

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

Press release

June 06, 2023

**Principles for creating “Acceptance” and “Network Effect” for a Digital Shekel**

Like many other central banks, the Bank of Israel is in the process of building a work plan so that it can be prepared to issue central bank digital currency (CBDC) should it be decided to do so. Among the variety of aspects being examined in this project, the issue of acceptance[[1]](#footnote-1) of a new means of payment—how to ensure that a new shekel is adopted by the various user groups—is being given careful consideration.

A digital shekel would have the potential to become an important means of payment in the Israeli economy, but in order for that to happen, it is necessary to create a broad user base. In order to a digital shekel to hold tangible benefit for the public, it would have to be adopted by a large number of users, which on its own would cause merchants and other users to adopt the new means of payment.

This document is published in continuation of a series of publications by the Bank of Israel on the subject and initiates a discussion on a number of issues related directly or indirectly pertaining to the topic of adoption and acceptance of a digital shekel.[[2]](#footnote-2) In terms of users, the document shows that the characteristics that should increase adoption of a digital shekel include:

* Acceptance on the part of the State: Making it possible to receive payments (benefits, refunds, payments to merchants and suppliers, wages, etc.) from the State, and to make payments (fines, fees, taxes, and so forth) to the State using a digital shekel. This would help a digital shekel gain acceptance throughout the economy, by creating a “network effect” and due to the special status that the government has in the economy and the public legitimacy that this would give to a digital shekel, beyond the fact that it would be issued by the Bank of Israel.
* An efficient and convenient payment experience that includes a convenient interface and a sense of confidence in it, as well as the payment’s availability and immediacy. The reflection of these qualities is importance in the process of specifications of a digital shekel, with the thought that even a means of payment that may have tremendous advantage may not be broadly adopted if the payment experience is not positive, and even preferable to that of other means of payment.
* The broad use of a digital shekel as a means of payment between individuals (P2P) would contribute to the creation of a network effect. This network effect will lead to positive external effects in the use of a digital shekel, such that its use by a greater number of users would on its own lead to broader distribution among the public.

We can also look at the issue of adoption of a digital shekel from the standpoint of merchants. The document reviews a number of characteristics that should increase merchants’ desire to adopt a digital shekel should one be issued. These include:

* A cost to merchants that is more attractive than the cost of existing alternatives. The public infrastructure of a CBDC should lead to the creation of a more competitive payments environment, featuring lower fees—for merchants as well.
* The use of a digital shekel as a lever to streamline the merchant’s operational processes. In an economy that is becoming more digital, more goods and services are produced and sold automatically. Processes that remain manual, such as payment and points of sale and payment of taxes, are delaying the digital transformation and streamlining of merchants. A digital shekel should make the digitalization of these processes easier, which would encourage many businesses to use it.

The document presents other factors that should make it easier to adopt a digital shekel in the present and help it serve as widespread means of payment in the future. From a technical standpoint, in order to create a network effect for a new manes of payment, it is important that users should be able to use already-existing end-user tools that they possess, or that they can obtain conveniently and at little cost. From the standpoint of merchants, the use of existing technologies will help them more broadly adopt a digital shekel, and will lower the costs involved in the necessary adaptations to it.

Defining a digital shekel as “legal tender” does not require a merchant to accept it, but will help provide the currency with the status that the public attributes to cash, and thereby support its broader acceptance. The possibility making offline payments using a digital shekel should also support acceptance, since it would allow for its use in all situations, like cash, and increase the reliability of the system. In addition, should CBDCs be proven to lower costs of payment transfers between countries, it could provide a significant incentive to adopt a digital shekel. These payments are more complex, slow, and expensive than domestic payments, and if CBDCs offer an attractive solution, it could support their adoption. The “Icebreaker” project, in which the Bank of Israel participated together with the BIS and the Norwegian and Swedish central banks, proposed a potential model for such a solution.[[3]](#footnote-3)

Finally, the document presents a short survey of future payment applications that a digital shekel may be required to enable, as alternative to or alongside private sector currency, such as micropayments, programmable payments and more. If the digital shekel remains behind the various payment alternatives in terms of the possibility of future payment applications, it may have a negative effect on the willingness of consumers and merchants to adopt and use it, and harm its acceptance in the long term.

1. In the context of payments, acceptance means the readiness of an entity to honor a particular means of payment. [↑](#footnote-ref-1)
2. [For all the publications of the digital shekel project](https://www.boi.org.il/en/economic-roles/payment-systems/future-payment-methods/digital-shekel-cbdc/) [↑](#footnote-ref-2)
3. [Project Icebreaker](https://www.boi.org.il/en/communication-and-publications/press-releases/central-banks-of-israel-norway-and-sweden-team-up-with-the-bis-to-explore-retail-cbdc-for-international-payments/) [↑](#footnote-ref-3)