

The Role of Digital Currencies in the Global Financial System

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Abstract: *The world financial system is experiencing a deep metamorphosis fueled by the development of digital currencies, including central bank digital currencies (CBDCs), stablecoins, and decentralized cryptocurrencies. Such innovations are redefining how value is stored, transferred, and governed across borders. As more and more governments, central banks, private institutions, and individuals find themselves using digital financial instruments, the implications for monetary policy, financial stability, and international economic governance are also becoming more complex and far-reaching. This research explores the developing role of digital currencies within the international financial architecture, considering how they shape important aspects like cross-border payments, central banking operations, currency sovereignty, and financial inclusion. It analyzes to what degree the digital currencies add to or are displacing classic financial intermediaries and the ways in which they can change the channels by which monetary policy is conducted. Special focus is placed on the relative roles of public digital currencies such as CBDCs and privately issued stablecoins and cryptocurrencies, discussing their systemic contribution to liquidity management, interest rate regulation, and international capital flows. Moreover, the study assesses the regulatory actions being crafted in jurisdictions to mitigate problems related to digital currencies, including legal classification, anti-money laundering regulation, cybersecurity threats, and consumer protection. The paper further emphasizes how the lack of standardized global frameworks may lead to asymmetries and inefficiencies in cross-border markets. Empirical evidence across chosen economies will be employed to examine the quantifiable implications of digital currency adoption on transaction costs, settlement velocity, and financial market volatility. The research further investigates how digital currencies can improve access to financial services in underbanked regions while cautioning against risks such as disintermediation of commercial banks and erosion of monetary sovereignty in smaller economies. By offering a comprehensive analysis grounded in both theory and data, this study aims to inform policymakers, central banks, and international institutions about the strategic implications of digital currencies and propose policy recommendations to harness their benefits while mitigating systemic risks in the global financial system..*

Keywords: *Digital currencies, Central Bank Digital Currency (CBDC), Stablecoins, Cryptocurrencies, Global financial stability, Monetary policy, Cross-border payments, Financial regulation*

