

SESSION 5.
MACRO-FINANCIAL IMPLICATIONS OF THE CENTRAL BANK DIGITAL CURRENCIES ON CROSS-BORDER PAYMENTS AS WELL AS ON THE INTERNATIONAL MONETARY AND FINANCIAL SYSTEM

Knowledge sponsor: World Bank

The last session began with opening remarks by **Ms. Mara K. Warwick** | Country Director for China and Mongolia and Director for Korea, WB. She highlighted the significance of central bank digital currencies (CBDCs) as one of the most discussed and intriguing topics in central banking and economics today. In her remarks, she presented three key points:

1. Digital payments have revolutionized daily life and business, and CBDCs could represent the next chapter in this revolution.
2. The cross-border use of CBDCs will face many of the same challenges as current cross-border payment systems. It will bring up issues related to capital flow management, anti-money laundering (AML), combating the financing of terrorism (CFT), and differences in legal frameworks. While we work on building capacity for CBDCs, it is essential to continue strengthening traditional payment systems. Central banks need to future-proof national payment infrastructures and gain hands-on experience through technical experimentation with CBDCs.
3. The concept of money is entering a new and fascinating chapter. Collaboration and knowledge exchange, like today's discussion among diverse countries, is more crucial than ever.

Keynote speech

The keynote presentation was delivered by **Mr. Ashok Venkateswaran** | Vice President of Product Management, Mastercard on the topic "Securing trust in Central Bank Digital Currencies". He highlighted the pathways for central banks to implement CBDCs and how Mastercard ensures successful integration into it. He concluded his remarks with the following key points:

- Mastercard has built and implemented real-time clearing, settlement infrastructure, payment platforms and direct deposit technologies on a global scale.
- They offer cybersecurity technologies and have an advisory team to guide central banks based on stakeholder feedback, global benchmarks and their extensive global ecosystem expertise.
- They evaluate the feasibility of CBDCs through live pilots and the authorization of various use cases.
- Central banks should evaluate, test, deploy and secure retail CBDCs in both live pilots and exploratory use cases.
- Securing trust in CBDCs:

- A two-tier CBDC architecture, under consideration by many central banks, offers the best opportunity for CBDCs to become more competitive, innovative and resilient.
- CBDCs will be most impactful when they interoperate seamlessly across different payment types and leverage existing networks to enable broad and frictionless merchant acceptance.
- Users must be well-informed and assured of the security and reliability of CBDCs.

Panel discussion

The panel discussion was moderated by **Mr. Erik Feyen** | Lead Financial Sector Economist, Finance, Competitiveness and Innovation Global Practice – Global Director, WB, joined by **Mr. Changchun Mu** | Director General, Digital Currency Institute, People’s Bank of China, **Mr. Parameswaran Vasudevan** | Executive Director, Reserve Bank of India, **Mr. Zhalenov Binur** | Chairman of the National Payments Corporation, National Bank of Kazakhstan, **Ms. Yanqing Yang** | Executive Head, Digital Economy Programme, Shanghai AI Laboratory and **Mr. Ashok Venkateswaran** | keynote speaker.

Wholesale versus retail CBDC

- Retail CBDCs may offer limited additional value in countries with strong domestic payment networks, while wholesale CBDCs can enhance liquidity and loan terms through atomic bank-to-bank transfers.
- The need for CBDCs, retail or wholesale, varies by country based on goals like financial transparency and aid distribution, with examples including Kazakhstan’s success with retail CBDCs and Singapore’s decision to pause such projects.
- While wholesale CBDCs, such as mBridge, facilitate cross-border settlements effectively, retail CBDCs struggle internationally without interconnected systems. For domestic transactions, retail CBDCs are useful, but for cross-border transactions, combining tokenized bank deposits with wholesale CBDCs offers greater efficiency and conditional payments.
- In practice, distinguishing between retail and wholesale CBDCs can be challenging. Hence, the emphasis should be on two key functions: effective settlement and efficient payment methods.
- The distinction between wholesale and retail CBDCs is increasingly blurred, with 68% of central banks exploring both types, potentially integrating them into a digital financial system.

Cross-border aspects

- CBDCs enhance efficiency, transparency, and cost-effectiveness in cross-border payments by integrating central banks for real-time monitoring and using Distributed Ledger

Technology (DLT) for interoperability with existing systems. Examples like mBridge demonstrate faster transactions and cost reductions.

- Domestic CBDCs could revolutionize cross-border payments by reducing transaction times and costs, leveraging domestic volumes to support international expansion. For example, India's \$125 billion in annual remittances could see significant benefits with faster, cheaper transactions and reduced reliance on intermediaries. Despite challenges like exchange rate management and varied settlement systems, a unified approach and multilateral partnerships could enhance global payment systems.
- Central banks can enhance cross-border payments by using CBDCs to disrupt intermediaries, improving speed and security. In Kazakhstan, efforts include piloting cross-border CBDC projects with SWIFT and mBridge.
- Although CBDCs aren't a complete solution for cross-border friction, they can complement existing systems, provided there is a focus on building a comprehensive ecosystem, addressing governance and liquidity risks, and exploring interoperability to mitigate geopolitical risks and enhance payment systems.

Implementation challenges

- The main challenge in CBDC development is institutional reform and establishing a legal system, requiring public engagement and a rule-based approach for smoother implementation.
- A key challenge for CBDC projects is establishing a clear value proposition and achieving initial adoption. In Kazakhstan, the focus is on use cases such as public procurement and social aid to demonstrate CBDC benefits. Additionally, addressing legal uncertainties surrounding programmable money is crucial to avoid hindering further adoption and expansion.
- Resolving legal and technical issues, such as establishing legal authority for issuance, managing anonymity and KYC requirements and ensuring currency convertibility remains a significant challenge.
- Technological challenges include scalability and the need for a unified system that integrates various technologies, including DLT. There are also significant perception issues due to misunderstandings and limited data on their impacts.
- Overcoming these challenges requires extensive research and AI simulations to build stakeholder consensus.

At the conclusion of the conference, **Mr. Marc Uzan** | Executive Director, Reinventing Bretton Woods Committee, delivered the closing remarks. He expressed his gratitude to the panelists and guests for their participation and to the Bank of Mongolia for organizing this event. In his remarks, Mr. Uzan highlighted that geoeconomic fragmentation poses significant challenges for central banks, including increased inflation volatility, higher import prices, and potential cyber threats to critical financial infrastructure. He emphasized the importance of enhancing policy cohesion and

resilience to navigate this unstable environment, ensuring stability in an increasingly fragmented and unpredictable global economy.

Following Mr. Uzan's remarks, **Mr. Lkhagvasuren Byadran** | Governor, Bank of Mongolia, extended his sincere gratitude to the knowledge sponsors, strategic partners, media partners, and everyone involved in making this conference a success, thanking them for their generous support and cooperation.