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The Political Economy of Central Bank Digital Currencies (CBDCs)

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ABSTRACT

The emergence of central bank digital currencies (CBDCs) has sparked significant debates extending beyond the technical and economic realms, raising critical questions about their potential impact on the broader political economy landscape. It is crucial to examine the political and geopolitical implications of this shift. This study explores the political economy considerations surrounding CBDCs, unravelling the intricate interplay between economic motivations, political agendas and power dynamics. The analysis begins by exploring domestic implications, investigating how adoption could influence the balance of power between central banks, governments, and the private sector. It examines the potential for CBDCs to enhance central bank autonomy, reshape fiscal and monetary policy coordination, and disrupt traditional financial intermediation models. The study then moves to the international political economy, assessing geopolitical ramifications. It evaluates the potential for CBDCs to challenge the hegemony of existing reserve currencies, thereby reshaping global financial landscapes. It also investigates the implications of cross-border interoperability on international trade, capital flows and economic interdependence. By exploring case studies of major economies, the study provides empirical insights into the considerations guiding development strategies. Finally, it examines the potential for international cooperation versus competition, highlighting how new alliances or tensions may emerge in the CBDC sphere.

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1. Introduction

Central bank digital currencies (hereafter CBDCs) are receiving much attention as a form of digital money issued and regulated by central banks. This emergence is largely driven by the decreasing use of physical cash in several advanced economies and by the rise of private digital currencies, such as cryptocurrencies and stablecoins (Auer and Böhme 2020; Bibi 2023, 2025, 2026). Bank accounts have of course been largely digitalized for decades. What is novel is the prospect of a central bank liability held in digital form

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directly by the public. Central banks are exploring whether CBDCs would be a means to maintain control over monetary policy in an increasingly digital financial landscape and to ensure public direct access to central bank money in digital form, a function that physical cash fulfills today but that could become impractical as cash usage declines (Barontini and Holden 2019). CBDCs have also been presented as a means of having possible implications for monetary sovereignty. Two distinct senses appear in the literature: domestically, by limiting private money creation by commercial banks; and internationally, by reducing dependence on foreign payment infrastructures such as SWIFT (Kuehnlenz, Orsi, and Kaltenbrunner 2023; Prasad 2021). Others have argued that poorly designed CBDCs could weaken rather than reinforce such sovereignty. Proponents also claim that CBDCs could improve payment efficiency and reduce transaction costs, promoting financial inclusion for underserved communities and developing nations (Cœuré and Loh 2018). At the domestic level, some authors argue that CBDCs could strengthen monetary policy transmission and allow more precise control over interest rates, including in contexts where the zero lower bound constrains conventional policy (Bordo and Levin 2017; Das et al. 2023; Engert and Fung 2017). These claims remain contested and are examined critically in Section Three. The potential for CBDCs to streamline international trade and cross-border payments, leading to cost savings and enhanced efficiency, is also a significant driver of interest (European Central Bank 2020). This development has the potential to significantly impact the global financial system and the hierarchy of reserve currencies (Prasad 2021). The increasing importance and attention to CBDCs is evidenced by the growing number of central banks actively engaged in CBDC initiatives. According to a BIS report (Illes, Kosse, and Wierds 2025), as of 2024 that proportion of central banks involved in some form of CBDC related activities was 91 per cent and, even if since 2025 the United States has not engaged in CBDC projects related to the CBDC (with President Trump banning the US CBDC via an executive order in January 2025, and subsequently signing the GENIUS Act of 2025, which establishes a regulatory framework for privately issued dollar-denominated stablecoins (White House 2025), a move widely viewed as encouraging private digital currency in ways that have brought financial benefits to Trump and his associates), the countries which have continued exploring CBDCs remained the great majority. The sections that follow treat these arguments as positions advanced in the literature, not as established findings.

The introduction of CBDCs raises concerns and challenges related to privacy, cybersecurity, financial stability, and disruption to existing banking systems (Agur, Ari, and Dell'Ariccia 2022; Keister and Sanches 2023), which require a robust regulatory framework. As societies become increasingly digital, CBDCs are poised to influence the future of what the forms which money takes and the global financial architecture, necessitating a comprehensive understanding of both their opportunities and challenges. Exploring the political economy aspects of CBDCs is important for several reasons. Firstly, at the domestic level, CBDCs have the potential to reshape the balance of power between central banks, governments, and the private sector (Agur, Ari, and Dell'Ariccia 2022; Bordo and Levin 2017; Niepelt 2020). Their implementation would alter the traditional roles and relationships within the financial system, impacting central bank autonomy, fiscal-monetary policy coordination, and the dynamics of financial intermediation (Keister and Sanches 2023). Secondly, at the international level, CBDCs could challenge the dominance of existing reserve currencies and influence the global

financial order (Cœuré and Loh 2018; Kuehnlenz, Orsi, and Kaltenbrunner 2023; Prasad 2021). Their adoption and cross-border interoperability could reshape international trade, capital flows, and economic interdependence (Bibi 2025, 2026). Thirdly, introducing CBDCs necessitates adapting legal and regulatory frameworks to address issues such as privacy, data governance, consumer protection, and financial stability (Auer, Haene, and Holden 2021a). Finally, CBDCs raise the need for international cooperation and governance mechanisms to facilitate cross-border interoperability, address regulatory challenges, and mitigate potential risks (Cœuré and Loh 2018).

Motivations for CBDC adoption are diverse, encompassing economic, political, and strategic aims. Advanced economies seek to maintain monetary sovereignty amidst declining cash usage and the rise of private digital currencies (Auer and Böhme 2020). CBDCs offer a public digital money form, complementing or replacing cash and ensuring central bank relevance (BIS 2020a). Emerging markets and developing economies (hereafter EMDEs) are attracted by the potential for enhanced payment efficiency, reduced costs, and greater financial inclusion (BIS 2020b). Geopolitically, CBDCs are viewed as strategic instruments. Nations aiming to challenge the existing financial hierarchy see CBDCs as a means to lessen reliance on dominant reserve currencies and infrastructures (Liu and Papa 2022). China's Digital Yuan, for example, is widely seen as a move to internationalize the Renminbi and reduce dollar influence (Chorzempa 2021). BRICS nations¹ and regional blocs exploring CBDCs signal a broader trend toward financial autonomy and a potentially multipolar monetary system (Bibi 2026; Liu and Papa 2022). Drawing on endogenous money theory, monetary power theory, and currency competition theory, the paper offers a nuanced analysis of CBDC impacts on domestic and international power structures.

2. Theoretical Frameworks and Analytical Approaches

The growing literature on CBDCs reflects the rapid evolution of monetary technology and its potential to fundamentally reshape the financial system. While the focus of earlier studies was on the technical viability and economic implications of CBDCs, a more nuanced and interdisciplinary body of literature is now emerging, exploring the complex political economy dimensions of this transformative technology. This expanded literature now covers not only the operational and policy dimensions of CBDCs but also their broader political economy implications.

The primary objective of this paper is to examine how CBDCs may alter the relationships among central banks, commercial banks, and the broader non-financial sector. A second and deeper question concerns whose interests these institutional arrangements serve, and why central banks across such diverse jurisdictions have moved in broadly the same direction at the same time. Prior waves of central bank reform, including the adoption of formal independence and the coordinated responses during the COVID-19 crisis, unfolded in similarly synchronized fashion. Understanding why this pattern recurs is as relevant to the CBDC debate as it was to those earlier episodes. This paper touches on these foundations but does not resolve them. They remain a productive line for further research. What this paper addresses is the more tractable question of

¹Brazil, Russia, India, China and South Africa.

how different CBDC arrangements redistribute institutional power and alter the conduct of monetary and fiscal policy. This paper draws on three analytical frameworks and these are now briefly discussed.

2.1. Endogenous Money Theory (EMT)

One central theoretical framework is the endogenous money theory (EMT), which posits that money is primarily created within the banking system through lending activities and by central banks to finance government expenditure, rather than the perspective of ‘helicopter money’ dropped into the economy. Bibi and Canelli (2023, 2025) argue that the introduction of CBDCs can be evaluated within the EMT framework, highlighting the active role commercial banks play in money creation. A shift toward CBDC issuance could significantly alter the traditional relationships between central banks, commercial banks, and non-financial sectors. In a system where digital central bank liabilities coexist with bank-created money, the dynamics of credit creation, the structure of balance sheets, and even the conduct of monetary policy may be transformed (Bibi and Canelli 2023, 2025; Bibi, Bassi, and Temperini 2026; Qanas and Sawyer 2026). This framework draws on a substantial post-Keynesian and circuitist tradition, including foundational contributions by Kaldor (1970), Moore (1988), and Lavoie (1992), which established money endogeneity as a structural feature of credit economies rather than a temporary deviation. The authors study a direct issuance retail framework — in which CBDC is directly issued by the central bank to the public (in addition to reserves provided to commercial banks by central bank) and they underline how the CBDC architecture and its final structure would determine the dynamics in a monetary economy.

Huber (2023) further reinforces this perspective by arguing that CBDCs may facilitate a reassertion of state sovereignty over money, particularly in an era when digital financial services increasingly blur the boundaries between public and private money creation. These discussions are complemented by macroeconomic analyses such as those by Barrdear and Kumhof (2016) who explored the balance sheet implications of CBDC issuance on the stability of the financial system. Their work suggests that the introduction of a CBDC could have contractionary and expansionary effects on bank lending depending on the design features of the digital currency, particularly when it comes to its impact on deposit-taking and liquidity management. Such studies highlight that the monetary policy implications of CBDCs are intricately linked to their interaction with the existing banking system.

2.2. Monetary Power Theory and Currency Hierarchy

The currency hierarchy approach affirms that the international monetary system involves a hierarchical relationship between national currencies. The US dollar is at the top of the hierarchy and dominates international transactions with an estimate of accounting for 57 per cent of foreign reserve holdings, 54 per cent of export invoicing and 88 per cent of foreign exchange transactions (Atlantic Council 2025). A few other currencies of advanced economies (euro, yen, sterling, renminbi) are widely used in international transactions. The subordinate position of EMDEs in the international monetary system ‘has detrimental implications ranging from heightened external vulnerability,

structurally high interest rates, and constraints on macroeconomic policymaking’ (Kuehnlenz, Orsi, and Kaltenbrunner 2023, p. 3).

The hierarchical structure of the international monetary system ‘is an institutional arrangement organized around a national currency that becomes the key currency for better performing the three functions of money on the international scale: means of payment, unit of account (and denomination of contracts), and store of value (international reserve currency).’ (de Paula, Fritz, and Prates 2017, p. 187). Those authors continue to say that ‘currencies are hierarchically positioned according to their degree of liquidity, which relates to their ability to perform the three functions of money internationally’. The U.S. dollar has the highest degree of liquidity, placing it at the top of hierarchy. Other major currencies are in intermediate positions with a smaller degree of liquidity than the dollar. The currencies issued by peripheral emerging countries are nonliquid currencies. The currency hierarchy framework has roots in structuralist and dependency traditions as well as in post-Keynesian international monetary economics, including work on original sin and peripheral finance (Eichengreen and Hausmann 1999) and more recent contributions on peripheral currency internationalization (Kaltenbrunner 2015; Orsi, Kaltenbrunner, and Dymksi 2025).

Cohen (2018) argues that currency dominance translates directly into geopolitical power. Benney and Cohen (2022) note an indirect route whereby the dominant currency enhances the usefulness of other policy weapons. ‘Widespread foreign acceptance of a currency enables the issuer to finance expenditures abroad with its own money, thus removing a payments constraint on government spending around the world.’ (Benney and Cohen 2022, p. 444).

Similarly, Bibi (2026) argues that the hegemonic status of the U.S. dollar has been strategically underpinned by its enforced use in global oil transactions since 1974 — a policy rooted not only in economic dynamics but also in geopolitical and military arrangements and leverages (see Section 4.1). Drawing on recently declassified material, Bibi (2026) documents a 1974 bilateral agreement between the United States and Saudi Arabia in which oil pricing in USD was formalized and petrodollar surpluses were directed into U.S. financial markets. The financial diplomacy underpinning such arrangements is also traceable in Chernow’s (1990) account of the House of Morgan. It should be noted, however, that the three macroeconomic consequences Bibi identifies, namely sustained dollar demand, persistent U.S. current account deficits, and compulsory dollar reserve accumulation by developing economies, describe a system of global monetary coordination with much deeper historical roots than any single agreement. Monetary standards and their enforcement have been a feature of international relations for centuries. The 1974 arrangement reinforced an existing structure rather than creating one from scratch. Bibi (2026) contends that this agreement had three critical macroeconomic and geopolitical consequences:

1. It upheld the international demand for USD, thereby sustaining its (over)valuation relative to other currencies, particularly in countries compelled to transact in dollars for essential oil and commodities imports.
2. It enabled the United States to run persistent current account deficits, with the assurance that oil-exporting nations — led by the OPEC dominant country Saudi Arabia —

would recycle their surplus revenues into the U.S. financial account, thereby stabilizing the U.S. balance of payments.

3. It reinforced the global centrality of the USD in the international arena, compelling emerging and developing economies to accumulate USD reserves not only for trade purposes but also as a buffer against financial instability, often under implicit recognition of U.S. military and strategic primacy.

The Monetary power theory holds that control over international currencies confers substantial economic and political influence.

2.3. Currency Competition Theory

Currency competition theory examines how different currencies compete for adoption and influence within and across borders, with implications for monetary policy and geopolitical power. It posits that CBDCs could spark a new era of competitive monetary policy among nations. This perspective builds on the work of von Hayek (1976) and further developed by Rogoff (2001) and King (2004). According to Demertzis and Lipsky (2023), the introduction of CBDCs may not only serve domestic policy objectives but also act as a strategic tool in the international arena, prompting nations to vie for global adoption of their digital currencies. In practice, this competition is likely to involve only a limited set of currencies with established international standing, notably the renminbi, yen, and euro. In turn, this competition could have significant implications for global financial governance, potentially shifting the balance of monetary power away from traditional hegemonic currencies and institutions.

In that direction, BRICS+ countries have been playing a significant role in the de-dollarization process, through different mechanisms, challenging the USD as a unique international reserve currency. The study of a cross-border CBDC could play a significant role in that respect, and the conceptualization of BRICS PAY as a system for retail payments and transactions among BRICS member countries represented an example of key infrastructure supporting a potential non-dollar global financial system (Liu and Papa 2022).

Before proceeding, it is worth noting that CBDC is not a single instrument but a family of designs with different implications. The main distinction is between wholesale CBDCs, restricted to financial institutions for interbank settlement, and retail CBDCs, accessible to households and firms. Within the retail category, direct models have the central bank issue and administer CBDC to end-users; indirect models use commercial banks or other intermediaries as distributors; hybrid arrangements combine both (Bibi and Canelli 2023, 2025; Illes, Kosse, and Wierds 2025; Malherbe and Montalban 2026). The domestic analysis in Section Three concerns primarily the retail direct-issuance framework. The international analysis in Section Four concerns wholesale and cross-border interoperability frameworks, since these are the instruments through which currency competition and de-dollarisation dynamics operate. Where the argument depends on design, this is noted.

Bibi (2026) underlines that beyond China establishing the first e-yuan purchase of oil in 2023, in the same year Saudi Arabia, Iran, as well as the UAE were invited together with other oil-endowed countries to join the BRICS+ group. Furthermore, he underlines how in 2024 — at the 50th year of that secret agreement — despite Saudi Arabia having

the possibility to renew the agreement with the United States, in a bold and historic geopolitical movement, Saudi Arabia decided not to renew it.

While highlighting the increasing relevance of BRICS+ in the global economy (when measured in purchasing power parity terms, BRICS+ country account for 44 per cent of global GDP and 56 per cent of global population), it is important to emphasize that the BRICS+ bloc has increasingly concentrated its efforts on enhancing coordination among member states in both economic and diplomatic spheres, establishing new financial institutions, and reducing reliance on the USD (Council on Foreign Relations 2025).

Over the years, not only China, but also Russia and Brazil have been increasingly outspoken against the dominance of the USD (Financial Times 2025). In July 2025, after the increasing threat and implementation of US trade sanctions, President Lula reinforced that message saying ‘The world needs to find a way that our trade relations don’t have to pass through the dollar’ (Reuters 2025).

At the end of July 2025, the USA President Trump reiterated more strongly his view against the geopolitical project of a currency competitor of the USD by BRICS+ (Economics Times 2025; Hernandez 2025):

We’re negotiating right now, and it’s also BRICS. You know, they have BRICS, which is basically a group of countries that are anti the United States, and India is a member of that, if you can believe it.

It’s an attack on the dollar, and we’re not going to let anybody attack the dollar. So, it’s partially BRICS, and it’s partially the trade. This trade situation - it’s the deficit. We had a tremendous deficit. (President Trump, 30 July 2025)

3. CBDC and Economic Policy: Considerations at the Domestic Level

Money is generally an accepted means of payment (denominated in terms of the unit of account). The form which money takes varies over time and between countries. In the existing arrangements for industrialized (and other) economies, money takes two main forms: central bank money in the form of reserves held by commercial banks at the central bank and cash in circulation (M0; noting that in the United States, Federal Reserve notes are formally liabilities of the Federal Reserve but constitute Treasury debt, a specificity that does not affect the substantive argument here),² and deposits in accounts held by the public with commercial banks which are readily transferable between individuals (accounts generally labeled current accounts, checking accounts) (M1).

Government expenditure is (initially) financed through the issue of central bank money,³ and central bank money is withdrawn from the private sector through the payment of taxes and the net purchase of government bonds. The difference between the issue of central bank money and its return over a period of time would be the net increase in central bank money. Commercial banks extend loans to the public, thereby creating bank deposits. The commercial banks will hold (by choice or compulsory reasons) central bank reserves. The establishment of a CBDC would be an addition to

²Though in the USA, cash and bank notes are issued by Treasury rather than Federal Reserve.

³In the circuitist sense, ‘initially financed’ means government spending is first carried out by creating central bank money (high-powered money) that injects purchasing power into the economy, while the ultimate financing (through taxes or bond sales) occurs later in the circuit.

the ways in which central banks can introduce central bank money into the economy, and an addition to the route through which government expenditure is (initially) financed. The pre-CBDC arrangements for financing government expenditure can be summarized as follows:

Central Bank: Liability: Issue of reserves

Commercial bank: Asset: Reserves with Central Bank; Liability: Public's Deposit

Public: Asset: Current Account Deposit

With CBDC, the public can withdraw cash from commercial banks but also obtain central bank (digital) money directly from the Central Bank, and thereby the composition of the issue of central bank money would change. Hence, in effect, with CBDC the commercial banks are bypassed, with the Central Bank issuing CBDC (liability) and the public holding CBDC (in digital wallet).

The introduction of CBDCs has the potential to fundamentally alter the balance of power within the domestic financial landscape, impacting the intricate relationships between central banks, governments, and the private sector, particularly commercial banks and payment service providers.

3.1. CBDC and Fiscal Policy

The ability of the central bank to issue (create) money is closely linked with government expenditure. Central bank money is issued to enable government expenditure to occur and that the central bank is required to ensure that government expenditure can occur. A CBDC system would, by the inclusion of a digital currency, change the precise form by which government expenditure is (initially) financed. Those (e.g., Bordo and Levin 2017) who suggest that a CBDC could enable central banks to deploy 'helicopter money' directly into the economy are misleading — CBDC would indeed be transferred directly to the public (rather than indirectly via the commercial banks) but would be at the direction of the government and would correspond to government expenditure. Similarly, the allocation of interest rate decisions to the central bank with the inflation objective would be little changed, though the transmission mechanism may change and the effectiveness or otherwise of interest rates on inflation changed: see further discussion below.

While the constitutional allocation of interest rate decisions to central banks and the specification of inflation objectives by governments remain unchanged with CBDCs, the practical boundaries between fiscal and monetary operations may become less distinct. The direct channel from central bank to citizens via CBDCs could blur traditional distinctions, particularly if governments pressure central banks to use CBDC infrastructure for fiscal stimulus or social policy purposes beyond conventional monetary policy. This raises questions about institutional authority and the operational independence of CBDC infrastructure.

3.2. CBDC and Monetary Policy

Central banks operate within a contested political economy context. While formally government-owned institutions, central banks navigate complex relationships with both

government and the financial sector, and as Qanas and Sawyer (2024) discuss, may be subservient to the interests of the financial sector. The introduction of CBDCs occurs within this terrain, where the design and operation of digital currency infrastructure will reflect the relative power of these different interests rather than representing a neutral technical innovation.

The relationship between CBDCs and central bank autonomy and independence presents both potential enhancements and challenges to the established role of central banks. On one hand, CBDCs offer central banks a new tool to enhance monetary policy implementation and transmission, potentially strengthening their operational autonomy (Bordo and Levin 2017; Engert and Fung 2017). By providing a direct digital interface with households and businesses, CBDCs can streamline the transmission of monetary policy signals, bypassing traditional intermediaries and reducing reliance on the commercial banking system (Agur, Ari, and Dell’Ariccia 2022; Niepelt 2020).

Committee on Payments and Market Infrastructures (2018) argues that CBDCs would have a limited impact on the implementation of monetary policy. ‘While a central bank would need to accommodate demand for CBDC, flows into CBDC would drain the amount of reserves in the system in exactly the same way as flows into banknotes and central bank deposits held by non-monetary counterparties (e.g., the treasury, foreign central banks or financial market infrastructures (FMIs)) currently do. In a corridor system, all flows in and out of CBDC need to be compensated through liquidity-injecting and liquidity-absorbing open market operations (OMOs) to keep the desired amount of reserves. In a floor system, only when CBDC inflows drained reserves to the point where they became scarce would the central bank need to undertake additional liquidity-injecting OMOs’ (Committee on Payments and Market Infrastructures 2018, p. 13).

The more specific claim about improved interest rate control concerns the zero lower bound. Under current arrangements, households and firms can sidestep negative deposit rates by holding physical cash, which carries a zero nominal return. A retail CBDC that pays or charges interest would allow the central bank to apply rates on those holdings without interruption at zero, closing the substitution channel that cash currently provides. The possibility has been raised in several CBDC design proposals (Bordo and Levin 2017). Whether it is desirable is a separate matter. It would extend monetary policy reach directly into household balance sheets and has attracted serious normative criticism. The point here is to clarify the mechanism.

3.3. CBDC and Banking System

Beyond the central bank-government nexus, CBDCs would have implications for the private sector, particularly commercial banks and payment service providers, potentially disrupting traditional financial intermediation models and reshaping the competitive landscape (Keister and Sanches 2023). Retail CBDCs, offering a direct central bank liability to households and businesses, would present an attractive alternative to commercial bank deposits for certain segments of the population, particularly those seeking safer and more liquid forms of digital money. This shift in deposit preferences could lead to bank disintermediation, potentially impacting bank funding costs, profitability, and the overall structure of the banking sector (Cœuré and Loh 2018). Concerns about public money displacing commercial bank deposits are not new. They were central to

the Chicago Plan proposals of the 1930s (Fisher 1935; Simons 1936) and resurface in narrow banking debates (Cochrane 2014). The CBDC literature is entering a long-standing controversy, not opening a new one. However, CBDCs could also foster innovation and competition in the payment service industry by providing a platform for new payment solutions and business models, potentially benefiting consumers and promoting greater efficiency in the financial sector (Bank of England 2020).

Cukierman (2019) explores the welfare and political economy aspects of CBDC issuance. His analysis suggests that introducing a CBDC could shift the locus of monetary control from commercial banks to the state, thereby altering the traditional balance between public and private money creation. According to him, such a shift has the potential to enhance economic welfare if it leads to a more stable and predictable monetary environment. However, he also warns that the design of the CBDC must be carefully calibrated to avoid unintended consequences such as bank disintermediation or a reduction in the efficiency of credit allocation.

Bibi and Canelli (2023, 2025) argue that CBDC could disrupt the financial system and cause financial disintermediation of commercial banks, especially in an interest-bearing CBDC setup since, in that framework, CBDC would become a direct competitor of commercial banks deposits and, at the same time, having a higher hierarchy in a national monetary spectrum.

The international dimension of CBDCs cannot be overlooked. As countries like China, the European Union, and others advance their CBDC projects, there is growing interest over the potential for CBDCs to reshape the global monetary order. Kuehnlenz, Orsi, and Kaltenbrunner (2023) suggest that while CBDCs may facilitate a more decentralized international payment system, they may also intensify competition among nations for reserve currency status. They have the potential to decentralize the global payment system by reducing reliance on correspondent banking networks and the dominance of a few reserve currencies, thereby enabling more direct and diversified cross-border settlements. This shift does not presuppose blockchain use, but rather hinges on interoperability arrangements among central banks, with distributed ledger technology serving only as one possible technical architecture. This competition, in turn, raises important questions about the future role of the U.S. dollar and other established currencies in international trade.

3.4. CBDC, Institutional Power, and Private Sector Dynamics

Beyond the specific impacts on fiscal policy, monetary policy, and banking, CBDCs raise broader questions about institutional power and authority within financial systems. The introduction of CBDCs affects the distribution of authority over payment infrastructure, data, and the architecture of money itself across three dimensions.

CBDCs also raise concerns about state control over payment access. These concerns are not confined to formally authoritarian regimes. During Kazakhstan's 2022 'Bloody January' protests, internet suspension effectively blocked access to digital payment systems (Bibi and Yerzhan 2025). In 2022, the Canadian government froze bank accounts of participants in the Freedom Convoy protests. These are structurally similar episodes: in both cases, a government used control over financial infrastructure to restrict access for a politically targeted group. The relevant variable is not regime type but the degree

of state control over payment systems. A CBDC that centralizes this control further raises civil liberties concerns that apply in democratic and non-democratic settings alike. If a retail CBDC were to replace cash entirely, the absence of any non-digital alternative would make such restrictions considerably harder to circumvent. Payment infrastructure have direct implications for civil liberties and political freedoms.

First, CBDCs strengthen central bank authority relative to private fintech companies and payment platforms that have increasingly monopolized payment infrastructure. As Bibi and Yerzhan (2025, 2026) demonstrate in the Kazakhstan case, the quasi-monopolistic control of Kaspi over digital payments, with approximately 80 per cent market share of e-commerce platforms, ‘distorts monetary policy by shifting financial activity outside traditional channels.’ In this context, CBDC is conceptualized as ‘more than a technological upgrade; it is a strategic instrument to reassert public control over monetary transmission and financial infrastructure.’ The risk of financial extraction by foreign shareholders in digital platforms makes CBDCs a potential means to ‘restore public leverage over money, payments, and credit, shielding the national economy from excessive foreign rent extraction’ (Bibi and Yerzhan 2026).

Second, CBDCs alter the institutional relationship between central banks and commercial banks. While Section Three(iv) addressed the banking system impacts, it is important to recognize that commercial banks have traditionally mediated between central banks and the public. CBDCs create a direct channel, potentially reducing banks’ gatekeeping role in monetary transmission and challenging their privileged position within the financial architecture.

Third, for emerging and developing economies, CBDCs offer a means to reclaim monetary sovereignty from foreign-owned digital payment platforms that extract rents and control financial data. This concerns not central bank ‘independence’ in the traditional monetary policy sense, but rather financial sovereignty and institutional authority in an era of digital platform capitalism.

These power dynamics are fundamentally political economy questions about who controls the infrastructure of money, and whose interests that infrastructure serves, rather than technical questions about monetary policy effectiveness or efficiency gains.

4. International Political Economy Considerations

CBDCs are poised to reshape the intricate landscape of the international political economy, potentially altering the global financial architecture and redistributing economic and political power among nations. This section explores the multifaceted international political economy considerations surrounding CBDCs, focusing on their geopolitical ramifications, the strategic motivations driving CBDC initiatives in major economies, and the potential for both cooperation and competition in the emerging global digital currency arena. A central theme of this analysis is the potential for CBDCs to contribute to a gradual shift away from the long-established dominance of the US dollar and the emergence of a more multipolar international monetary system.

Complementing Cukierman’s work, Pfister (2024) provides an in-depth discussion of the political economy of CBDCs. Pfister argues that decisions surrounding CBDC adoption are deeply embedded in broader geopolitical dynamics and domestic political pressures. He contends that the drive to issue a CBDC is often motivated by a desire to

strengthen monetary sovereignty and assert national control over the financial system in the face of global economic shifts. Similarly, the IMF also argues that ‘the CBDC could also help maintain monetary sovereignty and sustain the demand for central bank money. With greater monetary autonomy, monetary policy transmission will be stronger through all channels’ (Bibi 2025b; Das et al. 2023). This perspective is particularly relevant in light of recent debates over de-dollarization and the quest for alternative international reserve currencies. Pfister (2024) emphasizes that CBDCs are not merely technical innovations; they are political instruments that can reflect and reinforce a nation’s strategic objectives.

4.1. Geopolitical Implications of CBDC Adoption

The international monetary system, currently characterized by a hierarchical structure dominated by a few key reserve currencies, most notably the US dollar, is facing increasing pressures and potential for disruption (de Souza Lima Orsi 2019). The long-held dominance of the US dollar, underpinned by its network effects, deep and liquid financial markets, and the geopolitical influence of the United States, has been a defining feature of the global financial order for decades (Gopinath and Itskhoki 2021). However, the rise of alternative economic powers, coupled with technological advancements and growing geopolitical tensions, is creating an environment where the established currency hierarchy is being challenged, and CBDCs are emerging as a potential catalyst for a more multipolar system (Kuehnlenz, Orsi, and Kaltenbrunner 2023).

Regional blocs, particularly the BRICS nations, are spearheading initiatives aimed at reducing their reliance on US dollar-based systems. Furthermore, recently BRICS enlarged from its original 4 members in 2006 arriving to 11 members within the BRICS+ framework in 2025 (Bibi 2025b; BRICS 2025). The development of BRICS Pay, a unified cross-border payment system, is designed to facilitate transactions in local currencies, thereby bypassing the US dollar-dominated international financial infrastructures (Liu and Papa 2022). Such initiatives are not merely technical upgrades but are deeply strategic moves intended to enhance monetary sovereignty and mitigate the vulnerabilities associated with an overdependence on the US dollar. China’s efforts with its Digital Yuan provide a similar example of this trend. By promoting a state-backed digital currency, China seeks to modernize its financial infrastructure and assert a more influential role in international trade, ultimately challenging the status quo of US dollar hegemony (Kshetri 2023). Bibi (2025b) argues that the recently unveiled US-Saudi Arabia secret agreement signed in 1974 had a crucial aspect in shaping the current monetary system. In particular, the United States promised military defence to Saudi Arabia against the obligation by Saudi Arabia of trading oil exclusively in USD and in ploughing the dollars obtained into the financial account of the United States. However, new steps in the international monetary system are challenging that structural position, such as the purchase by China of 1 million barrels of crude oil from the UAE in 2023, paying for that trade in e-CNY (Chinese CBDC) that way marking a strong geopolitical change in the USD-oil perpetual hegemonic tie (Bibi 2025b).

These steps, along with similar initiatives pursued by other BRICS countries, reflect a broader ambition among emerging economies to forge a more balanced and multipolar

international monetary system. CBDCs, as a novel form of digital money issued and controlled by central banks, possess the potential to alter the dynamics of currency competition and challenge the dominance of existing reserve currencies (Demertzis and Lipsky 2023). As highlighted by Arslanalp, Eichengreen, and Simpson-Bell (2022), the ‘stealth erosion of dollar dominance’ is already underway, driven by active diversification by central banks and the rise of non-traditional reserve currencies. CBDCs could further accelerate this trend by providing nations with a technologically advanced and potentially more attractive alternative to the US dollar for international trade, finance, and reserve holdings (Prasad 2021). Despite these promising developments, significant challenges remain. Deep-rooted structural factors such as the ingrained trust in the US financial system, the dollar’s central role in trade invoicing, and its liquidity advantages pose formidable obstacles to a rapid de-dollarisation process (Gopinath and Itskhoki 2021). Consequently, while the groundwork for de-dollarisation is clearly being laid through technological innovation and regional cooperation, a wholesale displacement of the US dollar is unlikely in the short term. Instead, a gradual rebalancing of global monetary power appears more plausible, one that would result in a diversified international system with multiple reserve currencies.

4.2. Strategic Motivations of Major Economies in CBDC Development

The strategic adoption and promotion of CBDCs by major economies can be interpreted through the lens of monetary power theory, which posits that a nation’s capacity to influence the international monetary system is a significant source of its economic and political leverage (Andrews 2006; Cohen 2015). Countries that strategically embrace CBDCs and foster their cross-border interoperability could gain a competitive advantage in the global financial landscape, potentially enhancing their financial influence and attracting greater demand for their digital currencies (BIS 2021). China’s Digital Yuan is widely seen as a strategic initiative to promote the internationalization of the Renminbi and reduce its dependence on the US dollar-dominated financial system (Chorzempa 2021). As Liu and Papa (2022) argue, the development of BRICS Pay further exemplifies the strategic use of emerging technologies to create alternative financial infrastructures and reduce reliance on the US dollar and US-centric payment networks.

CBDC development in major economies, particularly China, is deeply rooted in the desire to circumvent the inherent costs and vulnerabilities of the prevailing USD-dominated international monetary framework. Under the current system, for essential commodity imports, such as oil, a multi-stage currency conversion has often been necessitated, compelling a transition from the national currency (e.g., Yuan) to the US Dollar, and subsequently to the exporter’s currency. This layered process introduces additional transaction costs, exchange rate volatility exposure, and dependence on foreign financial infrastructure, which cumulatively result in a higher effective price for critical imports. Such a premium on vital resources, in turn, could well translate into amplified cost-push inflationary pressures on domestic production, also ultimately eroding international competitiveness.

Concurrently, and as a complementary geopolitical manoeuvre, China has vigorously championed the Belt and Road Initiative (BRI). This massive infrastructure and trade development project works in parallel with digital currency efforts to foster direct

bilateral trade, increase the use of the Renminbi, and fundamentally restructure global supply chains to secure long-run economic and strategic autonomy from the traditional, Western-centric financial order.

The transition to a multipolar CBDC-based international monetary system is complex and uncertain. Eichengreen (2021) highlights that entrenched network effects and institutional advantages make it unlikely that CBDCs will readily displace the U.S. dollar, which remains dominant in trade invoicing, reserve holdings, and cross-border finance (Kuehnlenz, Orsi, and Kaltenbrunner 2023). Furthermore, simultaneous CBDC developments across countries risk creating a fragmented and unstable system if interoperability and regulatory challenges are not resolved (Cœuré and Cunliffe 2020).

4.3. CBDC Efforts by Regional Blocs and Other Countries

Beyond these major economies, other nations and regional blocs are also strategically exploring CBDC initiatives, often driven by region-specific motivations and geopolitical considerations. As of 2024, 19 countries in the Middle East and Central Asia are actively exploring the adoption of CBDCs to promote financial inclusion and improve the efficiency of cross-border payment systems (Bouza et al. 2024).

The Eastern Caribbean Central Bank's DCash, for instance, aims to enhance financial inclusion and payment system efficiency within the Eastern Caribbean Currency Union, while also fostering greater regional integration and reducing reliance on correspondent banking relationships (Eastern Caribbean Central Bank 2021). Similarly, Nigeria's eNaira is driven by a desire to promote financial inclusion, reduce the costs of cash transactions, and improve the efficiency of its payment system, while also potentially enhancing its monetary policy effectiveness and fostering greater financial independence (Central Bank of Nigeria 2021). Further illustrating this trend, the Bahamas launched the Sand Dollar, the first fully operational CBDC, in 2020, primarily to improve financial access for underserved populations across its archipelago and modernize its payment infrastructure (Central Bank of The Bahamas 2020). In Uruguay, a pilot CBDC, the e-Peso, was tested in 2017, with a key motivation being the exploration of cost reduction and efficiency gains in retail payments (Banco Central del Uruguay 2017). Looking beyond the Americas and Africa, Sweden's Riksbank has been actively researching the e-krona, driven by the rapidly declining use of cash in the country and the need to ensure public access to central bank money in a digital age (Sveriges Riksbank 2023).

Even in regions with advanced financial systems, like Australia, the Reserve Bank of Australia has been exploring a CBDC for various use cases, including enhancing payment system efficiency, supporting innovation, and preparing for potential future monetary policy implementation (Reserve Bank of Australia 2024).

4.4. International Cooperation and Competition in the CBDC Landscape

The emergence of CBDCs is fostering a complex interplay of international cooperation and competition, as nations grapple with the challenges and opportunities presented by this transformative technology. On one hand, there is a growing recognition of the need for international cooperation to ensure CBDC interoperability, address cross-border payment challenges, and mitigate potential systemic risks (Cœuré and Cunliffe 2020).

International organizations such as the BIS and the IMF are playing a crucial role in fostering dialogue and coordination among central banks and policymakers, promoting the development of shared standards and protocols for CBDC design and implementation (Cœuré and Cunliffe 2020). Initiatives such as Project Agorá, a cross-border wholesale CBDC project launched by the BIS Innovation Hub, exemplify the growing momentum towards international cooperation in the CBDC space (Di Iorio, Kosse, and Mattei 2024).

However, the pursuit of CBDCs is also inherently intertwined with geopolitical competition, as nations vie for technological leadership, financial influence, and the potential first-mover advantages associated with early CBDC adoption (Eichengreen 2021). The strategic motivations driving (or contrasting) CBDC initiatives in major economies, particularly China, the United States (currently contrary), and the European Union, reflect a competitive dynamic, as each region seeks to leverage CBDCs to advance its own economic and geopolitical interests (Prasad 2021). This competitive landscape could lead to the emergence of competing CBDC systems and regional blocs, potentially fragmenting the international monetary system and creating new sources of geopolitical tension (WEF 2025). The lack of a global governance framework for CBDCs further exacerbates this competitive dynamic, raising concerns about regulatory arbitrage, cross-border illicit flows, and the potential for CBDCs to be used as instruments of geopolitical coercion or rivalry (Sewall and Luo 2022).

Navigating this complex interplay of cooperation and competition will be crucial for ensuring a stable and resilient international monetary system in the CBDC era. While international cooperation is essential to address shared challenges and promote interoperability, the inherent competitive dynamics of CBDC adoption necessitate careful consideration of geopolitical implications and the potential for both collaboration and rivalry in the emerging global digital currency landscape.

5. Concluding Comments

The ultimate emergence of CBDCs is not merely a technical upgrade to payment systems but represents a fundamental and transformative shift in the political economy of money, driven by a complex and intricate interplay of economic necessities, political agendas, and strategic motivations. This paper has argued that understanding CBDCs necessitates a move beyond purely technical discussions to delve into their profound implications for both domestic and international power structures.

Domestically, while CBDCs offer central banks significantly enhanced tools for monetary policy implementation, improving policy transmission and increasing control over the money supply, their design must rigorously address the challenge of safeguarding autonomy. Clear legal and operational frameworks are essential to prevent the temptation for governments to leverage these direct channels for fiscal purposes, thus avoiding the blurring of lines that could lead to fiscal dominance. Concurrently, the introduction of CBDCs poses a significant challenge to the current balance of power within the financial system while maintaining financial stability, specifically regarding the potential for disintermediation of commercial bank deposits, which risks altering their funding models. Therefore, a careful design must balance the public policy objectives of increasing efficiency and effectiveness potentially provided by this new monetary tool with the financial stability at the domestic level.

Internationally, the ramifications are particularly profound: CBDCs are emerging as powerful geopolitical instruments, strategically leveraged to challenge the prevailing USD-centric global monetary order and promote a more multipolar monetary system, with initiatives like the Digital Yuan serving as a prime example of a nation seeking enhanced financial influence and autonomy. However, the path to a harmonious global CBDC ecosystem is fraught with the challenges of system fragmentation and competition; thus, achieving the full benefits of CBDCs is contingent upon essential international cooperation on common standards, interoperability, and regulatory harmonization to mitigate risks and prevent the exacerbation of existing geopolitical tensions.

The choices made today concerning CBDC design and governance will therefore determine whether these digital currencies enhance global stability and efficiency or introduce new sources of friction.

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