



PART 1

Read the text below and answer questions 1–13.

CENTRAL BANK DIGITAL CURRENCIES: THE FUTURE OF MONEY?

A Central bank digital currencies (CBDCs) are commonly described as “digital cash”: an electronic form of fiat currency issued by a nation’s central bank. Unlike private cryptocurrencies, a CBDC would be a direct claim on the state, similar in legal character to banknotes but designed for modern payment ecosystems. Interest has grown as cash use declines in some economies, as mobile payment platforms become dominant, and as policymakers consider resilience during outages, competition in payments, and the long-run protection of monetary sovereignty in an increasingly digital marketplace.

B CBDCs can be built with contrasting architectures that shape how users hold and transfer value. A token-based design resembles a digital bearer instrument: possession of a cryptographic token can authorise payment, potentially reducing the need for continuous identity checks at the point of transfer. An account-based model, by contrast, relies on verified accounts and identity processes, often tied to know-your-customer (KYC) requirements. Some proposals use distributed ledger technology, while others prefer centrally managed databases; either way, the architectural choice affects privacy, cybersecurity exposure, and the practical division of roles between the central bank and private intermediaries.

C A further distinction concerns who can use the instrument and for what purpose. A retail CBDC would be aimed at households and firms for everyday purchases, while a wholesale CBDC would be restricted to financial institutions for interbank settlement and other back-end transfers. Advocates argue that a retail CBDC could improve payment efficiency and broaden access to sovereign money, especially where bank branches are scarce or fees are high. Yet inclusion is not automatic: if digital money assumes constant connectivity, people without smartphones, stable data plans, or reliable internet may be excluded. For this reason, many designs discuss offline options so that basic payments remain possible during network failures or in remote areas.

D Financial stability is often presented as the most sensitive macroeconomic issue. If households can hold risk-free digital money directly, large shifts out of commercial bank deposits could occur, particularly in periods of stress when depositors seek safety. This disintermediation could raise banks’ funding costs, compress their liquidity buffers, and intensify the speed of bank runs by enabling instant transfers into central bank money. To mitigate this, proposals include tiered remuneration that makes large CBDC balances less



attractive, or holding limits and caps that restrict how much can be moved at once, while still allowing a useful payment function.

E Privacy debates are equally consequential, partly because they go beyond engineering into institutional design. Cash provides high anonymity, whereas most electronic payments generate transaction trails that can be analysed for commercial or state purposes. A CBDC could be built with privacy-preserving features, but governments also have legitimate objectives such as preventing money laundering, terrorism financing, and tax evasion. The core question is therefore governance: who can access transaction data, under what legal conditions, and with what oversight, auditability, and due-process safeguards. In policy discussions, the objective is often described as “privacy by design” without creating a blind spot for clearly defined law-enforcement thresholds.

F Implementation decisions are not merely technical; they reflect institutional capacity and risk tolerance. Central banks must decide whether to build core infrastructure in-house or commission private providers, how to set cybersecurity standards against fraud and system failure, and how to integrate a CBDC with existing payment rails so that merchants and consumers can adopt it without high switching costs. Interoperability becomes a key design criterion, especially if multiple domestic systems must connect and if cross-border payments are expected to improve. A further question is operational resilience: a CBDC platform must function during peak demand, recover quickly from outages, and manage software updates without undermining public confidence.

G Some analysts argue that the most immediate benefit of a CBDC may be competitive pressure rather than dramatic new capabilities. If public digital money offers a reliable baseline service, private payment firms may respond by lowering fees, improving uptime, and reducing restrictive “walled garden” practices. In this view, a CBDC can act as a contestability tool in markets where network effects have entrenched dominant platforms. Critics counter that similar outcomes can be achieved through faster payment systems and regulatory reforms without introducing a new form of sovereign money. As a result, several jurisdictions have opted for pilots and limited-scale experiments rather than an abrupt nationwide rollout.

H Finally, cross-border considerations add complexity to the long-term vision. If CBDCs interoperate internationally, they might reduce settlement frictions in remittances and trade, but they could also affect capital flows and the transmission of monetary policy. Ultimately, CBDCs represent a policy choice about the future shape of money and the boundary between public and private provision. Their success would depend on design details, the credibility of privacy governance, safeguards for financial stability, and public trust that the system will be reliable and fairly administered. The central question is not



only whether CBDCs are technologically feasible, but whether they are socially and economically desirable given the trade-offs between inclusion, efficiency, and control.

Questions 1–4

Complete the sentences below. Choose **ONE WORD ONLY** from the text for each answer.

- 1 Unlike private cryptocurrencies, a CBDC would represent a direct claim on the
- 2 A wholesale CBDC would be limited to financial institutions for interbank
- 3 To avoid excluding people without reliable connectivity, systems may need offline
- 4 Large CBDC balances may be made less attractive through tiered

Questions 5–9

The text has eight paragraphs, **A–H**. Which paragraph contains the following information? Choose the correct letter, **A–H**.

- 5 The passage argues that some of the strongest near-term effects may come from forcing private payment firms to compete.
- 6 The passage explains that CBDC architecture can be designed around either bearer-like tokens or verified accounts.
- 7 The passage raises the risk that households could move deposits away from commercial banks, especially during stress.
- 8 The passage frames the privacy debate as a governance question about access to transaction data and oversight.
- 9 The passage notes that central banks must make institutional choices about building systems, cybersecurity, and integration with existing rails.

Questions 10–13

Select the correct answer.

- 10 The passage suggests interest in CBDCs has risen partly because...
- A cash use is declining in some places and policymakers worry about resilience and monetary sovereignty
 - B commercial banks have ended all deposit services
 - C CBDCs have already replaced banknotes in most countries
 - D private payment platforms have stopped expanding



11 Which feature is mentioned as a way to limit financial-stability risks from a retail CBDC?

- A** guaranteeing full anonymity identical to cash
- B** requiring all transactions to be public by default
- C** tiered remuneration and/or caps on holdings
- D** eliminating the role of commercial banks in payments

12 What is the key point made about privacy in a CBDC system?

- A** privacy can be ignored because digital systems are always traceable
- B** the central issue is who can access transaction data, under what conditions, and with what oversight
- C** a CBDC must provide absolute anonymity to be acceptable
- D** cash creates more detailed records than electronic payments

13 What argument is reported from critics who doubt the need for CBDCs?

- A** faster payment systems cannot improve reliability or fees
- B** monetary sovereignty is unrelated to payment competition
- C** inclusion requires banning private payment firms
- D** similar improvements may be achieved through faster payment systems without creating a new form of money

Answer Key

1. state
2. settlement
3. options
4. remuneration
5. G
6. B
7. D
8. E
9. F
10. A
11. C



12. B

13. D