In the name of God.

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Digital Money and Its Advantages

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(The reference language for this article is Persian, and it is only translated into the English language.)

This article is only for providing some basic knowledge, definitions, and understanding at the public level, and there won't be any technical terms.

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Digital Money and Its Advantages

In the present era, developments in information and communication technology have played an indispensable role in transforming the economic and banking structure of the world. One of the most significant of these transformations is the emergence of "digital money"—a concept that has gained increasing importance with the passage of time and has displaced the traditional boundaries of money. Digital money has not only rendered the execution of financial transactions simpler and more rapid, but has also brought about a revolution in the global financial system by offering characteristics such as transparency, security, cost reduction, and the elimination of intermediaries.

Part One: Definition of Digital Money

Digital money refers to any type of currency or funds that are stored and transferred electronically. Unlike physical money (such as banknotes and coins), digital money has no tangible existence and is utilized solely within digital platforms. This type of money may include the following:

1. Electronic Money (E-Money)
2. Cryptocurrencies such as Bitcoin and Ethereum
3. Central Bank Digital Currency (CBDC), also known as national digital currency
4. Electronic wallets such as PayPal, WebMoney

Part Two: Types of Digital Money

Cryptocurrencies: Currencies such as Bitcoin, Ethereum, and Ripple that have been created based on blockchain technology. These currencies are decentralized and are not controlled by any government or central bank.

Central Bank Digital Currency (CBDC): These are currencies developed by central banks of countries to replace cash. For example, the digital yuan in China or the digital euro in the European Union.

Electronic or Semi-Digital Money: Digital credits stored in bank accounts or online wallets that are used in daily transactions.

Part Three: Advantages of Digital Money

Speed and ease of transactions: Fund transfers in the digital platform are executed much faster than traditional methods, especially compared to international remittances.

Reduction of banking costs: Many intermediary and banking service costs in digital transactions are eliminated or significantly reduced.

High security: Technologies such as encryption and blockchain enhance transaction security.

Global accessibility: Users anywhere in the world can access financial services with an internet connection.

Transparency and traceability: Particularly in blockchain-based currencies, all transactions are visible and traceable, which prevents financial corruption.

Part Four: Impact of Digital Money on the Global Economy

Digital money has succeeded in removing many international financial barriers. Among its advantages in this domain, the following may be mentioned:

- Facilitation of international trade
- Contribution to the growth of emerging economies
- Attraction of investment through innovative technologies
- Reduction of dependence on the traditional banking system

Part Five: Digital Money and the Banking of the Future

With the expansion of digital money, banks have been compelled to adapt to this transformation. Many central banks are currently testing and implementing their own specific digital currencies. In the not-too-distant future, branchless and fully digital banking will become commonplace.

Part Six: Challenges and Concerns

Although digital money possesses numerous advantages, this technology is also accompanied by challenges:

- Concerns regarding user privacy
- Criminal use of anonymous currencies
- Severe price volatility in cryptocurrencies
- Lack of a clear legal framework in certain countries

Part Seven: Status of Digital Money in Iran

In Iran as well, the trend toward the use of digital money is increasing. The Central Bank of Iran has pursued the "National Cryptocurrency" project, and the use of digital wallets is expanding. Nevertheless, there exists a need for the formulation of regulations and robust infrastructure for further development of this domain.

Part Eight: The Future of Digital Money

It is anticipated that in the coming decades, physical money will virtually yield its place to various forms of digital money. With the growth of the Internet of Things, artificial intelligence, and the digital economy, digital money will play a fundamental role in human life.

Digital money is a phenomenon that cannot be disregarded. Despite the challenges, the extensive advantages that this technology offers have transformed it into one of the key instruments of the future global economy. Countries, corporations, and people must, through better understanding of this technology, prepare themselves for the new financial era.

Part Nine: Structure of Digital Money Based on Offline Banking

The subject of IP2IP or IP/IP transactions—which are international transactions or bank transfers with specific structures such as SWIFT, IBAN, or other international transfer systems—and financial backing through money transfer is a complex subject related to the domains of international banking, monetary economics, monetary policy, and financial technology.

First, it is necessary to clarify precisely what IP/IP signifies. In certain texts and systems, IPIP may be employed as an Interbank Payment Instruction Protocol or as a specific designation within a banking system; however, officially, major systems such as SWIFT, SEPA, or CHIPS do not utilize this nomenclature.

Part Ten: How Is Money Transferred in International Transactions?

Money in international transactions is transferred through two methods—offline and online—which have been thoroughly explained in previous articles. In these articles, we have discussed primarily the offline banking transfer system.

1. Types of Money Used:

In international banking transactions, we have several types of assets that can be transferred as follows:

a) Fiat digital equivalent cash: Such as the dollar, euro, pound, and official currencies of other countries

b) Cryptocurrency (Digital Currency): Such as Bitcoin, Ethereum, etc.

c) Central Bank Digital Currency (CBDC): In the near future, many countries intend to utilize national digital currency produced by their central bank.

d) Money-Like Assets: Such as gold transfers, treasury bills, bonds, etc., which are exchanged in place of cash.

2. Transfer Path:

International transactions are transferred through well-known and reliable international public systems, which include:

a) SWIFT: Global network for financial message transfer

b) CHIPS: Interbank payment system of the United States

c) SEPA: Payment network for European countries

d) RippleNet: Blockchain technology for rapid payments

e) Offline transactions: L2L – B2B – S2B – S2S

It is worth noting that in this type of transaction, actual money is typically not transferred; rather, account records in intermediary and central banks are adjusted in favor of the beneficiary.

Part Eleven: How Can This Money Be Made into Financial Backing?

For a financial transfer (for instance, transfer through IPIP or any system) to be converted into backing for money printing, a precise legal and accounting process is required:

1. What Is the Concept of "Monetary Backing"?

In economics, money that is printed must either possess foreign currency backing (such as the dollar), be backed by gold or other assets, or be based on the domestic economy and trust in the government.

2. Methods of Converting Transferred Money into Backing for Money Printing:

a) First Method: Foreign Currency Deposit

When money enters the country through international transactions and the central bank maintains that currency as foreign exchange reserves, it can print the equivalent in national currency (this is done in Iran with the dollar, euro, or Chinese yuan). This process is similar to "liquidity recovery" in foreign exchange systems.

b) Second Method: Use of Digital Assets or Gold

If the transfer is backed by gold or valid cryptocurrency, the central bank can issue new money by converting it into a maintainable currency.

Example: Transfer of Bitcoin, sale to the market, storage of obtained dollars, and printing of Iranian Rials.

c) Third Method: Settlement of Foreign Debt

If the transferred money is for settling foreign debt, its deposit into the banking system increases the country's foreign exchange reserves and can subsequently strengthen the monetary base.

Part Twelve: Limitations and Requirements

Prerequisites for printing money based on incoming transactions:

Central bank supervision: Must be managed by the country's regulatory authorities.

Official entry of money: Sources must be registered through official and legal channels.

Budget and monetary law: Money printing requires legal authorization.

Practical Example:

Suppose 100 million dollars officially enters Iran from a foreign country:

The central bank registers this dollar in its treasury.

The Rial equivalent (for instance, 4,000 billion Tomans at the official rate) is printed or recorded in accounts.

This amount of Rials enters the banking system and is used for economic projects.

Due to the entry of actual currency, the monetary base remains balanced.

International transactions such as IP/IP or SWIFT play an important role in providing foreign currency.

If foreign currency enters the country legally and reliably, the central bank can print the equivalent national currency. This process must be managed and recorded by the central bank to result in sustainable economic growth without inflation.

Improper use of this mechanism has been one of the causes of severe inflation in countries such as Venezuela and Zimbabwe.

End of Article Number Fifteen.