INSTITUTE OF ECONOMIC GROWTH
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# DIGITAL AND CRYPTO REVOLUTION AND BANKING*

Chair: Rakesh Mohan

Speakers: Jean-Pierre Landau, Kai Guo, Ashima Goyal, A.K. Bhattacharya, Wolfgang Munchau.

Interactive Session 3C

Date: 04th October 2025 | Time: 11:30-13:00 hrs

## 1. Introduction:

The session on digital currency began not with bold statements, but with a series of basic questions. The Chair set the stage by questioning the very necessity of digital currencies and cryptocurrencies in economies that have already achieved remarkable success with efficient, low-cost digital payment systems. Using India's Unified Payments Interface (UPI) as a prime example, where instant, free bank transfers are ubiquitous, reaching even the smallest street vendor. The central question was posed: what problem are we solving? This inquiry framed the entire discussion, moving the conversation beyond technological hype to a critical examination of utility, value, and underlying economic architecture. The session sought to explain the complex ecosystem of digital money, distinguishing between the often-conflated concepts of digital payment, cryptocurrencies, and Central Bank Digital Currencies (CBDCs), and to assess their respective implications for financial inclusion, monetary sovereignty, and the global financial order.

## 2. Context and Background:

The discussion was grounded in a clear understanding of the existing digital payment landscape, particularly in Asia. The moderator's personal experience in China and India highlighted a reality where digital payments via super-apps like Alipay and WeChat or systems like UPI have become deeply embedded in daily economic life. This stands in stark contrast to the slower, more expensive, and less inclusive banking systems in many Western nations. The historical context of money itself was invoked, tracing the first paper currency to China's Song and Yuan Dynasties, where the absence of a central bank and regulation led to over-issuance and hyperinflation—a cautionary tale directly relevant to the modern debate around unbacked private currencies.

The session also acknowledged the phenomenal growth of digital payments in India, where transaction values have doubled in four years, with UPI emerging as the dominant channel. A critical enabler of this growth has been a government-incentivized cost structure, where small-value transactions are subsidized

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to promote adoption and formalization. This successful, state-facilitated, bank-led model forms the crucial backdrop against which the disruptive potential of new digital currency forms was evaluated.

## 3. Main Points and Analytical Approaches

The panelists deconstructed the digital currency universe through several distinct but interconnected analytical frameworks.

### *a) The Typology of Digital Money: A Three-Tiered Approach*

A primary analytical approach was to create a clear taxonomy to disentangle the jargon. The discussion distinguished between:

Digital Payment Systems (Ex: UPI): These are not new currencies but efficient electronic rails for transferring existing bank liabilities. The approach here is to view them as a public utility or infrastructure that enhances the efficiency of the traditional banking system.

Digital Tokens (Cryptocurrencies and Stable coins): These are approached as new monetary artifacts. The analysis separates the technology (blockchain) from the monetary architecture that gives the token value. This framework places different tokens on a spectrum based on their backing:

No Backing (Ex: Bitcoin): Treated as a speculative "digital gold," its value derived purely from scarcity and belief. The approach is to analyze it as a non-monetary store-of-value asset.

Bank Account Backing (Ex: Tokenized Deposits, Alipay/WeChat balances): The value of the token is linked to a specific or pooled bank account. The analytical focus is on the interplay between banks and non-bank tech platforms.

Asset Backing (Ex: Stable coins): The token is backed by assets like U.S. Treasuries. The approach is to analyze these as parallel, private-sector money market funds operating outside the regulated banking system, with inherent financial stability risks.

### *b) The Ideological and Functional Justification for CBDCs*

The case for CBDCs was analyzed not merely as a technological upgrade but as a fundamental question of monetary architecture. The approach was to position CBDC as the necessary digital embodiment of public money in an increasingly digital economy. In a system where private digital tokens proliferate, the CBDC serves as a risk-free public alternative, ensuring that citizens retain access to central bank liability, thus preserving monetary sovereignty. For China, the approach was also strategic: to provide a public option to break the duopoly of private payment platforms and ensure systemic resilience.

### *c) The Geopolitical Lens on Digital Currencies*

The session applied a geopolitical lens to the underlying blockchain technology. The analysis focused on how this technology enables the creation of new cross-border payment systems that can operate outside the traditional dollar-

dominated networks like SWIFT. This is not primarily about cryptocurrencies like Bitcoin, but about sovereign use of the technology to build financial independence and insulate from the weaponization of the existing financial architecture, as seen with sanctions.

## 4. Key Findings and Conclusions

The panel converged on several critical findings:

Efficient Domestic Payments Diminish the Transactional Case for Crypto: In economies with robust, inclusive systems like India's UPI, there is little to no public demand for cryptocurrencies as a medium of exchange for daily transactions. The primary utility of crypto as a payment system is in cross-border transfers and for activities requiring anonymity, both licit and illicit.

Cryptocurrency's Primary Role is as a Store of Value: The main driver for assets like Bitcoin is not daily spending but its perception as a “digital gold”—a hedge against perceived fiscal irresponsibility, currency debasement, and systemic distrust in Western economies and central banks.

Stablecoins Represent a Systemic Risk: The findings on stablecoins were alarmist. They were identified as the potential "subprime" crisis of the digital age. Operating like unregulated, parallel money market funds, their massive growth and potential collapse could trigger a financial crisis exceeding 2008, as they exist outside the safety nets of the traditional banking system.

The Strategic Imperative for CBDCs is Public Money Preservation: The conclusion was that CBDCs are not necessarily needed for efficiency where systems like UPI exist. Their core purpose is foundational: to ensure the continued existence of a digital public monetary anchor in a future potentially flooded with private money. It is a defensive, sovereignty-preserving measure.

The Technology is Decoupling from the Dollar: A profound finding was that the blockchain technology itself is a powerful geopolitical tool. It is actively being used to construct alternative international financial infrastructures, facilitating de-dollarization and allowing nations to transact independently of Western-controlled systems. This is likely the most consequential long-term impact of the digital currency revolution.

The Indian Model is a Success, But Requires Sustained Support: The Indian approach of a bank-led, interoperable, and government-incentivized system (UPI) was validated as a powerful engine for financial inclusion and formalization. However, its sustainability relies on continued policy support, as the removal of transaction incentives could disrupt the ecosystem.

## 5. Policy Recommendations

Based on the discussion, the session yielded several implicit and explicit policy recommendations:

1. Prioritize and Fortify Efficient Domestic Payment Systems: For countries like India, the primary policy focus should remain on strengthening and expanding existing

efficient payment infrastructures like UPI. The goal should be to enhance their capabilities, including cross-border interoperability, rather than diverting excessive resources towards speculative crypto assets.

2. Develop CBDCs as a Strategic Public Good: Policymakers and central banks should proceed with the development of CBDCs with a clear rationale: to provide a digital public option and preserve monetary sovereignty. The design should complement, not replace, the existing banking system, ensuring it does not lead to disintermediation of commercial banks.

3. Enact Robust and Clear Regulation for Stablecoins: Given their identified systemic risk, stablecoins must be brought firmly into the regulatory perimeter. Policies should treat them similarly to money market funds or even banks, with stringent requirements on reserve quality, transparency, and redemption rights to protect consumers and prevent financial contagion.

4. Maintain a Strict, Risk-Based Approach to Cryptocurrencies: Policy should differentiate between the underlying technology and speculative crypto-assets. While fostering blockchain innovation, regulators should implement strict KYC frameworks for crypto exchanges, treat cryptocurrencies as high-risk speculative assets for investor protection purposes, and tax them accordingly. An outright ban may be less effective than a tightly regulated containment strategy.

5. Foster Interoperability and Prevent Platform Dominance: Learning from China's experience with closed, duopolistic ecosystems, policy should actively promote interoperability between different payment platforms. This ensures competition, prevents lock-in, and protects consumer choice, ensuring that the digital economy remains open and innovative.

6. Invest in Cybersecurity and Data Privacy Frameworks: As the financial system digitizes further, policy must mandate and enforce the highest standards of cybersecurity for all participants—banks, FinTechs, and payment platforms. The implementation of robust data privacy laws is essential to protect citizens from vulnerabilities inherent in a data-driven financial ecosystem.

**In conclusion**, the session painted a picture of a financial system at a crossroads. The advent of digital currencies is not a monolithic event but a multi-faceted phenomenon. The optimal path forward is not to embrace all innovations uncritically or to reject them outright, but to engage in careful, nuanced policymaking that leverages technology for public good—by enhancing efficient payment systems, introducing digital public money, and decisively regulating the substantial risks posed by the wilder frontiers of the crypto world. The ultimate goal is to harness this transformation for greater inclusion, stability, and sovereignty.


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