Digital Assets

From Digital Cash to Regulated Deposit:

China’s Interest-Bearing e-CNY

By

Lāsma Kokina

11 February 2026

Lāsma Kokina

From Digital Cash to Regulated Deposit: China's Interest-Bearing e-CNY

11 February 2026

Table of Contents

ROSA & ROUBINI ASSOCIATES

Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 75 King William Street, London EC4N 7BE, United Kingdom.

For information about Rosa&Roubini Associates, please send an email to info@rosa-roubini-associates.com or call +44 (0)20 7101 0718.

Lāsma Kokina

From Digital Cash to Regulated Deposit: China's Interest-Bearing e-CNY

11 February 2026

Executive Summary

- China's move to make the e-CNY interest-bearing is a targeted effort to boost adoption, not a fundamental departure from established CBDC design principles.
- By embedding the digital yuan within the two-tier banking system, the reform preserves commercial banks' central role in balance-sheet management, intermediation and customer relationships.
- A tightly calibrated framework positions the e-CNY as a regulated payments and settlement infrastructure - domestically and in cross-border use - reinforcing financial stability rather than displacing banks.

The Interest-Bearing e-CNY: Design, Adoption and Financial Stability

From Digital Cash to Adoption Tool: Why Interest Was Introduced

China's decision to allow interest payments on holdings of its digital currency, the e-CNY, marks a notable departure from the cautious orthodoxy that has shaped central bank digital currency (CBDC) design globally.[1] For years, most central banks have argued that retail CBDCs should not bear interest, largely to avoid destabilising commercial bank funding and accelerating deposit flight in times of stress.[23]

China's People's Bank of China (PBOC), however, has chosen a different path. Under a new management framework announced in late 2025, interest will be paid on e-CNY balances held in authorised wallets from January 2026, with the stated aim of boosting adoption and expanding use cases.[4] While the move has prompted renewed concerns about bank disintermediation, the institutional design of China's approach suggests those fears are overstated.[5]

The e-CNY has long been framed as a digital analogue of cash - part of the monetary base (M0), non-interest-bearing and primarily intended for payments.[6] Despite extensive pilot programmes across major cities and use in government disbursements, adoption has remained modest relative to China's dominant private payment platforms, notably Alipay and WeChat Pay.[7] The new interest feature is presented as a tool to strengthen incentives for everyday use and to integrate the digital yuan more fully into the retail financial ecosystem.[8]

Preserving the Two-Tier Banking System

Crucially, the introduction of interest coincides with a reclassification of how e-CNY balances are treated within the financial system. The Chinese government's release states that digital yuan held in commercial-bank wallets will be treated as bank deposit liabilities and incorporated into banks' standard asset-liability management frameworks.[9] Rather than allowing households to hold large quantities of interest-bearing central bank money directly, China is embedding the e-CNY within the existing two-tier banking system.[10] Under a two-tier system, the central bank issues digital currency to regulated intermediaries, while commercial banks remain the primary interface with households, retaining responsibility for balance-sheet management, compliance, and credit intermediation.[11]

This design choice sharply limits the scope for disintermediation. In models that raise the greatest concern among regulators, retail CBDCs sit directly on the central bank's balance sheet, offering households a risk-free alternative to bank deposits. In such a setup, even small interest differentials can trigger large shifts in funding away from banks, particularly during periods of market stress.[12] China's framework avoids this by ensuring that e-CNY balances continue to fund banks, rather than bypass them. As one analyst put it in response to the announcement, banks are not losing deposits; they are gaining a new, regulated form of deposit liability.[13]

Risk Containment, Regulation, and International Positioning

The way interest is set further reinforces this point. According to the official plan, banks will be required to pay interest on e-CNY balances in accordance with prevailing deposit rate regulations[14], with rates aligned with demand deposit benchmarks rather than set at a premium.[15] This suggests the policy is designed to remove a structural disadvantage (zero yield on e-CNY), rather than to create an aggressively competitive alternative to traditional deposits. In practice, this limits the likelihood of large-scale shifts from conventional bank accounts into e-CNY wallets solely on yield grounds.

Other elements of the framework further decrease the risk of destabilising flows. E-CNY balances held with commercial banks will be covered by China's deposit insurance scheme, placing them on the same footing as ordinary retail deposits in terms of perceived safety.[16] This reduces the incentive for households to treat the digital yuan as a superior safe haven in times of uncertainty. At the same time, e-CNY holdings are being incorporated into the reserve requirement calculation base, ensuring that the PBOC retains its ability to steer liquidity conditions as usage grows.[17]

The framework also tightens the role of non-bank payment institutions. Firms authorised to distribute e-CNY but lacking banking licences will be required to hold 100% reserves against digital yuan balances they manage.[18] This prevents lightly regulated intermediaries from creating quasi-deposit products around the e-CNY that could amplify systemic risk - another concern often raised in debates about digital currency adoption.[19]

Taken together, these measures point to a strategy that is evolutionary rather than disruptive. The interest-bearing e-CNY represents a shift from "digital cash" toward something closer to deposit money, but without dismantling the core functions of the banking system.[20] This approach also aligns with China's broader ambitions for the e-CNY, including its use in cross-border settlement experiments such as the mBridge platform.[21] Even internationally, the digital yuan is being positioned as infrastructure, not as a bank-free monetary alternative.[22]

China's decision to pay interest on e-CNY holdings is therefore best understood as a targeted response to adoption challenges rather than a radical rethinking of the financial system. By embedding the digital currency within existing regulatory, balance-sheet and insurance frameworks, the PBOC has sought to capture the benefits of wider usage while containing the risks that have made other central banks wary. Far from heralding large-scale bank disintermediation, the reform shows how CBDC design can reinforce, rather than undermine, the role of commercial banks.

NOTES

[1] "China's digital yuan to become interest-bearing next year, state broadcaster says", Reuters, accessed 26 January 2026, https://www.reuters.com/world/asia-pacific/china-issue-digital-yuan-management-action-plan-2025-12-29/.

[2] "Report on digital euro", European Central Bank, accessed 26 January 2026, https://www.ecb.europa.eu/pub/pdf/other/Report_on_a_digital_euro~4d7268b458.en.pdf.

[3] "The Government and Bank of England's Response to Treasury Committee Report: The digital pound: still a solution in search of a problem?", Bank of England, accessed 26 January 2026, https://www.bankofengland.co.uk/-/media/boe/files/letter/2024/response-to-the-tsc-report-on-the-digital-pound.pdf.

[4] "China shifts digital yuan policy to add wallet interest", Coingeek, accessed 26 January 2026, https://coingeek.com/china-shifts-digital-yuan-policy-to-add-wallet-interest/.

[5] Jingdong Huang, "Impact Assessment of Digital Currency Pilot Programs on Regional Financial Stability: A Difference-in-Differences Model Analysis Based on 15 Pilot Cities in China", SSRN, accessed 26 January 2026, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5853935.

[6] "Digital yuan: what is it and how does it work?", Deutsche Bank, accessed 26 January 2026, https://www.db.com/news/detail/20210714-digital-yuan-what-is-it-and-how-does-it-work.

[7] Monique Taylor, "Beijing blocks stablecoins to keep money under state control", accessed 26 January 2026, https://eastasiaforum.org/2025/12/13/beijing-blocks-stablecoins-to-keep-money-under-state-control/.

[8] "How China is upgrading its digital yuan for the stablecoin era", South China Morning Post, accessed 26 January 2026, https://finance.yahoo.com/news/china-upgrading-digital-yuan-stablecoin-093000691.html.

[9] "China to enhance digital yuan management with deposit features starting 2026", The State Council the People's Republic of China, accessed 26 January 2026, https://english.www.gov.cn/news/202512/29/content_WS69526d4ec6d00ca5f9a08511.html.

[10] "E-CNY: main objectives, guiding principles and inclusion considerations", Bank for International Settlements, accessed 26 January 2026, https://www.bis.org/publ/bppdf/bispap123_e.pdf.

[11] "Annual Economic Report 2021", BIS, accessed 26 January 2026, https://www.bis.org/publ/arpdf/ar2021e.htm.

[12] Rhys Bidder, Timothy Jackson and Matthias Rottner, "CBDC and banks: disintermediating fast and slow", accessed 26 January 2026, https://www.bis.org/publ/work1280.htm.

[13] Lars Hupel, "For years, most central banks have agreed that retail CBDCs should not pay interest. China is about to change that.", LinkedIn, accessed 26 January 2026, https://www.linkedin.com/posts/lars-hupel_for-years-most-central-banks-have-agreed-activity-7414538798547537920-xf_y/?utm_medium=ios_app&rcm=ACoAABsqr3EBrEWsvk6gVSVypGOwgIRo0L4cvI0&utm_source=social_share_send&utm_campaign=mail.

[14] "China to enhance digital yuan management with deposit features starting 2026", The State Council the People's Republic of China.

[15] "China's digital yuan to become interest-bearing next year, state broadcaster says", Reuters.

[16] "China to enhance digital yuan management with deposit features starting 2026", The State Council the People's Republic of China.

[17] Ibid.

[18] Ibid.

[19] "Annual Economic Report 2021", BIS, accessed 26 January 2026, https://www.bis.org/publ/arpdf/ar2021e.htm.

[20] "China shifts digital yuan policy to add wallet interest", Coingeek.

[21] Alisha Chhangani, "What to watch as China prepares its digital yuan for prime time", Atlantic Council, accessed 26 January 2026, https://www.atlanticcouncil.org/blogs/econographics/what-to-watch-as-china-prepares-its-digital-yuan-for-prime-time/.

[22] "China Backs Digital Yuan and Promotes Multi-Polar Currency System", Fintech News Hong Kong, accessed 26 January 2026, https://fintechnews.hk/34395/fintechchina/china-digital-yuan-currency-shift/.