RBI Governor Advocates CBDCs Over Stablecoins for Safer Global Payments

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CBDC vs Stablecoin Latest News

- RBI Governor Sanjay Malhotra urged global central banks to adopt and promote **Central Bank Digital Currencies (CBDCs)** over **stablecoins** for cross-border payments.
- Speaking at the World Bank–IMF annual meeting in Washington, DC, he reiterated **India’s caution on cryptocurrencies**, citing risks to monetary policy, capital flows, and financial integrity, including money laundering concerns.

Stablecoins

- Stablecoins are a type of cryptocurrency designed to maintain a stable value by **being pegged to a reserve asset** such as a fiat currency (like the US dollar), a commodity (like gold), or a basket of assets.

Key Features

- Aim to reduce price volatility common in cryptocurrencies like Bitcoin or Ethereum.
- Backed by collateral reserves, algorithms, or a combination of both.
- Enable faster and cheaper transactions across borders compared to traditional banking systems.

Types of Stablecoins

- **Fiat-backed Stablecoins**: Backed by reserves of fiat currency (e.g., Tether (USDT), USD Coin (USDC)).
- **Crypto-backed Stablecoins**: Collateralised by other cryptocurrencies (e.g., DAI).
- **Algorithmic Stablecoins**: Maintain value through algorithms that control supply and demand (e.g., UST – now defunct).

Risks and Concerns

- Regulatory uncertainty and lack of global standards.
- Reserve transparency and liquidity risks if not fully backed.
- Potential for financial instability and “dollarisation” in developing countries.

Central Bank Digital Currency (CBDC)

- CBDC is the legal tender issued by a central bank in a digital form.
  - E.g., CBDC of India is the **digital form of the Indian rupee**, issued and regulated by the **Reserve Bank of India (RBI)**.
- It represents **sovereign currency** in an electronic form and is backed by the full faith and credit of the government, just like physical cash.

Types of CBDC in India

- **Retail CBDC (e₹-R)**
  - Meant for use by the public, including individuals and businesses.
  - Functions as a digital alternative to cash for everyday transactions.
  - Pilot launched in December 2022 in select cities.
- **Wholesale CBDC (e₹-W)**
  - Designed for financial institutions to settle interbank transfers and securities transactions efficiently.
  - Aims to improve the speed, transparency, and cost-effectiveness of large-value payments.
  - Pilot project to use digital rupee in the wholesale market for secondary trade in government securities (G-secs) was launched in November 2022.

Objectives

- To reduce dependence on physical cash and printing costs.
- To enhance payment efficiency and financial inclusion.
- To support cross-border payments and improve monetary policy transmission.
- To provide a secure, sovereign alternative to private cryptocurrencies and stablecoins.

Promoting CBDCs

- Speaking at the IMF–World Bank annual meeting, RBI Governor urged central banks worldwide to promote Central Bank Digital Currencies (CBDCs) over stablecoins to facilitate international payments.
- He argued that CBDCs, being **fiat-backed and tokenisable**, offer the benefits of stability, monetary integrity, and the singleness of money — advantages that private stablecoins cannot ensure.
- He emphasised that global adoption was crucial for realising CBDCs' full potential in cross-border transactions and urged coordinated promotion among central banks.
    - The RBI is currently conducting **pilot projects for both retail and wholesale CBDCs**, focusing on their potential to ease cross-border settlements, as domestic payment systems in India are already efficient.
- RBI Governor reiterated India's **longstanding caution on cryptocurrencies**, warning that their use could affect **monetary policy, capital flows, and financial integrity**, particularly through **money laundering risks**.

Shift in Government's Tone on Stablecoins

- RBI Governor's remarks come soon after Finance Minister Nirmala Sitharaman indicated a more open stance toward stablecoins.
- Recently, she said **stablecoins and similar innovations were transforming global finance** and forcing nations to adapt or risk exclusion from evolving monetary systems.
- She noted that while countries may differ in response, none could insulate themselves from systemic change in global finance.

Rising Global Acceptance of Stablecoins

- Across major economies, stablecoins — private digital currencies pegged to fiat currencies like the US dollar — are gaining regulatory acceptance:
    - In June 2025, the US Senate passed the GENIUS Act to regulate stablecoins.
    - South Korea's National Assembly introduced the Digital Asset Basic Act, allowing firms to issue won-backed stablecoins.
    - Hong Kong passed a stablecoin licensing law in May 2025 for local issuers.
- Governments see such frameworks as ways to strengthen their currencies' global roles.
- US govt argued that stablecoins could boost demand for US Treasuries, lower borrowing costs, and reinforce dollar dominance.
    - Currently, Tether and USDC, both pegged to the US dollar, command 90% of the $285 billion global stablecoin market.

RBI's Concerns

- The RBI has consistently warned that widespread use of US dollar-backed stablecoins could lead to the dollarisation of India's economy, reducing the rupee's role in domestic transactions.

- Such a shift could weaken India’s monetary sovereignty, as the RBI and government would lose control over the supply and circulation of the US dollar in domestic markets.

Source: IE | RBI | CNBC
