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# Implications of Thailand's New Central Bank Digital Currency (CBDC)

The popularity of Bitcoin and other decentralized cryptocurrencies continues to send ripples throughout the financial world. Private companies like Meta (formerly Facebook) have already begun developing their own competing cryptocurrencies, and central banking institutions are likewise working on similar concepts. The introduction of a CBDC (Central Bank Digital Currency) in Thailand is set to begin in 2022 – but assessing its importance requires understanding why many feel that a centralized cryptocurrency is necessary in the first place.

After all, one of the key selling points of Bitcoin is that decentralization provides a powerful buffer against manipulation. Central banks can change interest rates and print more money when they need to, but Bitcoin follows a transparent algorithm, has a hard limit on quantity, and is specifically designed to resist centralized attempts at manipulation.

The central banks of many nations worry that the widespread adoption of independent cryptocurrencies such as Bitcoin could weaken their control over the financial system. Indeed, many Bitcoin proponents would argue that this is the point; by taking control away from central authorities, the world can democratize its financial systems and level the playing field for everyone.

As we will see, however, this picture is incomplete – at least for now. Decentralized cryptocurrencies have important features that are worth celebrating, but in some cases they generate precisely the type of instability that is ill-suited for a global financial system. CBDCs have the potential to overcome these tradeoffs, while adding real value to the nascent cryptocurrency universe.

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## Bitcoin and its discontents

The emergence of Bitcoin in 2009 represented the dawn of a new type of financial product, whose immense potential would initially be appreciated only by a select few. In subsequent years, the Blockchain-based currency experienced waves of popularity, followed by periods of extreme volatility, as well as the diluting impact of hundreds of rival cryptocurrencies.

Although the underlying technology held promise, Bitcoin's real-world impact included several unintended side effects. What was meant to be a revolution in financial security instead became a currency of unstable value, infamous for inspiring colossal energy waste through power-hungry Bitcoin mining.

This new currency has also undergone other types of growing pains. The nation of El Salvador recently made the bold choice to accept Bitcoin as an official national currency, but failed to prepare its digital and financial infrastructure for such a move. Less than ten days later, people there set fire to Bitcoin ATMs while protesting the poorly managed transition.

Elsewhere, auto manufacturer Tesla began to accept Bitcoin as payment, then quickly changed its mind due to environmental concerns. Tesla CEO Elon Musk was an early champion of the currency, but then he angered followers by switching his allegiance to Dogecoin, a playful cryptocurrency with a fluffy Shiba inu dog as its mascot. (Naturally, Dogecoin already has its own rival, Shiba Inu Coin, represented by a more-intense looking Shiba inu.)

For all the advantages decentralization may bring, such episodes are a stark reminder of why central currencies are – at least for now – an essential foundation of a functioning society. Although Bitcoin and other decentralized cryptocurrencies may have an important role to play in the future of finance, the change they represent requires, at minimum, delicate and patient implementation.

## A possible middle ground

In an effort to incorporate the digital security afforded by Blockchain, while preserving the trust and stability of a national currency, many countries are pursuing their own versions of a Central Bank Digital Currency.

In Thailand, this effort is already quite advanced; a PwC study ranks Thailand #1 in the world for its CBDC development, sharing the top spot with Hong Kong. This ranking is a reflection of the CBDC's well-developed infrastructure, effective design, and strong software support for cross-border transactions.

While no country has yet launched a fully functioning CBDC, Thailand is closer than many people realize. The Bank of Thailand is anticipating public trials of its CBDC in the second quarter of 2022, potentially opening up the new currency for general use in the next three to five years. The benefits could be dramatic, starting with the ability of all citizens to gain easy access to a stable digital currency.

A well-run CBDC in Thailand would provide fast and reliable online payment, with instant settlement and no processing delays. The digital infrastructure would also make transactions cheaper than current methods permit, enabling more fluid financial exchanges. CBDCs would be as trusted as cash and as convenient as a payment app – while also delivering added security through Blockchain technology.

Moreover, unlike privately issued cryptocurrencies such as the one Meta is developing, CBDCs have the full backing of their country of origin. Meta itself is unlikely to go bankrupt – but if it did, the value of its in-house currency could fall to zero. Each CBDC will be guaranteed by the central bank of its country, just the same as a standard currency. No ordinary company, or even private bank, can make a similar promise for any cryptocurrency it decides to develop.

Still, even a well-managed CBDC may bring some indirect risks into the financial system. In an extreme scenario, if enough people shift their savings from standard bank accounts to CBDC accounts, the banks may not have enough money on hand to fund such transfers. The resulting loss of public confidence could cause more people to withdraw their funds as well, leading to a run on the banks.

Such an outcome can almost certainly be prevented through a gradual and well-managed transition to the new, more mature, cryptocurrency era. Yet it should nevertheless serve as a reminder that we are entering uncharted financial territory, and that each step forward must be made with care.

Lastly, it is worth noting that many proponents of Bitcoin (and its peers) fundamentally disagree with the effort to link new cryptocurrencies to central banks. Decentralization, they would argue, is a feature rather than a bug – preventing manipulation by central authorities. In their view, transparency and neutrality are primary goals which can only be met by the free market.

## Guidance for an unknown future

The imminent arrival of CBDCs brings many questions: Will each country regulate its cryptocurrency in a different way, or will a global set of standards become the new norm? How will software bugs be handled if they affect international transactions? Will the viability of CBDCs embolden more governments to crack down on unregulated cryptocurrencies, such as Bitcoin?

As digital currencies come of age, businesses and investors will need to understand the complex legal and practical issues that surround their use. Even as regulations evolve over time, our team can help you make smart decisions and get the most from your investments. Contact Kudun & Partners today to find out how.