bank of China (PBOC) announced that, effective January 1, 2026, the digital yuan (e-CNY), China's central bank digital currency (CBDC), would be repositioned from "digital cash" to "digital deposits," and that commercial banks would be allowed to pay interest on it. In general, CBDCs are defined as a digital form of cash and are typically non-interest-bearing. This policy change therefore represents a major shift in the institutional design of the digital yuan and marks an important milestone in international discussions on CBDCs. Against this backdrop, this report provides an overview of the development of the digital yuan to date, examines the details of the latest policy change, and discusses key points to watch going forward.

2. Overview of the Digital Yuan

(1) What Is the Digital Yuan?

A. Definition

A CBDC is generally defined as a digital form of fiat currency issued as a liability of the central bank. The digital yuan is a digital version of the RMB issued by the PBOC. Although it has not yet been formally issued, pilot tests involving individual users have been conducted since 2020. The digital yuan has been used for a wide range of purposes, including everyday purchases, bill and tax payments, and the receipt of social security benefits.

In its 2021 report, *Progress of Research & Development of E-CNY in China* (Chinese title: 中国数字人民币的研发进展白皮书), the PBOC identified five key features of the digital yuan: (1) it is legal tender issued by the central bank; (2) it adopts a two-tier operating structure, under which the central bank is responsible for issuance and management while commercial banks handle circulation and service provision; (3) it coexists with physical RMB (banknotes and coins) as a substitute for cash in circulation; (4) it is a retail CBDC[1] primarily intended for domestic everyday payments; and (5) it is convertible with commercial bank deposits.

At that time, the digital yuan was positioned as a substitute for cash in circulation. To avoid a rapid shift of funds out of bank deposits, it was designed as a non-interest-bearing instrument. This definition was broadly consistent with the basic design principles of retail CBDCs being considered by other central banks, including the Bank of Japan and the European Central Bank (ECB). In this sense, the digital yuan could be regarded as a standard retail CBDC in international discussions.

B. Purpose

The PBOC has identified several policy objectives for the introduction of the digital yuan. The first is to promote financial inclusion. This includes not only expanding access to financial services for unbanked populations, but also providing a means of payment for foreign tourists and other visitors who do not hold

[1] CBDCs can generally be classified into retail and wholesale types depending on their intended use and issuance structure. Wholesale CBDCs are used for settlements between financial institutions, including interbank payments and the settlement of securities transactions.

bank accounts in China. The PBOC regards ensuring access to payment instruments denominated in legal tender for such users as one of the central bank's core responsibilities.

Another objective is to improve fairness, efficiency, and safety in retail payment services. As private digital payment services such as Alipay and WeChat Pay have become widely used in China, the digital yuan is expected to provide an alternative to private platform operators and help prevent excessive dependence on specific payment services. In addition, because the digital yuan can be used without a bank account, it may continue to provide a payment method even when access to bank accounts is disrupted by natural disasters or system failures, thereby contributing to the stable functioning of the payment system as a whole. Furthermore, while offering the high level of safety associated with legal tender, the digital yuan is also designed to protect personal privacy while preventing illicit activity through "managed anonymity[2]."

(2) Current Usage of the Digital Yuan

A. Method of Use

To use the digital yuan, users must open a wallet with authorized operators selected by the PBOC. Wallets are categorized into personal and corporate wallets, and are further divided into digital wallets used on smartphones and hardware wallets such as IC cards.

B. Authorized Operators

The PBOC selects authorized operators to handle the distribution of the digital yuan based on their capital strength and technological capabilities. As of the end of 2025, 10 banks were authorized. Subsequently, on April 2, 2026, the PBOC announced the addition of 12 new banks to the list of authorized operators, bringing the total to 22 banks. The primary role of these institutions is to exchange bank deposits for digital yuan allocated by the PBOC and disburse it upon user request. In addition, they are responsible for overall distribution services, including payment service design, system development, and the expansion of use cases. They are also required to fulfill anti-money laundering (AML) and "Combating the Financing of Terrorism" (CFT) obligations, and to serve as the point of contact for consumer rights protection and dispute resolution.

C. Number of Wallets and Transaction Volume

As of November 2025, the PBOC reported that the number of personal wallets had reached 230 million, corporate wallets stood at 18.84 million, and the cumulative transaction volume had reached 16.7 trillion RMB. However, the digital yuan cannot yet be considered a primary means of daily payment. In fact, according to the Peterson Institute for International Economics (PIIE)[3], the digital yuan transaction volume in 2024 accounted for only about 0.2% of the combined transaction volume of credit/debit cards, Alipay, and WeChat Pay.

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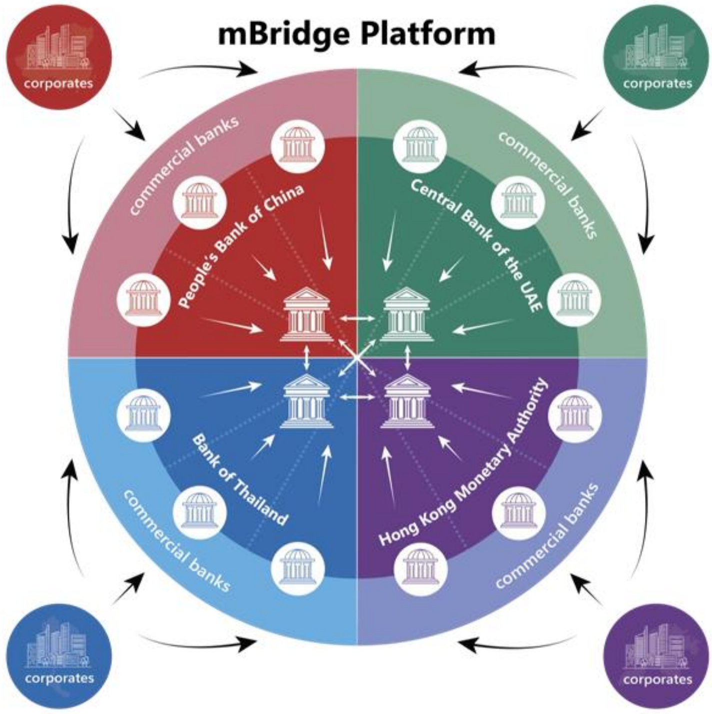
2 "Managed anonymity" refers to a feature that permits anonymity for low-value transactions while enabling authorities to trace high-value transactions. Its purpose is to protect users' personal information and privacy while preventing misuse for illicit activities such as money laundering and tax evasion.

3 Peterson Institute for International Economics (2026).

D. Application to Cross-Border Payments

While the digital yuan began with domestic retail payments, consideration is underway regarding its future application to cross-border payments through collaboration with other central banks, such as its participation in mBridge. mBridge is an international collaborative project aimed at enhancing the efficiency and processing speed of cross-border payments using CBDCs. In addition to the PBOC, the Hong Kong Monetary Authority, the Bank of Thailand, the Central Bank of the United Arab Emirates, and the Saudi Central Bank are participating (Figure 1). Following pilot tests in 2022, the project entered the Minimum Viable Product (MVP) stage in 2024[4].

Figure 1. Overview of the mBridge Concept



Source: Bank for International Settlements (2022)

(3) Challenges to Wider Adoption

Regarding the factors behind the limited adoption of the digital yuan, the Chinese Academy of Social Sciences (CASS)[5], a government-affiliated think tank in China, has identified several challenges.

First, the digital yuan offers limited added value for individual users compared with existing mobile payment methods. Although it provides a high level of safety as legal tender issued by the central bank and enables instant settlement without relying on intermediaries, it has not demonstrated sufficient convenience to persuade users already accustomed to existing mobile payment services to switch. Alipay and WeChat Pay function not merely as payment apps, but as "super apps" that integrate a wide range of everyday services, including shopping and messaging, and have become deeply embedded in daily life in China. Given the strong network effects of these payment platforms, individual users have little incentive to use the more functionally limited digital yuan as an alternative.

[4] mBridge was initially launched under the leadership of the BIS Innovation Hub. However, after the project reached the Minimum Viable Product (MVP) stage, the BIS withdrew, stating that it had reached a level of maturity at which it could be operated autonomously by the participating central banks. Some observers have suggested that this decision also reflected concerns that, as China's influence over the project increased, mBridge could in the future be used as a means of circumventing international economic sanctions.

[5] Chinese Academy of Social Sciences (2026).

Second, incentives for financial institutions remain weak. In handling the digital yuan, financial institutions cannot charge fees when users convert deposits into the digital yuan, nor can they incorporate it into reserve requirements to support credit creation, making it difficult to establish a sustainable business model. At the same time, they must continue to bear compliance obligations, including AML/CFT requirements. As a result, they face greater operational burdens despite limited revenue opportunities. This leaves financial institutions with only weak incentives to actively promote the adoption of the digital yuan.

Third, there are also constraints on the use of the digital yuan for corporate and cross-border payments. Under the current principle of "managed anonymity," it is more difficult for commercial banks and firms to identify transaction details or trace transfer records than with bank deposits. As a result, risks such as fraud and money laundering cannot be fully eliminated, and some observers argue that there are limits to expanding the digital yuan's use beyond the retail payment domain.

3. The 2026 Policy Shift in the Digital Yuan

(1) Details of the Policy Change

Against this backdrop, the PBOC undertook a major revision of its digital yuan policy effective January 1, 2026 (Figure 2)[6].

Figure 2. Key Revisions to the Digital Yuan Framework

Item	Before Revision (through 2025)	After Revision (from 2026)
Classification	Digital Cash	Digital Deposits
Liability	Central Bank	Commercial Banks
Reserve Requirements	Exempt	Applicable
Interest	Non-interest-bearing	Interest-bearing
Deposit Insurance	Not covered	Covered
Credit Creation	Not possible	Possible

Source: JRI based on Lu (2025)

The details of the policy change were presented in an article contributed by Lu Lei, Deputy Governor of the PBOC, to *Financial News* on December 29, 2025[7]. According to the article, while maintaining the existing two-tier structure involving the central bank and commercial banks, the reform redefined the digital yuan from "digital cash" to "digital deposits" through three main changes: (1) reclassifying it from cash to deposits, (2) incorporating it into the reserve requirement system, and (3) allowing it to bear interest. As a result, digital yuan placed with commercial banks would acquire the same legal and economic characteristics as bank deposits. Specifically, digital yuan accepted by commercial banks from users would be covered by deposit insurance, like ordinary deposits, and recorded as liabilities on the balance sheets of commercial banks. In

[6] On December 29, 2025, the PBOC formulated a document titled Action Plan for Strengthening the Management and Service System of the Digital Yuan and Financial Infrastructure Development, although the full text has not been made public.
[7] Lu (2025).

addition, once incorporated into the reserve requirement system, commercial banks would be required to hold a certain proportion as reserves at the PBOC, while the remainder could be used for lending, thereby enabling credit creation. As for interest, local media reports indicate that the same interest rate as that applied to ordinary demand deposits – 0.05% – would be used.

By making the digital yuan a liability of commercial banks, the new framework creates room for banks to develop businesses based on it more proactively, while also alleviating concerns that a shift out of bank deposits could undermine financial stability. At the same time, this institutional design differs fundamentally from the conventional model of CBDCs currently being considered by central banks such as the Bank of Japan and the ECB, which are designed as liabilities of the central bank.

(2) Views on the Policy Change

A. Domestic Views

Within China, many observers believe that, following the latest policy revision, the future focus of the digital yuan will shift from small-value retail payments toward corporate and cross-border payments. In fact, in his article, Deputy Governor Lu Lei identified the use of smart contracts and the promotion of cross-border payments as key future directions for the digital yuan. CASS[8] likewise argues that, even after the introduction of interest payments under the new framework, the additional value of the digital yuan in retail payments remains limited and that it is therefore likely to continue playing only a complementary role in that area. By contrast, CASS notes that in corporate payments, the use of smart contract functionality on blockchain infrastructure could enable both the digitalization of settlement and the automatic execution of transaction terms, thereby improving the efficiency of financial services as a whole. CASS also argues that, in the area of cross-border payments, the digital yuan could contribute to RMB internationalization and the opening of China's financial markets by fostering cooperative arrangements with other central banks through mBridge.

B. International Views

Outside China, think tanks such as PIIE[9] and the Atlantic Council[10] have described the policy change as a major turning point.

More specifically, some argue that, by shifting to a deposit-based design, the digital yuan has come to resemble tokenized deposits more closely than a retail CBDC, thereby becoming more deeply embedded within the existing financial system. Tokenized deposits are commercial bank deposits represented and transferred on blockchain infrastructure and are institutionally equivalent to ordinary bank deposits. Although the name "digital yuan" remains unchanged, the fact that it is now treated as a liability of commercial banks means that it has come to take on legal and economic characteristics similar to those of tokenized deposits.

Some observers also interpret this policy shift as part of a broader strategy aimed at reducing reliance on the

[8] Same as Footnote 5.
[9] Same as Footnote 3.
[10] Atlantic Council (2026).

US-centered international monetary system. In the current international financial system, cross-border payments are still predominantly conducted through SWIFT (the Society for Worldwide Interbank Financial Telecommunication). SWIFT provides the messaging infrastructure through which financial institutions exchange payment instructions. Exclusion from this network makes it difficult to settle import and export transactions and can therefore have serious effects on trade. As a result, the United States has used SWIFT-related exclusion as a sanctions tool[11], and countries such as Iran and Russia have in fact been excluded from SWIFT as part of financial sanctions measures.

The Chinese government has been exploring ways to sustain RMB-denominated trade and financial transactions without relying on SWIFT. The latest policy change in the digital yuan is viewed by some as part of this broader effort. For example, PIIE has described the policy shift as part of a long-term strategy to maintain an environment in which RMB-denominated trade and financial transactions can continue even under sanctions. The Atlantic Council, for its part, has suggested that mBridge could gradually erode the dominance of the US dollar if its use were concentrated in transactions between specific countries or in limited sectors or use cases.

4. Key Implications Following the Policy Shift in the Digital Yuan

As discussed above, the recent measures taken by the PBOC can be regarded as a major turning point in digital yuan policy. At the same time, considerable uncertainty remains as to how the shift to a deposit-based model will affect the future adoption and use of the digital yuan. With this in mind, and taking into account views from abroad, this section highlights two key points to watch regarding future developments surrounding the digital yuan.

The first concerns how a retail CBDC that has shifted to a deposit-based model will be used amid the rapid expansion and diversification of digital currencies. In addition to CBDCs, various forms of digital money, including tokenized deposits and stablecoins, are currently being explored and promoted (Figure 3). Each type, however, has its own advantages and disadvantages, and countries differ in terms of which form they seek to promote. For example, in the United States, stablecoins are receiving policy support from the perspective of maintaining and strengthening the status of the US dollar as the key international currency. One reason is that 99% of currently issued stablecoins are denominated in US dollars, raising expectations that, if they come to be widely used in cross-border payments, they could reinforce the US-dollar-centered international monetary system. In contrast, in Europe, particularly the euro area, policymakers have indicated their intention to issue a retail CBDC – the digital euro – with an aim to reduce dependence on payment instruments provided by non-European firms and strengthen monetary sovereignty.

[11] SWIFT itself is a legal entity incorporated in Belgium, meaning that the final authority to exclude financial institutions formally rests in Europe. In practice, however, the United States has effectively used SWIFT as a sanctions tool by imposing sanctions on entities that provide services to sanctioned financial institutions.

Figure 3. Characteristics of Various Forms of Digital Money

Item	Retail CBDC (Cash-based)	Retail CBDC (Deposit-based)	Tokenized Deposits	Stablecoins
Issuer	Central Bank	Central Bank	Commercial Banks	Corporations
Liability	Central Bank	Commercial Banks	Commercial Banks	Corporations
Reserve Requirements	Exempt	Applicable	Applicable	Exempt
Interest	Non-interest-bearing	Interest-bearing	Interest-bearing	Generally non-interest-bearing
Deposit Insurance	Not covered	Covered	Covered	Not covered
Credit Creation	Not possible	Possible	Possible	Not possible

Source: JRI based on various sources

Against this backdrop, China has so far institutionally recognized only the digital yuan as a retail CBDC, while not allowing the issuance of stablecoins or tokenized deposits by commercial banks. This reflects the authorities' intention to make use of the technological advantages of blockchain in domestic payments while remaining cautious about the free circulation of digital currencies outside the framework of the existing financial system. In light of this policy stance, the recent shift of the digital yuan to a deposit-based model can also be understood as a measure to utilize digital currency within the existing financial system, where it remains subject to official oversight and regulation. As noted earlier, conventional cash-type CBDCs have been associated with concerns such as deposit outflows from commercial banks, weaker credit creation, and limited incentives for banks to promote adoption. By contrast, once the digital yuan is treated as a liability of commercial banks under a deposit-based framework, these problems may be alleviated to some extent.

In the United States, there have also been cases in which private financial institutions issue tokenized deposits, such as JPM Coin by JPMorgan Chase. However, these privately led tokenized deposit arrangements face challenges, including limited interoperability across banks, because each bank manages its own ledger. In China, by contrast, all banks handle the same digital yuan issued by the central bank, which may prevent fragmentation across bank-specific ledgers and enable more seamless transfers and payments. In this sense, the deposit-based CBDC model presented by China is significant in that it may offer a new option distinct from existing forms of digital currency. Going forward, it will be important to monitor which forms of digital currency countries choose to adopt and promote in line with their policy objectives, as well as how the newly redesigned digital yuan develops within this broader competitive landscape.

The second point is how the digital yuan will function and be utilized within the broader context of RMB internationalization. RMB internationalization aims to expand the widespread use of the currency in cross-border trade settlements and financial transactions, with the ultimate long-term vision of establishing the

RMB as a primary international reserve currency that could serve as an alternative to the current US-dollar-denominated monetary system. However, according to the IMF, the RMB accounted for only 2.0% of global foreign exchange reserves as of 2025, and its share in SWIFT-based settlements remains around 2% to 5%. Thus, it can hardly be said that its global usage is widespread. mBridge is envisioned as a means to break away from this status quo and secure a mechanism for RMB-denominated settlements, even in environments with heightened geopolitical risks and active economic sanctions.

Figure 4. Comparison of CIPS and mBridge

Item	Cross-Border Interbank Payment System (CIPS)	mBridge
Objective	To streamline RMB-denominated cross-border payments	To promote cross-border payments in local currencies
Operating Jurisdictions	China	China, Hong Kong, Thailand, the UAE, and Saudi Arabia
Currency	RMB	CBDCs of operating jurisdictions
Access by Non-participants	Possible	Generally unavailable
Relationship with SWIFT	Designed to operate alongside SWIFT	Operates independently of SWIFT
Current Status	Already operational	MVP (Minimum Viable Product)

Source: JRI based on various sources

Since the BIS stepped back from project management in 2024, detailed official reports on mBridge have not been published, leaving recent transaction details and usage status highly opaque. Nevertheless, according to the PBOC, 95.3% of transactions on mBridge are denominated in the digital yuan, underscoring that it is a China-led project. As a means for RMB-denominated cross-border payments, the PBOC already operates the Cross-Border Interbank Payment System (CIPS), which aims to streamline RMB-denominated cross-border remittances and settlements. CIPS is a mechanism specialized for RMB settlements, requiring participating countries to hold a certain amount of RMB during the transaction process (Figure 4). In contrast, mBridge is an initiative that encourages participating countries to conduct cross-border payments in their respective local currencies, including currencies other than the RMB, making the infrastructure more accessible and user-friendly for non-Chinese nations. Furthermore, while CIPS partially relies on the use of SWIFT[12], mBridge is designed as an independent platform, providing China with an autonomous settlement infrastructure.

Additionally, the participation of Middle Eastern oil-producing nations such as the UAE and Saudi Arabia in mBridge is strategically crucial. This could expand the scope for utilizing RMB-denominated settlements in

[12] CIPS includes both direct participants, which hold settlement accounts within the system, and indirect participants, which access the system through direct participants. In transactions between direct participants, CIPS can process both payment messaging and settlement. However, for payment instructions sent from indirect participants to direct participants, SWIFT is generally used.

oil trades (the so-called "petro-RMB"), posing a challenge to the traditional "petrodollar"-centric settlement structure. Therefore, for China, mBridge functions less as a tool to circulate the RMB widely across the globe, and more as infrastructure to maintain and expand RMB-denominated settlements within specific countries, transaction areas, and use cases.

mBridge currently remains at the MVP stage, and many uncertainties remain as to whether its utilization will expand in line with China's strategic intentions. However, compared to a cash-based model that faces compliance challenges, a deposit-based model grounded in existing bank deposits has a higher affinity with mBridge. Thus, this latest policy change could help expand the use of mBridge over the medium to long term. Going forward, it is essential to continue monitoring how China positions mBridge within its strategy for RMB internationalization, how the digital yuan will be utilized within that framework, and how the international community responds to these developments.

5. Conclusion

In response to the limited expansion in the use of the digital yuan, the PBOC has shifted its position from “digital cash” to “digital deposits.” Given that retail CBDCs are generally designed as liabilities of the central bank, the redefinition of the digital yuan as a liability of commercial banks can be regarded as an important turning point in discussions over institutional design. At the same time, some observers argue that, following its shift to a deposit-based model, the digital yuan now shares more characteristics with tokenized deposits than with a conventional retail CBDC. Going forward, close attention should be paid to how the digital yuan will spread and be used within China. Over the medium to long term, another important question will be what role the digital yuan may play in the broader context of RMB internationalization.

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