

## **Abstract**

Informal economy has existed beyond regulatory frameworks alongside formal structures. This division persists in which the informal economy is often characterized by its unregulated nature that limits tax collection, financial inclusion, and social security. Given that the role of finance in formalizing the informal economy is mostly overlooked by governments and financial institutions, recent trends show a growing recognition of the importance of formalization through financial inclusion. In this context, Central Bank Digital Currencies (CBDCs) became one of the initiatives. This thesis explores the role of CBDCs in bridging the gap between formal and informal economies in developing countries. To understand the potentials brought by the CBDCs, the research examines CBDC projects in the Bahamas, Nigeria, and China through qualitative methods and evaluates against the international guidelines and frameworks from the Bank for International Settlements (BIS) and the International Monetary Fund (IMF). The results show that CBDCs can reduce informality by simplifying access to basic financial services, reducing transaction costs, and increasing transparency among the participants.