RBI Nudges India on BRICS Digital Currency Linkage for Cross-Border Payments

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BRICS Digital Currency Linkage Latest News

- The Reserve Bank of India has advised the Indian government to encourage BRICS countries to collaborate on using **digital currencies** for cross-border payments. Such a move could reduce transaction costs, speed up settlements, and lower dependence on the US dollar.
- However, in the near term, it also poses risks related to financial stability, regulatory coordination, cyber security, and differences in digital infrastructure among BRICS members, which would need careful management.

RBI’s Push for BRICS CBDC-Based Cross-Border Payments

- The Reserve Bank of India has reportedly proposed that India use its BRICS chairmanship in 2026 to encourage member countries to adopt their **Central Bank Digital Currencies (CBDCs)** for cross-border payments.
- Though not officially announced, the RBI is said to have conveyed this idea to the Ministry of Finance.

- The proposal envisages a **common payments framework** covering not only the five founding BRICS members—Brazil, Russia, India, China, and South Africa—but also newer members such as Egypt, Ethiopia, Iran, the UAE, and Indonesia, with more countries likely to join in the future.

About Central Bank Digital Currencies (CBDCs)

- Central Bank Digital Currencies (CBDCs) are legal tender issued by a central bank in fully digital form.
- In India, the **RBI's e-rupee** is an example, functioning just like the physical rupee but existing only digitally.
- CBDCs are stored in separate digital wallets, not bank accounts, and transactions occur directly between wallets, with records maintained on a **blockchain-based digital ledger**.
- Unlike payment systems such as UPI, which transfer money between bank accounts, CBDCs move value itself from one wallet to another.
- They also differ from private **cryptocurrencies** like Bitcoin, which are **decentralised, unregulated**, and not backed by any authority.
- CBDCs, by contrast, are centrally issued, regulated, and backed by the central bank, with a fixed value—for instance, one e-rupee is always equal to one rupee.

Benefits of Using Central Bank Digital Currencies (CBDCs)

- **Greater Transparency and Traceability** – CBDCs operate on blockchain technology, which creates an immutable and transparent digital ledger.
  - Once recorded, transactions cannot be altered or deleted, making illicit activities like money laundering and black-money flows easier to detect, especially in cross-border payments.
- **Programmable Money with Policy Use-Cases** – CBDCs can be programmed for specific purposes.
  - They may be **restricted by time** (expiry dates), **location, merchant category**, or type of transaction.
  - Additional details such as payer and payee identities can also be embedded, further enhancing accountability and targeted use.
- **Curbing Illicit Cross-Border Flows** – Cross-border transactions are a major channel for illegal money movement.
  - The transparency and traceability of CBDCs provide authorities with stronger tools to monitor and regulate such flows compared to traditional payment systems.
- **Geopolitical and Strategic Advantages** – CBDCs can help India navigate international payment challenges arising from sanctions and exclusion from the dollar-dominated SWIFT system, as seen in trade with countries like Iran and Russia.
  - A CBDC-based framework offers a more sustainable alternative to settling trade purely in national currencies and could strengthen cooperation within groupings such as BRICS.

Risks and Challenges of Using CBDCs for Cross-Border Payments

- The adoption of CBDCs for cross-border payments faces significant hurdles.
- **Harmonising** legal, regulatory, and technical frameworks across multiple countries is complex and time-consuming, meaning tangible benefits may take years to materialise.

- A more immediate risk lies in the **geopolitical response**, particularly from the United States.
- Past statements by U.S. President Donald Trump suggest that efforts by BRICS to reduce reliance on the dollar could invite retaliatory measures, including higher tariffs.
- A shift toward CBDC-based payments could therefore expose India to additional trade penalties, potentially compounding existing tariff pressures.
- India will need to carefully balance these economic and strategic costs against the long-term advantages of adopting CBDCs for international payments.

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