MY WEIRD PROMPTS

Podcast Transcript

EPISODE #308

The Rise of CBDCs: Financial Freedom or State Surveillance?

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EPISODE SYNOPSIS

In this episode, Herman and Corn dive into the complex world of Central Bank Digital Currencies (CBDCs) and what they mean for the future of money in 2026. Inspired by a listener's question on data sovereignty, the duo explores the tension between the convenience of digital tracking and the looming threat of state surveillance. They break down the global landscape, from China’s massive e-CNY rollout and India’s geopolitical power plays to the methodical approach of the Bank of Israel and the political resistance in the United States. Listeners will learn about "programmable money," the potential for expiring currency, and how the crypto community is divided between seeing CBDCs as a validation of their tech or a "boss fight villain" for privacy. Whether you're a spreadsheet enthusiast like Daniel or a privacy advocate, this episode offers a deep look at how the very nature of money is being rewritten for the digital age.

DANIEL'S PROMPT

Daniel

I’ve been thinking about the world of cryptocurrency and my preference for digital transactions over cash, specifically regarding data sovereignty and the ability to analyze transaction records. I'm particularly interested in sovereign-backed digital currencies. How do cryptocurrency enthusiasts feel about this concept? Is it viewed as a government-led imitation of crypto, or is there widespread support for it? Also, which governments are most advanced in implementing sovereign digital currencies, and what has been their experience so far?

TRANSCRIPT

Corn

Hey everyone, welcome back to My Weird Prompts. I am Corn, and I am sitting here in our living room in Jerusalem with my brother. It is Monday, January twenty-sixth, twenty twenty-six, and the winter air outside is crisp, but we have got the heater going and a very heavy topic on the table.

Herman

Herman Poppleberry, at your service. It is a beautiful day in the Holy City, but as usual, we are staying inside to dive into the digital weeds. Today's prompt is actually quite relevant to our current surroundings, especially given some of the news coming out of the Bank of Israel lately.

Corn

Yeah, our housemate Daniel sent us a really thoughtful audio note this week. He was talking about his preference for digital transactions over cash, specifically because of the data trail it leaves. He likes the idea of being able to analyze his own spending habits—you know Daniel, he loves a good spreadsheet—but he is also looking at the bigger picture of data sovereignty. He is worried that while he gets the data, he might be losing the control.

Herman

It is a classic Daniel question. He is always looking for that intersection of personal utility and high-level tech policy. He wanted to know about sovereign-backed digital currencies, often called Central Bank Digital Currencies, and how the actual cryptocurrency community feels about them here in twenty twenty-six. Is it a cheap government imitation? Or is it the logical next step for the global financial system?

Corn

And he also asked which governments are leading the pack and what their experience has been so far. This is a massive topic, Herman. We have touched on digital security and hardware vaults in recent episodes, like episode three hundred, but this goes right to the heart of what money actually is in the mid-twenties.

Herman

It really does. And I think we should start by addressing that first part of Daniel's question. How do the crypto enthusiasts feel? Because if you go to a Bitcoin conference today or hang out in decentralized finance forums, the reaction to Central Bank Digital Currencies is... well, it is complicated. It is a mix of validation and deep-seated suspicion.

Corn

I imagine it is pretty polarizing. On one hand, you have the people who got into crypto specifically to get away from government control. For them, a digital currency issued by a central bank is basically the ultimate boss fight villain, right? It is the state taking the very tools meant to liberate us and using them to tighten the leash.

Herman

Exactly. In those circles, they often call them surveillance coins. The argument is that while Bitcoin offers a degree of pseudonymity and a fixed supply that no government can mess with, a Central Bank Digital Currency is the exact opposite. It gives the state total visibility into every single transaction in real-time. If the government can see every coffee you buy, every book you read, every donation you make... that is a level of insight that traditional cash never allowed. It is the end of financial privacy as we know it.

Corn

But Daniel's point was that he actually likes the data. He wants the records for his own analysis. So, is there a segment of the crypto world that sees this as a win? Like, hey, the government is finally admitting that our technology is superior?

Herman

There is definitely a told-you-so element. You have the more institutional or pragmatic side of the crypto world that sees Central Bank Digital Currencies as a massive validation of Distributed Ledger Technology. They argue that if the world's major economies move to a blockchain or a similar ledger system, it will bridge the gap between traditional finance and decentralized finance. It makes on-ramps and off-ramps much smoother. If your digital dollars and your digital bitcoin live on similar technical rails, moving between them becomes trivial.

Corn

So, it is less of an imitation and more of an evolution of the existing fiat system using crypto's tools? Like the state finally upgrading its legacy software?

Herman

That is how the proponents see it. But the friction comes from the word sovereignty. In the crypto world, sovereignty usually means individual sovereignty or self-sovereignty. You own your keys, you own your money. In the world of Central Bank Digital Currencies, sovereignty refers to the state. The state maintains the power to freeze accounts, reverse transactions, or even set expiration dates on money to stimulate spending. It is a top-down model versus a bottom-up one.

Corn

Wait, you mentioned expiration dates on money earlier. That sounds like a science fiction trope. Is that actually happening in twenty twenty-six?

Herman

It is more than a trope; it is a very real policy tool being discussed and even tested. It is called programmable money. Imagine if a government wants to issue a stimulus package, but they want to make sure people actually spend it to boost the economy instead of just saving it or paying down debt. With a Central Bank Digital Currency, they could technically program those specific units of currency to lose value or vanish if they are not spent within six months. We have seen early versions of this in some of the Chinese pilots where red envelopes of digital yuan had to be used by a certain date.

Corn

That is fascinating and terrifying at the same time. It completely changes the store of value function of money. If my money has an egg timer on it, it is not really a store of value anymore; it is more like a coupon. But let's look at Daniel's interest in data sovereignty. If I am using a government digital currency, do I actually have more control over my data than I do with, say, a credit card or a private app like PayPal?

Herman

That is the million-dollar question, and it is where the implementation details really matter. Right now, if you use a credit card, your data is owned by the bank and the payment processor. They sell that data, they use it for credit scoring, they analyze it. Proponents of Central Bank Digital Currencies argue that a well-designed system could actually be more private than a commercial bank. They suggest a two-tier system where the central bank sees the total flow, but individual identities are shielded by a layer of privacy-preserving technology... unless there is a warrant.

Corn

I feel like we have heard the unless there is a warrant line before, and it rarely ends with more privacy for the user. But I see the logic. If the government is the provider, they are not necessarily motivated by the same profit incentives to sell your data to advertisers that a private bank might be. They have other motivations, of course, but maybe not that specific one.

Herman

Potentially. But then you have the other side of the coin. If the government has a direct ledger of all transactions, they do not need to ask a bank for your records. They already have them. So, for someone like Daniel, who wants to analyze his own records, a Central Bank Digital Currency might provide a very clean, standardized Application Programming Interface for his personal finance apps. He could grant his budgeting software read-only access to his official sovereign ledger. But he is trading that convenience for a direct line of sight from the tax authorities and the regulators. It is the ultimate transparency, for better or worse.

Corn

Let's pivot to who is actually doing this. We are sitting here in Jerusalem, and I know the Bank of Israel has been looking into a Digital Shekel for years. What is the status as of today?

Herman

Israel is actually a great example of a country that is being very methodical. They have been running Project Icebreaker, which is a collaboration with the central banks of Norway and Sweden and the Bank for International Settlements. The goal there was to see how different Central Bank Digital Currencies could talk to each other for cross-border payments. And more recently, Project Sela showed that you could have a retail digital currency that supports competition while retaining some of the privacy features of cash.

Corn

Because right now, sending money to another country is a nightmare of correspondent banking and high fees. If I want to send money to our cousins in the States, it takes three days and costs a fortune.

Herman

Exactly. It can take days and cost a significant percentage of the total. Project Icebreaker showed that you could settle these transactions in seconds using a hub-and-spoke model with digital currencies. As for the Digital Shekel itself, the Bank of Israel has a roadmap for implementation starting this year, twenty twenty-six. They are particularly interested in how it could encourage competition in the payment market, which is currently dominated by a few large banks here. They want to break that oligopoly by giving fintech startups direct access to the central bank's ledger.

Corn

It feels like the smaller, more tech-forward nations are the ones leading the way. But what about the big players? China is the one we always hear about in the news.

Herman

China is the undisputed leader in terms of scale. Their currency is the e-CNY, or the digital yuan. As of late twenty twenty-five, they had processed over three point four billion transactions worth roughly two point four trillion dollars. That is a staggering amount of volume. And here is the big news from just a few weeks ago: as of January first, twenty twenty-six, the People's Bank of China began allowing commercial banks to pay interest on digital yuan holdings.

Corn

Wait, interest on digital cash? That is a huge shift.

Herman

It is massive. It effectively transitions the e-CNY from being just digital cash to being a digital deposit currency. It makes it much more attractive for people to keep their savings in the government's digital wallet rather than a traditional bank account. They have integrated it into the apps people already use, like WeChat Pay and Alipay, but they are pushing hard to make the e-CNY the primary rail.

Corn

So for the average person in Shanghai, does it feel any different than using a regular digital wallet?

Herman

On the surface, not really. But the underlying architecture is different. It is a direct liability of the People's Bank of China. And the government has been very open about the fact that it helps them combat money laundering and illegal activities. In practice, it gives the central bank a real-time heat map of the entire economy. They can see exactly where money is flowing, which sectors are heating up, and which are cooling down, with zero delay. It is a level of macroeconomic control that a central banker from the nineteen eighties could only dream of.

Corn

That sounds like a double-edged sword. Great for managing inflation, maybe, but a nightmare for anyone worried about state overreach. What about India? I know they have been moving fast on digital payments too.

Herman

India is the other giant in the room. Their e-Rupee pilot hit over one million daily transactions by late twenty twenty-five. They are actually proposing to link the digital currencies of all the BRICS nations—Brazil, Russia, India, China, and South Africa—at the upcoming twenty twenty-six summit. They want to create an alternative to the US dollar-dominated SWIFT system. It is a geopolitical power play as much as a technical one.

Corn

And what about the US? Are we going to see a Digital Dollar anytime soon?

Herman

The United States is in a very different position. In January twenty twenty-five, President Trump issued an Executive Order that actually prohibited federal agencies from promoting or issuing a Central Bank Digital Currency. There is a lot of political pushback in the US, with politicians citing concerns about financial privacy and the weaponization of the banking system. So while the Fed is still doing technical research—projects like Project Hamilton and Project Cedar—they are nowhere near a public launch. The US is currently the wait-and-see flavor of the month.

Corn

It is interesting that the US, which usually leads in tech, is so hesitant here. But I guess when you hold the world's reserve currency, you have the most to lose if you mess it up. If the Digital Dollar has a bug, the whole world feels it.

Herman

Exactly. Plus, the private banking lobby in the US is incredibly powerful. If people can keep their money directly with the Federal Reserve in a digital wallet, why would they need a checking account at a commercial bank? This is called disintermediation, and it is the banks' worst nightmare.

Corn

Oh, that is a huge point. It could trigger a massive bank run where everyone moves their deposits from private banks to the risk-free central bank account.

Herman

Precisely. To prevent this, most central banks, including the European Central Bank, are looking at two-tier models. The commercial banks still hold the accounts and manage the customer service, but the money itself is the digital currency. Or, they might put limits on how much digital currency an individual can hold... say, three thousand Euros. That way, you can use it for your daily coffee and groceries, but you cannot keep your life savings there.

Corn

So it is like a digital wallet with a cap. That seems like a compromise that might make the banks happy but might frustrate users who want the safety of the central bank for all their money.

Herman

It is a very delicate balancing act. Speaking of the Digital Euro, the legislation for it is expected to be finalized later this year, in twenty twenty-six, with a pilot exercise starting in twenty twenty-seven. They are really focusing on privacy as the number one selling point, trying to win over a skeptical European public.

Corn

Let's go back to Daniel's point about analyzing transaction records. If I am a developer or just a data nerd like Daniel, what does the experience of a Central Bank Digital Currency look like compared to current banking?

Herman

Hopefully, it looks like a standardized, open Application Programming Interface. Right now, if you want to pull your data from three different banks, you have to use a third-party aggregator like Plaid, which is often clunky and has its own privacy issues. A Central Bank Digital Currency could provide a sovereign way to access your own data. You could grant a budgeting app read-only access to your official ledger. It would be cleaner, faster, and more accurate because the format would be a piece of national infrastructure, like the roads or the power grid.

Corn

And since it is sovereign, the format wouldn't change every time a bank updates its website. It would be a stable foundation for innovation.

Herman

Exactly. But this brings us to the technical middle ground that I find really interesting: programmable privacy. Some Central Bank Digital Currency designs use something called Zero Knowledge Proofs. We have talked about this before, but in the context of money, it would allow you to prove that you have enough money for a transaction and that you paid your taxes on it, without revealing your entire transaction history or your identity to the merchant. It is the digital equivalent of handing over a twenty-dollar bill—the merchant knows it is real, but they do not know who you are or what else is in your wallet.

Corn

Okay, now that is a feature I think most crypto people could get behind. If a Central Bank Digital Currency actually implemented robust Zero Knowledge Proofs, it could technically be more private than a physical credit card.

Herman

Theoretically, yes. But would a government actually build that? Most governments want the opposite. They want more visibility, not less. The challenge is finding that sweet spot where small, offline transactions are private, like cash, but larger transactions are tracked to prevent crime.

Corn

Wait, you mentioned offline transactions again. How do you do a digital transaction without the internet? If I am in a basement or the power is out, how do I buy that loaf of bread?

Herman

This is one of the biggest technical hurdles. India has been testing this using Near Field Communication technology, where you can basically tap two phones together to transfer the value directly, chip-to-chip. The value is stored in a secure hardware element on your phone. Once you reconnect to the grid, the ledger updates. It is a digital version of the coins in your pocket.

Corn

That sounds exactly like the Hardware Vault we discussed in episode three hundred. If that chip is compromised, or if the government has a backdoor into it, your sovereign money isn't very sovereign at all.

Herman

Spot on. The security of the hardware in your pocket becomes the security of your entire financial life. If we move to a world of Central Bank Digital Currencies, the trust shifts from the commercial bank to the hardware manufacturer and the central bank's code. It is a massive shift in the trust architecture of society.

Corn

So, looking at the global landscape in twenty twenty-six, it seems like we have a few different flavors. You have the Control flavor in China, the Inclusion flavor in the Bahamas and Nigeria—though adoption there has been a struggle because people still prefer Bitcoin or US dollar stablecoins—and the Efficiency flavor being tested in Europe and Israel.

Herman

That is a perfect summary. And then you have the US, which is currently the Strategic Reserve flavor, where they are looking at Bitcoin as a reserve asset while blocking a Digital Dollar. It is a wild, fragmented world right now.

Corn

So, to answer Daniel's question: the crypto world mostly views Central Bank Digital Currencies with a mix of I told you so and stay away from me. But for the average person, it is going to be the most significant change in how we interact with the economy since the invention of the credit card.

Herman

Maybe even since the invention of paper money itself. We are moving from analog tokens to programmable claims. It is a wild time to be alive, and I think Daniel is right to be asking about data sovereignty now, while these systems are still being designed.

Corn

You know, it reminds me of what we discussed back in episode two hundred and ninety-eight about hardware trust and the provenance of data. If you cannot trust the ledger, you cannot trust the money. And if you cannot trust the money, you cannot trust the society built on it.

Herman

Well said. And for anyone listening who wants to dive deeper into the technical side, I highly recommend looking at the Bank for International Settlements website. They have some incredibly detailed papers on the Architecture of a Central Bank Digital Currency. It is nerdy, but it is the blueprint for the future of your wallet.

Corn

Thanks for the deep dive, Herman. I feel like I understand Daniel's prompt a lot better now. It is not just about digital versus cash; it is about who controls the ledger of our lives. And hey, if you are listening and you found this helpful, or if you have your own weird prompt about the future of tech, we would love to hear from you.

Corn

Yeah, you can reach out to us through the contact form at myweirdprompts dot com. And if you have a moment, please leave us a review on your favorite podcast app. It really does help other curious people find the show.

Herman

We genuinely appreciate the support. This has been My Weird Prompts. I am Herman Poppleberry.

Corn

And I am Corn. Thanks to Daniel for the great prompt, and thanks to all of you for listening. We will see you next week.

Herman

Until then, stay curious.

Corn

And keep your keys safe. Goodbye everyone!

Herman

Bye!