

THE EVOLUTION OF CENTRAL BANK DIGITAL CURRENCIES AND THEIR AFFECT ON THE GLOBAL ECONOMY

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Abstract: *This study paper looks at the possibility of central bank digital currencies (CBDCs) as the next step in the evolution of money, and as they have gotten lately a lot of attention from lawmakers, researchers, and financial institutions. This is because technology is changing quickly and financial systems are becoming more and more digital. The goal of this study is to look into the advantages and disadvantages of CBDCs, as well as their ability to change and impact financial systems. The first part of the study gives a broad review of CBDCs, explaining what their main features are and why they were created. Using current case studies, and the views of experts, the paper gives a critical evaluation of the benefits of CBDCs. It looks at how giving unbanked and under banked people access to digital payments and banking services could improve financial inclusion. Also, it looks at whether the use of CBDCs could make banking deals faster, cheaper, and more open. But the paper also talks about the problems and risks that come with putting CBDCs into place, about things like privacy, data protection, the effects on monetary policy, and how the current financial environment could be changed. In order to make a fair analysis, the study takes into account the views of central banks, financial companies, regulatory bodies, and customers, among others. In the end, the goal of this paper is to add to the current discussion about CBDCs by giving a thorough look at how they could be the next step in the evolution of money. It talks about the ways in which CBDCs can change things, as well as the issues and factors that need to be dealt with for them to work. This study paper aims to help lawmakers and other interested parties figure out how to deal with the changing environment of digital currencies and monetary systems by putting light on the possible benefits, challenges, and effects of CBDCs.*

Keywords: *Cryptocurrency; Central Bank Digital Currencies; Global economy; monetary policy; financial systems.*

JEL Classification: *E52; E58; F38; F65; G11; G15; G28.*

1. Introduction

This study paper looks at the possibility of central bank digital currencies (CBDCs) as the next step in the evolution of money. CBDCs have gotten a lot of attention from lawmakers, researchers, and financial institutions. This is because technology is changing quickly and financial systems are becoming more and more digital. The goal of this study is to look into the advantages and disadvantages of CBDCs, as well as their ability to change financial systems (McDonald, 2021). The first part of the study gives a broad review of CBDCs, explaining what their main features are and why they were made. It looks at the main reasons why central banks around the world are looking at CBDCs as a way to improve financial equality, economy, and security. It also looks at how CBDCs might affect standard banking systems, payment infrastructure, and the ways that monetary policy is spread (Denecker et al., 2022; Tambe et al., 2023). Using current case studies, and the views of experts, the paper gives a critical evaluation of the benefits of CBDCs. It looks at how giving unbanked and under banked people access to digital payments and banking services could improve financial inclusion. Also, it looks at whether the use of CBDCs could make banking deals faster, cheaper, and more open (Shobhit, 2023). But the paper also talks about the problems and risks that come with putting CBDCs into place. It talks about things like privacy, data protection, the effects on monetary policy, and how the current financial environment could be changed. In order to make a fair analysis, the study takes into account the views of central banks, financial companies, regulatory bodies, and customers, among others. In the end, the goal of this paper is to add to the current discussion about CBDCs by giving a thorough look at how they could be the next step in the evolution of money. It talks about the ways in which CBDCs can change things, as well as the issues and factors that need to be dealt with for them to work. This study paper aims to help lawmakers and other interested parties figure out how to deal with the changing environment of digital currencies and monetary systems by putting light on the possible benefits, challenges, and effects of CBDCs. (Lukonga, 2023)

2. Literature Review

What CBDCs are and what they look like: Give a complete review of CBDCs, including what they are, what makes them unique, and how they vary from traditional kinds of cash. Examine the possible benefits and reasons for putting CBDCs in place,

such as making it easier for people to get money and working more efficiently. (Denecker et al., 2022; Shobhit, 2023))

Risks Associated with Government management: Look into the dangers that come with government management of CBDCs and other possible risks. Talk about worries about privacy, monitoring, control, and censorship of financial activities. Look at real-life situations or examples of how the government has messed with digital currencies or financial systems. (McDonald, 2021)

Central Bank Independence and Monetary Policy: Think about how important it is for the central bank to be independent when monetary policy decisions are being made. Look at what could happen if the government messes with central banks and how that could affect their independence and trustworthiness. Look into the risks of using CBDCs as tools to change interest rates, exchange rates, or the amount of money in the economy. (McDonald, 2021)

Safeguards and Mitigation Strategies: Look into the different steps that can be taken to reduce the risk of government interference in CBDC systems. Talk about the technology, policy, and oversight tools that can protect user privacy, stop power abuse, and keep CBDC operations running smoothly. Look at books or case studies to find examples of best practices and suggestions. (Shobhit, 2023; Tambe et al., 2023)

International Viewpoints and Regulatory Frameworks: Look at how other countries see CBDCs and what role global unity could play in dealing with the risks of government abuse. Examine the governing systems and standards that can be put in place to make sure that CBDCs are issued and run in a way that is transparent, accountable, and not influenced by politics or ideology. (Lukonga, 2023; Giancarlo, 2021)

By including these topics in your study of the literature, you will get a full picture of the risks that could come from government manipulation in the context of CBDCs. The rest of your research paper will be built on top of this base.

3. Overview of the Research Problem & Research Gap

Central Bank Digital Currencies (CBDCs) could be manipulated by the government, but there isn't much study on what that might mean. Even though the benefits of CBDCs, like better financial inclusion and efficiency, have gotten a lot of attention, not much is known about the risks and what they mean for monetary systems (Giancarlo, 2021).

To find out if the government might be able to control CBDCs, it is important to look closely at many different things. One thing to look into is whether or not states could

use CBDCs to keep an eye on, control, or block financial activities. Researchers should look into the technology and legal steps that can be taken to protect the privacy of users, stop power abuse, and make sure that CBDCs don't limit people's rights (Parizo, 2021).

Also, it is very important to know how government corruption could affect how well monetary policy works. Researchers should look into whether or not states could use CBDCs to affect interest rates, exchange rates, or the amount of money in circulation in an unfair way. This could hurt the independence and trustworthiness of central banks. (McDonald, 2021) Evaluating the protections and procedures that can keep central banks independent and make sure that monetary policy is carried out well is an important area that needs more research. (Denecker et al., 2022; Tambe et al., 2023)

It is also important to look into the possibility of political or ideological effects on the issuing and running of CBDCs. Researchers should look into the possibility that governments will use CBDCs to push certain political or economic goals, which could lead to unequal sharing of resources, unfair credit allocation, or economic instability. It is important to look into what can be done to make sure that CBDCs are transparent, accountable, and not used for political reasons. (McDonald, 2021) Filling in this study gap would help us learn more about the risks and difficulties that come with the government manipulating CBDCs. It would help people understand the design principles, safety measures, and governing frameworks that are needed to reduce these risks and make sure that CBDCs keep fairness, openness, and democracy ideals in monetary systems. (Parizo, 2021)

3.1. Research Questions

Question 1: How can the risks of government influence be taken into account in the creation and use of CBDCs to protect privacy, support financial freedom, and stop power abuse?

Question 2: What kinds of control systems, legal frameworks, and openness measures are needed to keep central banks from being manipulated by the government and to keep their independence when issuing and running CBDCs?

These study questions the methods and systems that can be used to reduce the risks that could come from the government trying to control CBDCs. The first question is about the technology and social aspects that can protect user privacy, stop power abuse, and make sure that CBDCs aren't used to spy on people or control them. The second question looks at the control structures, legal frameworks, and openness measures that are needed to keep central banks' independence and keep political or ideological factors from changing how CBDCs are issued and how they are used.

The goals of both study questions are to learn more about how CBDCs can be made and used to reduce the risks of government abuse and make sure that monetary systems in the digital age are fair and honest.

3.2. Quantitative Research - Online Survey/Questionnaire

Demographic Information:

The survey collected responses from participants across various age groups, with the majority falling between the ages of 24-57. The gender distribution was predominantly male, and participants had a range of educational backgrounds, with a higher percentage holding bachelor's and master's degrees.

Consumer Adoption of CBDC:

A small portion of the participants were aware of Central Bank Digital Currency (CBDC) and had modest experience with digital currencies. When asked about their likelihood of using CBDC for everyday transactions, a majority expressed a negative inclination, with a combined percentage of very likely and somewhat likely responses totalling 70%. It's clear that there isn't enough confidence in government's intentions in issuing CBDC type of currencies.

Perception and Trust in CBDC:

Participants had a varied level of trust in CBDC as a secure form of digital payment, with the highest proportion indicating a high level of trust. Opinions on the potential of CBDC to replace traditional fiat currency were divided, with 40% expressing belief in its future dominance. Familiarity with the potential benefits of CBDC for the global economy was relatively low among participants. Additionally, a majority of participants stated that widespread acceptance of CBDC by mega businesses would positively influence their adoption.

Overall, the survey results suggest a moderate level of awareness and willingness among participants to embrace CBDC for everyday transactions. Factors such as security, convenience, and cost-effectiveness played a significant role in shaping consumer perceptions. However, further analysis and interpretation of the survey results would be required to draw more precise conclusions and understand the nuances of consumer attitudes towards CBDC adoption.

3.3. Answering the Research Questions

Question 1: How can the risks of government influence be taken into account in the creation and use of CBDCs to protect privacy, support financial freedom, and stop power abuse?

Robust Privacy Measures: To protect user privacy and data, use strong technology protections like encryption protocols, secure login methods, and anonymization techniques. CBDC systems should make privacy a top priority and make sure that governments can't track or watch individual activities without a good reason.

Transparent and Accountable Governance: Set up clear rules and standards for how CBDCs are governed to make sure that their operations are transparent and accountable. This means that policies, rules, and decision-making processes linked to the issuance, running, and control of CBDC must be made public. Independent reports and other forms of external control should be in place to keep the public's trust and stop people from abusing their power.

By taking these steps, CBDCs can be made and used to protect privacy, keep financial freedom, and stop people from abusing their power. It is important to set up a system that respects political values, openness, and the rule of law. This will make sure that CBDCs are used in a fair and reasonable way for the good of society.

Question 2: What kinds of control systems, legal frameworks, and openness measures are needed to keep central banks from being manipulated by the government and to keep their independence when issuing and running CBDCs?

International Standards and Collaborative Efforts: Push for international standards to be used and help central banks work together. Active involvement in international platforms and following best practices that are known around the world can help protect the freedom of central banks and keep the government from having too much power.

External Supervision and Auditing: Set up ways for the central bank's actions with CBDCs to be watched from the outside and independently audited. This can include putting in place independent audit panels or external accountants whose job it is to check if the central bank is following the rules, following good governance principles, and not being manipulated by the government.

4. Limitations and Future Research Direction

If the sample used in the poll was not accurate, the results may not be true for a larger group of people. Convenience sampling or focusing on a certain group of people could add bias and limit how widely the results can be used.

The poll is based on the information and views that people give about themselves. This information and opinions may be biased. Participants might give answers they think are socially acceptable or understand questions in their own way, which could change how accurate and reliable the results are.

The poll form might only have a few questions that focus on certain parts of how consumers see and feel about something. This narrow focus may not take into account all of the factors that affect buyer behaviour and views.

5. Conclusion

From the outline of the poll data, we can draw a number of important conclusions about how consumers see and accept Central Bank Digital Currency (CBDC).

First of all, the poll shows that a large number of people are familiar with CBDC and have used digital currencies before. This shows that most of the people who answered the survey knew what CBDC was and knew how it worked.

Second, people are more likely to use CBDC for everyday purchases if they like it. Less than half of the people who answered said they were likely to use CBDC. They pointed to benefits like lower transaction fees, faster processing times, ease of use, and better security. These things show that users think of CBDC as an easy and efficient way to pay.

Also, the subjects had different amounts of belief in CBDC as a safe way to pay online. Even though most people said they had a high level of trust, more research is needed to figure out what makes people trust or not trust something and to address any worries that might stop broad adoption.

The poll results also show that people have different ideas about whether or not CBDC will take over standard paper cash. Even though a large number of people think that CBDC will be the most important in the future, more research is needed to find out why they think this and what it means.

Also, the poll shows that how small businesses feel about CBDC could have a good effect on how customers feel about it. This shows that relationships and cooperation between central banks and small companies could be a key factor in getting more businesses to use CBDC.

Overall, the poll gives useful information about how and what people think about CBDC usage. But more analysis and interpretation of the results, as well as a larger and more diverse sample, would be helpful to get a full picture of what consumers want and to help build and use CBDC in a way that meets consumers' needs and expectations.

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