**How CBDCs are shaping the future of money**

*Reportedly, the introduction of CBDCs also raises humanitarian considerations*

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Central bank digital currencies (CBDCs) and cryptocurrencies have some shared history but also distinct differences. CBDCs are digital currencies issued and controlled by central banks, while cryptocurrencies are decentralised digital assets that operate on a blockchain network. As digital transformation continues to reshape various sectors, the world of finance is also witnessing a significant shift toward digital currencies. Government-issued CBDCs are a form of digital [money](https://www.financialexpress.com/money/) with central bank backing and have the potential to revolutionize the way we transact, store value, and regulate financial systems. In this article, we will explore how CBDCs are shaping the future of money.

Several countries have been actively working on CBDC projects, with the first official CBDC being the Bahamian Sand Dollar, launched in October 2020. China started developing its digital currency, the Digital Yuan or Digital Renminbi (DCEP), in response to the growth of its fintech unicorns. Similarly, the United States initiated the development of a digital dollar in response to Facebook’s Libra project, which was announced in 2019. Indonesia began developing its digital rupiah in response to cryptocurrencies after the last bull run in 2017 and 2018. The Indian version of CBDC, called eRupee, went live with trials late last year.

Why this sudden deluge of CBDCs? One key driver is the increasing popularity of cryptocurrencies and the rise of private digital currencies like [Bitcoin](https://financialexpress.com/about/bitcoin/) and stablecoins. These digital assets operate outside traditional banking systems and are not backed by any central authority. As a result, governments and central banks are keen to explore the benefits of issuing their own digital currencies to maintain control over monetary policy, financial stability, and regulatory oversight.

CBDCs offer several potential advantages over traditional forms of money. One significant benefit is the potential for increased financial inclusion. Digital currencies can provide access to financial services for individuals who are unbanked or underbanked, especially in developing economies. CBDCs can offer secure and affordable digital payment options, making it easier for individuals to participate in the formal [economy](https://www.financialexpress.com/policy/economy/) and access financial services. CBDC on top of the JAM (Jandhan, Aadhaar, Mudra) trinity could turbocharge welfare schemes and transform the rural economy, where 65% of [India](https://www.financialexpress.com/india-news/) lives.

Additionally, CBDCs can enhance the efficiency of payment systems. Traditional payment systems can be slow, costly, and prone to errors. India is already the world leader in digital payments, with transactions crossing $150 trillion in 2022. CBDCs built on blockchain or other distributed ledger technologies can enable faster, more secure, and transparent transactions. The use of smart contracts and programmable money in CBDCs can automate payment processes, streamline settlement, and reduce intermediaries, resulting in cost savings and improved transaction speed.

Another key aspect of CBDCs is their potential impact on monetary policy and financial stability. Central banks can leverage CBDCs to implement and fine-tune monetary policies more effectively. CBDCs provide central banks with granular data on money flows and economic activity in real-time, enabling more precise policy interventions. Additionally, CBDCs can enhance financial stability by mitigating risks associated with private digital currencies, such as money laundering, fraud, and systemic risks.

CBDCs have the potential to revolutionize the remittance [industry](https://www.financialexpress.com/business/industry/) by providing a digital infrastructure that enhances the efficiency, speed, and cost-effectiveness of cross-border transactions. Remittances to India cross $100 billion in 2022. The use of CBDCs in remittances would allow individuals to directly and securely send funds to their beneficiaries without the need for intermediaries or traditional banking systems. According to the WEF, this could significantly reduce transaction costs by as much as 50%, eliminate delays (68% faster), and enhance transparency in the remittance process.

However, the introduction of CBDCs also raises important humanitarian considerations. A CBDC is intertwined with digital identity. That means that CBDCs cannot be as private as physical cash and transactions could become records of sensitive payment and user identity information. This puts the public at high risk of surveillance and profiling. It also poses a huge security risk. A massive centralised database of the population’s personal data, would create a treasure trove for cyber hackers to focus their efforts on any successful breach would put the entire population at risk. As digital currencies become more prevalent, regulators face the challenge of balancing innovation with consumer privacy and protection. Robust frameworks must be established to ensure the integrity, security, and privacy of CBDC transactions.

Moreover, the global nature of CBDCs necessitates coordination and cooperation among central banks and regulatory authorities. Harmonizing standards, interoperability, and addressing cross-border regulatory challenges will be crucial for the successful implementation and adoption of CBDCs. International collaboration is vital to prevent fragmentation and ensure a smooth transition to the digital economy.

The development and implementation of CBDCs also have implications for the international monetary system. The US dollar has long been the dominant reserve currency, providing significant advantages to the United States in terms of economic influence and stability. The emergence of CBDCs, particularly those issued by major economies like China, could potentially challenge the dollar’s supremacy. Central banks must carefully consider the impact of CBDCs on global financial dynamics and maintain the competitiveness of their currencies in the evolving digital landscape.

In conclusion, CBDCs are poised to shape the future of money and regulation. These digital currencies offer the potential for financial inclusion, improved payment systems, and more effective monetary policies. However, their implementation requires careful consideration of regulatory frameworks, international cooperation, and addressing potential challenges. As the world transitions