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Central Bank Digital Currencies: Between State Sovereignty and Public Surveillance

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Abstract:

This research paper examines Central Bank Digital Currencies (CBDCs) in the context of state sovereignty and individual surveillance. The study explores how governments are using CBDCs to strengthen monetary authority, modernize financial systems, and reduce dependence on private or foreign-controlled payment networks. At the same time, the research highlights growing concerns regarding financial surveillance, privacy erosion, transaction monitoring, and governmental control over citizens' economic activities. Using a qualitative and analytical research methodology, the study analyzes academic literature, policy reports, and comparative case studies including China's Digital Yuan, the European Union's Digital Euro, Nigeria's eNaira, and India's Digital Rupee. The findings suggest that while CBDCs offer opportunities such as financial inclusion, faster transactions, and economic efficiency, they also create significant political, ethical, and cybersecurity challenges. The paper concludes that the future success of CBDCs will depend on balancing technological innovation with privacy protection, democratic accountability, and institutional transparency.

Keywords: *Monetary Sovereignty, Financial Surveillance, Digital Governance, Data Privacy, State Control, Individual Autonomy*

Introduction:

Central Bank Digital Currencies (CBDCs) represent one of the most important modern financial system innovations through their establishment as digital state-backed currencies which central banks manage. Governments maintain control over digital currencies through Central Bank Digital Currencies (CBDCs) because these currencies operate with government approval instead of functioning like decentralized digital currencies such as Bitcoin. Governments implement Central Bank Digital Currencies (CBDCs) to maintain financial system control, enhance economic stability and decrease reliance on international payment systems. The development of Central Bank Digital Currencies (CBDCs) has created new digital financial instruments which now function as modern governmental authority symbols.

Current digital currencies demonstrate their ability to record transactions immediately, which enables governments and central banks to obtain complete information about people's spending patterns, saving habits and their overall financial activities. Critics argue that such systems could enable states to monitor citizens more closely, limit financial privacy, and potentially use economic data as a tool of political influence or social control. The discussion about CBDCs demonstrates the ongoing struggle between governmental control and personal rights in contemporary society. Supporters argue that CBDCs can enhance financial inclusion, improve payment efficiency, combat corruption, and increase transparency within the economy.

The researchers believe that state-controlled digital currencies will enable nations to protect their economic sovereignty against the rising power of private cryptocurrencies and foreign technological platforms. The opponents warn that CBDCs will establish a financial system which allows governments to monitor citizens throughout their daily activities unless strong legal protections and open governance systems are implemented. The technical capabilities of CBDCs create an opportunity for development which simultaneously presents a challenge for political systems.

The relationship between governments, technology and society gets transformed through Central Bank Digital Currencies development. The future success of CBDCs will depend largely on how states balance the need for economic sovereignty with the protection of democratic values and personal privacy. Countries that implement CBDCs need to create comprehensive rules, cybersecurity measures and systems for monitoring financial data usage to safeguard against its unauthorized access. The study uses qualitative research methods to research Central Bank Digital Currency (CBDC) effects on state sovereignty rights and public surveillance capabilities through its economic, political and social effects. Through the secondary data sources which include academic journals, policy papers, international financial institution reports, government documents and scholarly books that focus on digital finance, surveillance theory and international political economy. As the global economy continues its shift towards digital currency, CBDCs will become essential to international discussions about governance, surveillance systems, future political and economic power arrangements.

Literature Review:

The International Monetary Fund (IMF) in its report “Central Bank Digital Currencies and Digital Financial Sovereignty” (2021) argues that CBDCs have become important tools for governments seeking to preserve monetary sovereignty in an increasingly digital financial environment. The report highlights that CBDCs can strengthen state control over currency issuance, improve the effectiveness of monetary policy, and reduce dependence on foreign payment infrastructures.

The Bank for International Settlements (BIS) in its report “Central Bank Digital Currencies and Privacy Considerations” (2024) highlights that one of the most significant concerns surrounding CBDCs is the expansion of financial surveillance. The report argues that, unlike physical cash, CBDCs allow central banks and governments to monitor digital transactions, potentially reducing individual financial privacy and increasing state oversight of citizens’ economic activities.

Kaur, S. in “Financial Surveillance and Privacy Challenges in Central Bank Digital Currencies” (2024) warns that excessive monitoring capabilities associated with CBDCs may undermine democratic freedoms and increase the risk of personal financial data misuse. The study emphasizes the importance of balancing financial transparency with the protection of privacy and civil liberties.

Research Questions:

1. What is Central Bank Digital Currencies (CBDCs) and how do they function within modern financial systems?

2. How do Central Bank Digital Currencies (CBDCs) reshape the balance between monetary sovereignty and financial surveillance?
3. How can governments balance security, transparency, and privacy in the design of CBDCs?

Theoretical Framework:

The research paper uses Foucauldian Surveillance Theory and Digital Sovereignty Theory as its primary theoretical frameworks. The development of modern states into their contemporary form exists through the application of observation, monitoring, and data collection systems which serve as the core government functions according to Foucauldian Surveillance Theory. The framework shows how Central Bank Digital Currencies (CBDCs) create new ways for governments to track their citizens' spending and economic activities through digital financial systems which operate beyond the capabilities of traditional cash systems. The research investigates whether Central Bank Digital Currencies (CBDCs) function as tools for government surveillance and citizen behavior control in societies that possess advanced technological capabilities.

The second framework Digital Sovereignty Theory investigates state efforts to maintain control over their monetary systems, economic policies and digital infrastructures during the current era of globalization as well as private technology company dominance. The framework enables researchers to comprehend government motivations for developing central bank digital currencies which serve as substitutes for both decentralized cryptocurrencies and foreign-controlled digital payment systems. The study shows that countries use central bank digital currencies as strategic instruments which help them maintain economic independence and enhance governmental power while decreasing their dependency on international financial systems.

Lastly the research uses Political Economy Theory to examine how technology development, state authority and economic management interact with each other. The framework demonstrates that CBDCs will transform worldwide financial systems, impact global currency competition and shift power dynamics among governments, businesses and individual citizens. These theoretical frameworks create a comprehensive framework which demonstrates how CBDCs function at the crossroads of sovereignty, surveillance, technology and international relations.

Central Bank Digital Currencies: Concepts, Structure, and Evolution:

Central Bank Digital Currencies (CBDCs) represent a new form of sovereign digital money which central banks issue and control. Government's issue CBDCs as official currency through state-operated financial systems which operate under central authority. Scholars define CBDCs as digital representations of fiat currency that combine the efficiency of digital payments with the stability and authority of central banking institutions. The increasing demand for CBDCs shows how worldwide financial systems rapidly change toward digital systems because people now use fewer physical cash and prefer digital payment methods in contemporary economies. (Prasad, 2021)

Digital money started its development from electronic banking, online payments later progressed to cryptocurrencies and blockchain financial technology. Decentralized digital currencies emerged as a challenge against state control which historically maintained exclusive power over money creation and financial system regulation. Many governments started studying central bank digital currencies which would enable them to protect their monetary sovereignty while retaining control over their national financial systems. Central bank digital currencies represent regulated digital payment methods because they receive state control and constant

backing from government entities, unlike cryptocurrencies which function without state ties and face violent price changes. (Auer, Cornelli, & Frost, 2020)

CBDCs exist in two primary categories which are retail CBDCs and wholesale CBDCs. Retail CBDCs function as digital cash for public use because they enable people to make daily payments through mobile wallets and banking apps. Wholesale CBDCs serve financial institutions as their primary purpose because these digital currencies enable interbank settlements and enhance operational efficiency for large financial transfers and international monetary flows. Researchers identify several key features of CBDCs which include programmability, transaction traceability, financial transparency, faster payment systems and integration with digital financial ecosystems. The same features which provide benefits to organizations create multiple security risks because they allow both privacy violations, cyberattacks and governmental monitoring abilities. (European Central Bank, 2020)

Globally, CBDC development has accelerated significantly as countries compete to modernize their financial systems and secure technological influence in the digital economy. China's Digital Yuan is among the most advanced CBDC projects and is often viewed as a model of state-centered digital finance, while the European Union's Digital Euro emphasizes privacy protections and regulatory safeguards. Similarly, countries such as Nigeria, India, and the Bahamas have introduced or tested CBDC systems to enhance financial inclusion and payment efficiency. These global trends indicate that CBDCs are becoming central to the future of international finance, economic governance, and geopolitical competition in the twenty-first century. (Kiff, et al., 2020)

Monetary Power and Sovereign Control in the Age of CBDCs:

The emergence of Central Bank Digital Currencies (CBDCs) demonstrates how governments attempt to maintain their monetary control over an economy that increasingly adopts decentralized and digital systems. The ability to issue currency has served as a fundamental power resource for governments throughout history, which enables them to control inflation rates and direct economic expansion while safeguarding their political stability. The traditional system that granted governments exclusive rights to issue money has been broken by the rapid growth of cryptocurrencies, fintech companies and international digital payment systems. States use central bank digital currencies (CBDCs) as their technological tools to regain control over their domestic financial markets through these new digital currencies. Researchers maintain that central bank digital currencies (CBDCs) function as the digital transformation of sovereign authority because they enable governments to maintain their financial power in an economy where private entities and technology companies hold dominant positions.

Beyond domestic economic management, CBDCs are also emerging as strategic national assets in the context of geopolitical competition and economic nationalism. Major powers increasingly view digital currencies as tools capable of extending financial influence beyond national borders. China's Digital Yuan, for instance, is widely interpreted as an effort to reduce global dependence on the U.S.-dominated SWIFT payment system and challenge the international dominance of the U.S. dollar. This reflects a significant transformation in global power politics, where technological control over digital payment infrastructures is becoming as strategically important as military or energy dominance. Some scholars even describe CBDCs as components of a new "digital mercantilism," where states compete for influence through financial technology, data control, and digital infrastructure expansion. (Auer, Cornelli, & Frost, 2020)

The implementation of Central Bank Digital Currencies (CBDCs) will bring about fundamental changes to central banking system operations and their role within the economy. Central banks have maintained their economic power through their control of commercial banking systems since their establishment. The introduction of retail Central Bank Digital Currencies (CBDCs) will establish direct financial connections between citizens and central banks which will decrease the need for private banks to function as financial intermediaries. The new system will give governments greater authority to manage monetary circulation while they control taxation and economic relief initiatives which they will use during financial emergencies. Researchers propose that programmable Central Bank Digital Currencies (CBDCs) will enable governments to execute specific economic strategies which include allocating stimulus funds to particular industries and requiring digital currency users to spend their funds before specified deadlines. The supporters view this as a groundbreaking economic management solution while the critics state that these powers will enable the state to control how people manage their personal finances. (Bindseil, 2020)

The international introduction of CBDCs has created a competitive race that determines how the worldwide financial system will develop its future structure. Countries that succeed in establishing sophisticated digital currency systems will acquire enhanced power to conduct international trade, enforce sanctions and manage international financial operations. The current situation has created a heated discussion about whether CBDCs will lead to the gradual breakdown of the existing dollar-based international financial system. Emerging economies use CBDCs to decrease their reliance on Western financial systems while they build up their control over economic matters. The understanding of CBDCs has changed because people now see them as more than financial assets. They view them as tools that different countries will use to change their international monetary systems, their national authority and their economic standing in the twenty-first century. (Waliczek, 2023)

Programmable Money and the Architecture of State Surveillance:

The establishment of Central Bank Digital Currencies (CBDCs) has intensified discussions about financial monitoring systems and the increasing capacity of governments to observe complete economic operations throughout their nations. Citizens who use physical cash for their transactions maintain their complete anonymity during their financial activities. Citizens' economic activities can be monitored through digital cash systems because they record all financial activities that take place between users. Researchers believe that these systems will transform how people interact with their governments because they will convert money into an ongoing stream of information about their behavior. CBDCs function as a new form of money while establishing a system of digital government control based on financial surveillance and information collection. (Kahn, Rivadeneyra, & Wong, 2018)

Programmable money represents the most contentious feature of CBDCs because it enables authorities to embed specific regulations into digital currency. Theoretically programmable CBDCs can restrict spending locations for their funds while government stimulus payments will have pre-determined expiration dates and the system will execute automatic tax and fine deductions. The ability to control these functions enables organizations to create a boundary between managing economics and controlling social behavior according to their research findings. Programmable CBDCs function as a digital panopticon according to some analysts who adopt Michel Foucault's framework to explain how citizens change their conduct because they know that their actions are being constantly monitored through automated systems. Critics believe that these systems will establish a new standard which permits

governments to monitor citizens' financial choices by presenting economic productivity and national defense as valid justifications for their actions. (Foucault, 1977)

The increased financial traceability which CBDC systems provide creates major threats to personal privacy across digital economic systems. All financial transactions including purchases, transfers, donations and all other interactions with money will be made available to governmental bodies and enforcement organizations. Governments support their right to conduct surveillance over human activities because they believe it helps them fight against money laundering, terrorism financing and corruption but researchers warn that governments will use surveillance to systematically reduce people's democratic rights and their civil rights. The problem becomes highly important in authoritarian regimes because those systems use financial information to target political opponents and journalists and rival political factions. China's Digital Yuan serves as a model for demonstrating how CBDCs will function within comprehensive government surveillance networks which merge financial detection systems with facial recognition technology, social credit systems and artificial intelligence governance systems. (People's Bank of China, 2021)

The introduction of central bank digital currencies will create new political power dynamics which will alter how governments control modern societies. Researchers argue that governments with direct access to citizens' financial activities could gain unprecedented influence over economic participation and public behavior. States have the ability to freeze digital wallets while they can also stop people from buying goods and they can restrict their ability to make specific transactions which governments want to stop for political or ideological purposes. The potential for CBDCs to develop into instruments which enable economic control and digital totalitarianism has created public anxiety. The need for comprehensive legal protections and transparent systems of governance and technologies that protect personal data from government access has become essential according to many scholars. The successful development of central bank digital currencies depends on two factors which include technological progress and the ability of democratic systems to safeguard personal rights during the digital era. (Adrian & Tommaso, 2019)

Comparative Case Studies of Central Bank Digital Currency Models:

China's Digital Yuan:

China leads the world in CBDC development through its Digital Yuan which people officially call e-CNY. The Digital Yuan which the People's Bank of China controls demonstrates China's aim to increase state financial control while decreasing dependence on Western payment systems that include SWIFT. China's CBDC functions through a complete centralized system which enables authorities to track all financial activities while gathering user information. The Digital Yuan serves as a tool which China uses to decrease U.S. dollar dominance in global trade while expanding Chinese control over international digital payment systems. (Prasad, 2021)

European Union's Digital Euro:

The European Union prefers an approach that focuses on protecting privacy rights according to its Digital Euro project which the European Central Bank established. European policymakers emphasize that the Digital Euro must preserve democratic values, financial privacy, and consumer protection while modernizing payment infrastructures. The European system requires equal power distribution between government authorities and their ability to monitor citizens which differs from China's system that enables total government control. European researchers emphasize on the European Union's cautious digital technology approach because they believe it will lead to digital dictatorial systems and financial system security breaches

through data exploitation. The Digital Euro functions as a monetary system advancement which protects European digital autonomy from American financial technology control and Chinese technological development. (Bindseil, 2020)

Nigeria's eNaira:

The Central Bank of Nigeria introduced the eNaira as Nigeria's first Central Bank Digital Currency which marked the country's official entry into Central Bank Digital Currency territory. The Central Bank of Nigeria introduced the eNaira with its main objectives to enhance financial access and decrease cash usage and advance Nigeria's digital financial ecosystem. The limited digital skills of people together with insufficient technological systems and their distrust of government financial monitoring systems have caused low adoption rates of the system. The Nigerian situation demonstrates a fundamental obstacle that multiple developing nations encounter because public acceptance of technological advancements depends on trustworthy institutions and dependable digital systems. The eNaira proves that Central Bank Digital Currencies face political disputes because people fear that governments will gain more authority to regulate their financial resources. (Kiff, et al., 2020)

Bahamas Sand Dollar:

The Bahamas introduced the Sand Dollar as one of the world's first fully operational CBDCs, designed primarily to improve financial accessibility across geographically dispersed islands. The Central Bank of The Bahamas oversees Sand Dollar operations which provide solutions to remote banking challenges that affect areas which experience hurricanes and other natural disasters. The Bahamian model establishes its unique approach to economic inclusion and payment resilience development as distinct from the primary international monetary competition objectives which other major geopolitical CBDC initiatives pursue. Scholars often cite the Sand Dollar as evidence that smaller economies may use CBDCs pragmatically to solve domestic financial challenges rather than pursue geopolitical ambitions. The project creates wider issues about how small-state economies experience cybersecurity threats and their reliance on digital technologies. (Auer, Cornelli, & Frost, 2020)

Strategic Opportunities and Structural Challenges of Central Bank Digital Currencies:

Central Bank Digital Currencies (CBDCs) are often seen as big, transformative changes that could reshape the future of finance governance and participation in the economy. A key opportunity linked to CBDCs is that they might help widen financial inclusion and access, especially in developing places where a lot of people still do not have bank accounts. In theory, if people can use digital payment tools on their phones without depending much on old fashioned banking systems, then more marginalized communities can be pulled into the official financial world. Nigeria and India are sometimes cited as countries that really push this idea in their digital currency plans. Still, many researchers point out that access and inclusion, aren't only about having the technology around. It also hinges on digital literacy, whether institutions are trusted, and if internet service is actually affordable. If those pieces are missing, CBDCs could end up mirroring the same economic gaps that already exist, instead of fixing them. (Kiff, et al., 2020)

CBDCs may bring pretty big economic and administrative benefits, like boosting transaction speed, lowering the cost of payment handling, and speeding up cross border financial transfers. A lot of older international transactions still lean on complicated intermediary banking setups, which tend to be costly and slow. CBDCs could cut out some of that waste by allowing settlements that are almost instantaneous, via centralized digital infrastructures. Also, governments might be able to use CBDCs to make tax collection better, route welfare disbursements more efficiently, and push out targeted economic stimulus when crises hit.

Some researchers even claim that programmable CBDCs could reshape monetary policy, because central banks could directly steer consumption habits and the way liquidity circulates. Still, critics say that these same powers might end up meaning stronger state oversight over every day private choices, which then creates friction between economic efficiency and personal autonomy. (Adrian & Tommaso, 2019)

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Another major challenge around CBDCs is legal regulation, privacy rights, and that awkward balance between state security and civil liberties, somehow. Since CBDCs produce traceable transaction records, governments might end up with access that is basically unprecedented to citizens' financial doings. Officials often argue that this sort of monitoring is needed for going after money laundering corruption, and terrorism financing. But scholars keep warning that too much surveillance can end up feeling normal, and then governmental overreach grows, quietly. So, the whole debate is basically about if states can build CBDC systems that manage to keep both security and transparency, plus protect individual privacy at the same time. European policymakers have stressed privacy-preserving frameworks for the Digital Euro, while more centralized designs like China's Digital Yuan tend to prioritize state oversight and data visibility. Put differently, this contrast shows that CBDCs arent only financial technologies; they are political instruments, and they mirror rival blueprints for governance sovereignty and freedom, in the digital era. (Bindseil, 2020)

Critical Evaluation:

A critical evaluation of the research findings suggests that CBDCs embody some kind of paradox right in the middle of modern digital governance. On one hand, they provide noticeable opportunities for economic modernization, financial inclusion, administrative efficiency, and monetary innovation. On the other hand, they could end up fostering very centralized financial ecosystems, where states have an essentially unprecedented grip on citizens' economic activities. The research shows that the whole debate around CBDCs is really a debate about power: who actually controls money, who controls data, and how technical systems end up reshaping sovereignty in the digital era.

The study also contends that CBDCs might, over time, shift money from a neutral medium of exchange into something more programmable, an instrument of governance that could nudge conduct influence behavior, steer consumption, and extend state oversight. Even if democratic states try to keep things balanced, like matching innovation with privacy protections, there's still a real concern that financial surveillance may quietly become normalized. So, in the end, CBDCs shouldn't be treated only as financial technologies but as political infrastructures, that might redraw the boundary between security, governance, and individual freedom.

Future Implications

The results from this research suggest that Central Bank Digital Currencies, yes CBDCs, are probably headed to be more and more relevant within national and global financial systems. If they get widely used, they could boost payment efficiency, help wider financial inclusion, and quietly reshape how monetary policy is put into practice. Yet, CBDCs can also bring big worries about privacy, state surveillance, and data protection, so strong regulatory guardrails will be essential, kind of non-negotiable. As digital currencies start to weave more into everyday economic life, cybersecurity is going to show up as a real critical part of national security, and it will basically demand ongoing investment into secure digital infrastructure. Also, CBDCs might alter international financial relations, not just by changing how cross-border transactions happen, but by pushing kind of fresh economic rivalry between states. What really determines whether CBDCs will succeed in the long run, is how governments can balance technological innovation with safeguarding individual rights, keeping things transparent, and building public trust. So, this research sort of points to the need for continued policy refinement, cooperation across countries, and more academic digging into the long term political, economic, and social effects of digital currencies.

Policy Recommendations:

1. **Establish a Strong Legal Framework**: Governments should build a strong legal framework of comprehensive laws, which can help in defining the limits of state access to personal financial data and to stop any unauthorized surveillance practices.
2. **Ensure Independent Oversight and Judicial Safeguards:** CBDC systems need independent oversight, and judicial safeguards, because of the risks of political misuse, economic discrimination, and civil liberties violations.
3. **Prioritize Cybersecurity:** Central banks must invest in secure, resilient digital infrastructure, that can handle cyberattacks, technical breakdowns, and data leaks.
4. **Promote Digital Literacy:** Promotion of digital literacy to make people capable of understanding the digital financial technologies better with safer usage patterns.
5. **Enhance Technological Accessibility:** Policymakers ought to make sure, that every part of society, especially vulnerable and marginalized groups get access to the technology that is needed to use CBDCs effectively.
6. **Prevent Financial Exclusion:** Special measures should be put in place to make sure the move toward cashless economies doesn't end up creating social and economic exclusion.
7. **Strengthen International Cooperation:** Countries should work together to build global benchmarks, regulatory structures and strong international norms for CBDC control.

Conclusion:

The emergence of Central Bank Digital Currencies (CBDCs) really marks a big shift in how global financial systems work, and in how state authority operates in the digital era. This research has shown that CBDCs are not only technical novelties made to modernize payments, but more like strategic tools with major political, economic, and even social consequences. Governments are increasingly treating CBDCs as ways to bolster monetary sovereignty, improve financial efficiency, decrease reliance on foreign-controlled financial infrastructures and deal with the fast growth of cryptocurrencies plus private digital payment platforms. So, from that angle, CBDCs look less like a narrow upgrade and more like a wider attempt by states to stay relevant and keep tighter control, in a world that is getting more digitized every year, and also more competitive.

At the same time, the study shows that CBDCs come with major worries about public surveillance, privacy erosion, and also governmental overreach. Unlike regular cash systems, CBDCs can basically record, trace, and even steer financial conduct in real time. And then the

idea of programmable money makes it even more intense, because it lets states set conditions, limits, or controls on how that digital currency gets used. A comparison of China's Digital Yuan, the European Union's Digital Euro, Nigeria's eNaira, India's Digital Rupee, and the Bahamas Sand Dollar points to the fact that each political system handles CBDC rollout in its own way, depending on governance models, security priorities, and economic aims. Some governments seem to lean toward surveillance and centralized control, while others lean more toward privacy safeguards and democratic accountability.

This research finds that the Central Bank Digital Currencies (CBDCs) are far more than technological financial innovations; they represent emerging instruments of state power, economic governance, and digital control. Governments across the world are increasingly pursuing CBDCs to preserve monetary sovereignty in response to the growing influence of cryptocurrencies, private fintech corporations, and foreign-controlled payment systems. The same technological features that make CBDCs efficient and programmable simultaneously create significant concerns regarding surveillance, privacy erosion, and governmental overreach. Democratic governments generally frame CBDCs as tools for financial modernization, transparency, and inclusion, whereas critics argue that these systems could normalize continuous state monitoring of economic activity. Authoritarian systems tend to prioritize centralized oversight and data visibility, while democratic models attempt to preserve financial privacy through legal safeguards and regulatory limitations. Economically, CBDCs may accelerate the transition toward cashless societies, transform central banking systems, and redefine the role of commercial banks within national economies. Politically, CBDCs could intensify geopolitical competition as major powers seek to expand influence through digital financial infrastructures.

Ultimately, CBDCs are probably going to reshape how money links up with technology, and how state power works, in the twenty-first century. As economies around the world drift toward digital financial ecosystems, arguments about sovereignty, surveillance, cybersecurity, and financial freedom will keep getting more central in international political and economic talk. So, for CBDCs to work in practice it won't just be about new technology or technical upgrades, it will also need ethical governance, some real cross-border coordination, sturdy regulatory frameworks that can safeguard national interests and individual liberties, in this shifting digital era.

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