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China to Launch Official Digital Currency

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Why in News

Recently, China has started testing its official digital currency which is **unofficially called “Digital Currency Electronic Payment, DC/EP”**.

Key Points

- The digital currency of China **has not been officially released** but internal pilot tests are being carried out in four cities of China.
- China is expected to officially make the sovereign digital currency available to the public later in 2020.
- It could be considered the **world’s first Central Bank Digital Currency (CBDC) if it is officially issued** by state bank People’s Bank of China.
- The total size of China’s digital currency could reach one trillion yuan (\$140 billion), equivalent to about one-eighth of China’s cash.

Digital Currency

- Digital currency is a payment method which **exists only in electronic form and is not tangible**.
- Digital currency can be transferred between entities or users with the help of technology like computers, smartphones and the internet.
- Although it is similar to physical currencies, digital money allows borderless transfer of ownership as well as instantaneous transactions.
- Digital currency is also known as digital money and cybercash.
- E.g. Cryptocurrency

Cryptocurrency

- A **cryptocurrency** is a digital or virtual currency that uses cryptography for security.

- Cryptocurrencies use decentralized technology to let users make secure payments and store money without the need to use their name or go through a bank.
- They run on a distributed public ledger called **blockchain**, which is a record of all transactions updated and held by currency holders.
- The most common cryptocurrencies are Bitcoin, **Libra**, Ethereum, Ripple, and Litecoin.

India's Stand on Digital Currency

- The **Reserve Bank of India (RBI) had banned cryptocurrencies in 2018.**
 - RBI had considered cryptocurrencies as a poor unit of account and also demonstrated by their frequent and high fluctuation in value.
 - RBI also stated that it pose several risks, including anti-money laundering and terrorism financing concerns (AML/CFT) for the state and liquidity, credit, and operational risks for users.
 - It had also said that it would seriously **consider developing a sovereign digital currency** when the time is appropriate
- Subsequently, **the Supreme Court has struck down a circular of the RBI**, which bans financial institutions from enabling deals in digital or cryptocurrencies.

The ban was challenged by the Internet & Mobile Association of India (IAMA) sighting that dealing and trading in cryptocurrency was a legitimate business activity and that the RBI did not have jurisdiction over it as these assets could be classified as commodities rather than currency.

Source:HT