



## RBI to Launch Retail Digital Rupee

**For Prelims:** Reserve Bank of India (RBI), e-rupee, Central Bank Digital Currency (CBDC), virtual currency, Digital Payments.

**For Mains:** Significance of e-rupee & virtual currencies.

### Why in News?

The Reserve Bank announces the launch of the first pilot for **retail digital Rupee (e₹-R)** also called **Central Bank Digital Currency (CBDC)**.

- On 1<sup>st</sup> November 2022, the RBI launched the **digital rupee for the wholesale segment** to settle secondary market transactions in government securities.

### What are the Key Points about the Pilot Project?

- The first phase of a pilot project that will cover **select locations and banks in a closed user group (CUG)** comprising participating customers and merchants.
- The pilot will initially cover the four cities of **Mumbai, New Delhi, Bengaluru, and Bhubaneswar**, where customers and merchants will be able to use the digital rupee (e₹-R), or e-rupee.
- According to the central bank, **the pilot will test the robustness of the entire process of digital rupee creation, distribution and retail usage in real time.**

### What is e-rupee?

- **Definition:**
  - RBI defines the **CBDC as the digital form of currency notes** issued by a central bank. It is a sovereign or entirely independent currency issued by the central bank (in this case, RBI), in accordance with the country's monetary policy.
- **Legal Tender:**
  - Once officially issued, **CBDC will be considered as a medium of payment and legal tender by all three parties - citizens, government bodies, and enterprises. Being government-recognised**, it can be freely converted to any commercial bank's money or notes.
  - RBI is not in favour of e-rupee with interest. Because people might withdraw money from banks and convert it to digital rupee - causing banks to fail.
- **Difference with Cryptocurrencies:**
  - The underlying technology of [cryptocurrency \(distributed ledger\)](#) can underpin parts of **the digital rupee system**, but the RBI has not decided on this, yet. However, cryptocurrencies like bitcoin or ethereum are 'private' in nature. Digital rupee on the other hand, will be issued and controlled by the RBI.
- **Global Scenario:**
  - As of July 2022, 105 countries were exploring CBDC. Ten countries have launched CBDC,

the first of which was the Bahamian Sand Dollar in 2020 and the latest was Jamaica's JAM-DEX.

## What are the Types of e-Rupee?

- Based on the **usage and the functions performed by the digital rupee and considering the different levels of accessibility**, RBI has demarcated the digital rupee into two broad categories — Retail and Wholesale.
  - **Retail e-rupee is an electronic version** of cash primarily meant for retail transactions. It will be potentially available for **use by all — private sector, non-financial consumers and businesses** — and can provide access to safe money for payment and settlement as it is a direct liability of the central bank.
  - **Wholesale CBDC is designed for restricted access to select financial institutions. It has the potential to transform the settlement systems** for financial transactions undertaken by banks in the **government securities (G-Sec) segment**, inter-bank market and capital market more efficient and secure in terms of operational costs, use of collateral and liquidity management.

## How will the Retail Digital Rupee Work?

- The e₹-R would be in the **form of a digital token that represents legal tender**. It will be issued in the same denominations as paper currency and coins, and will be distributed through intermediaries, i.e., banks.
- Users will be able to **transact with e₹-R through a digital wallet** offered by the participating banks and stored on mobile phones and devices, according to the RBI.
- Transactions can be **both person to person (P2P) and person to merchant (P2M)**.
- Payments to merchants can be **made using QR codes displayed at merchant locations**.
- The e₹-R would offer **features of physical cash like trust, safety and settlement finality**.
  - As in the case of cash, it will **not earn any interest and can be converted to other forms of money**, like deposits with banks.

## What are the Advantages of e-rupee?

- Reduction in operational **costs involved in physical cash management**, fostering financial inclusion, bringing resilience, efficiency and innovation in the payments system.
- Provide the public with **uses that any private virtual currencies can provide, without the associated risks**.

## What are the issues related to CBDC in India?

- **Cyber Security:**
  - CBDC ecosystems may be at a similar risk of cyber-attacks that the current payment systems are exposed to.
- **Privacy issue:**
  - The CBDC is expected to generate huge sets of data in real time. Privacy of the Data, concerns related to its anonymity and its effective use will be a challenge.
- **Digital divide and financial illiteracy:**
  - The [NFHS-5](#) also provides data segregation based on the rural-urban divide. Only 48.7% of rural males and 24.6% of the rural females have ever used the internet. So, CBDC may wide gender-based hurdle in financial inclusion along with digital divide.

## Way Forward

- Technical clarity must be ensured to decide on the underlying technologies that can be trusted to be safe and stable.
- To make CBDC a successful initiative and movement, RBI must address the demand side infrastructure and knowledge gap to increase its acceptance in rural areas for wide base.
- The RBI must proceed cautiously, remaining mindful of the various issues, the design

considerations and the implications surrounding the introduction of the digital currency.

## UPSC Civil Services Examination Previous Year Question (PYQ)

### Prelims

**Q. Consider the following pairs: (2018)**

|    | <b>Terms sometimes</b> | <b>Context/Topic seen in news</b> |
|----|------------------------|-----------------------------------|
| 1. | Belle II experiment    | Artificial Intelligence           |
| 2. | Blockchain technology  | Digital/ Cryptocurrency           |
| 3. | CRISPR – Cas9          | Particle Physics                  |

**Which of the pairs given above is/are correctly matched?**

- (a) 1 and 3 only
- (b) 2 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

**Ans: (b)**

### **Mains**

**Q. What is Cryptocurrency? How does it affect global society? Has it been affecting Indian society also? (2021)**

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