

DIGITAL TENGE: THE ADVANTAGES OF LAUNCHING E-CURRENCY

For many years, the global community has been discussing the idea of launching their own digital currencies by the world's central banks.

In January 2020, the National Bank of Kazakhstan was put forward an initiative to develop a National Payment System Development Programme by October 2020. The Chairman of the National Bank noted that one of the main objectives of this program is to combat the shadow economy and the need to increase the share of non-cash payments¹, which implies the issuance of the national digital currency.

Let's get to the bottom of what a "national digital currency" is?

According to the common understanding, national digital currency is electronic money, the value of which is linked to the value of the national currency and is used as an alternative or supplement to existing cash and non-cash funds.

The digitalisation of national currencies seems a logical scenario for the global economy and monetary system, given the global implications of the Covid-19 pandemic. To date, Kazakhstan is one of the few countries planning to issue its own national digital currency, along with China², Russia³ and some European countries.

How is digital currency different from other types of money?

The first and most important difference is that digital currency is the electronic equivalent (form) of national currency, that has all the necessary properties to perform the functions of money: means of circulation, measure of value, accumulation.

E-money is a non-cash funds stored in an electronic bank account that has a physical expression⁴. That is, electronic money must first be physically deposited into a bank account, whereas digital money is stored in an electronic wallet and can exist on its own.

Virtual currency (cryptocurrency), in turn, does not have a tangible equivalent with the same name recognised as legal tender, which in Kazakhstan is the tenge⁵ and is used by participants in circulation for the purpose of making payments online.

The next difference is that virtual currencies (cryptocurrencies) have a narrow and localised nature, i.e. their scope of use is very limited. For example, the use of the bonus system of any of the commercial banks is only possible within the system of the bank that issued it. Virtual currencies have no legal tender status within the jurisdiction of any country and therefore not secured (protected) in any way.

At the same time, the digital currency could be used in the same way as conventional money. Moreover, it will be backed by the obligations of the National Bank⁶. Since the issuance of banknotes and coins of

¹Zakon.Kz" (www.zakon.kz): National payment system of Kazakhstan to be developed by autumn 2020 - https://online.zakon.kz/Document/?doc_id=34804807

²The Wall Street Journal: China Rolls Out Pilot Test of Digital Currency <https://www.wsj.com/articles/china-rolls-out-pilot-test-of-digital-currency-11587385339>

³CNEWS Online: Russian Central Bank prepares to issue digital rouble https://www.cnews.ru/news/top/2020-10-13_tsentrobank_rossii_nachal

⁴Clause. 67 of Article 1 of the Law of the Republic of Kazakhstan No. 11-VI dated July 26, 2016 on Payments and Payment Systems

⁵Clause 2 of Article 127 of the Civil Code dated December 27, 1994

⁶Article 8 Law No. 2155 dated March 30, 1995 on the National Bank of the Republic of Kazakhstan

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Kazakhstan's national currency is the sole competence of the National Bank⁷. Thus, if e-money is issued by the National Bank, it will automatically become the digital equivalent of tenge.

Prospects for the introduction of digital tenge in Kazakhstan

According to public sources, the National Bank, along with 28 other central banks of other countries, participates in a major international research group on the implementation of the national digital currency⁸.

It is logical to assume that the process of digital tenge implementation in Kazakhstan will be launched by the National Bank based on the observations and subsequent successful implementation of pilot projects in other countries, such as China, which plans to introduce the digital yuan into circulation as early as 2021⁹.

In 2017, the Digital Kazakhstan broadband programme was launched in Kazakhstan¹⁰, but not all of the announced plans have been fully implemented and fulfilled to date. Therefore, it is still unclear how effectively the national payment system will work, given the rather poor quality of the Internet in the country's regions or its complete absence in remote settlements.

Kazakh academics cite the following main ideas of the National Electronic Money Concept¹¹:

- Creation of a separate (national) e-money system, to escape the influence of already existing local and international payment systems by transferring non-cash funds in bank accounts into digital KZT wallets;
- The creation of a single operator of such a system, which would facilitate effective state control over the issuance and circulation of digital money;
- Creation of e-wallets based on the State Corporation "Government for Citizens", for full transparency, traceability of money movements and eradication of shadow money circulation;
- Opening accounts for the entire population of Kazakhstan and organising a fast and convenient system of social payments.

It is clear that the introduction of the national payment system will require significant improvement of existing regulations and, accordingly, the adoption of new regulatory legal acts. While there is no currently regulatory framework for digital currency, we believe that it is only a matter of time.

⁷Clause. 3 of Article 8 Law No. 2155 of 30 March 1995 "On the National Bank of the Republic of Kazakhstan

⁸Zakon.Kz (www.zakon.kz): How soon digital tenge will be introduced in Kazakhstan - <https://www.zakon.kz/5050675-kak-skoro-v-kazahstane-vnedryat.html>

⁹The Economist: China prepares to launch the world's first official e-currency- <https://www.economist.com/the-world-ahead/2020/11/17/china-prepares-to-launch-the-worlds-first-official-e-currency> -

¹⁰ State programme "Digital Kazakhstan" approved by Resolution No. 827 of the Government of the Republic of Kazakhstan, dated December 12, 2017

¹¹Farkhad Karagusev, Balzhan Baisheva - The Concept of National Electronic Money in the Republic of Kazakhstan - <https://legalpro.kz/o-koncepczii-nacziionalnyh-elektronnyh-deneg-v-respublike-kazahstan/>



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