



RBI to Introduce Digital Currency

Why in News

The [Reserve Bank of India \(RBI\)](#) is working on a **phased implementation strategy** for its own **digital currency** and is in the process of launching it in **wholesale and retail segments in the near future**.

- A **high-level inter-ministerial committee** set up by the Finance Ministry had recommended **Central Bank Digital Currency (CBDC)** with **changes in the legal framework including the RBI Act**, which currently empowers the RBI to regulate issuance of bank notes.

Key Points

▪ Digital Currency:

- It is a **payment method** which exists **only in electronic form and is not tangible**.
- It 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](#)

▪ Need:

◦ Addressing the Malpractices:

- The need for a sovereign digital currency arises from the **anarchic design of existing cryptocurrencies**, wherein their creation, as well as maintenance, are in the hands of the public.
 - With no government supervision and ease of cross-border payments, renders them vulnerable to malpractices like tax evasion, terror funding, [money laundering](#), etc.
 - By regulating digital currency, the central bank can put a check on their malpractices.

◦ Addressing Volatility:

- As the **cryptocurrencies** are not pegged to any asset or currency, its value is solely determined by speculation (demand and supply).
- Due to this, there has been huge volatility in the value of cryptocurrencies like bitcoin.

- As CBDCs will be pegged to any assets (like gold or fiat currency) and hence will not witness the volatility being seen in cryptocurrencies.

◦ Digital Currency Proxy War:

- India runs the **risk of being caught up in the whirlwind of a proxy digital**

currency war as the US and China battle it out to gain supremacy across other markets by introducing new-age financial products.

- Today, a **sovereign Digital Rupee** isn't just a matter of financial innovation but a need to push back against the inevitable proxy war which threatens our national and financial security.

- **Reducing Dependency on Dollar:**

- Digital Rupee **provides an opportunity for India to establish the dominance of Digital Rupee as a superior currency** for trade with its strategic partners, thereby reducing dependency on the dollar.

- **Advent of Private Currency:**

- If these **private currencies gain recognition**, national currencies with limited convertibility are likely to come under some kind of threat.

- **Significance:**

- It would **reduce the cost of currency management** while enabling **real-time payments without any inter-bank settlement**.
- India's fairly high currency-to-GDP ratio holds out another benefit of Central Bank Digital Currency (CBDC) - to the extent large cash usage can be replaced by (CBDC), the **cost of printing, transporting and storing paper currency can be substantially reduced**.
- It will also **minimize the damage to the public** from the usage of private virtual currencies.

- **Issues:**

- Some key issues under RBI's examination include, the **scope of CBDCs, the underlying technology, the validation mechanism and distribution architecture**.
- **Also, legal changes would be necessary** as the current provisions have been made keeping in mind currency in a physical form under the **Reserve Bank of India Act**.
- Consequential amendments would also be required in the **Coinage Act, Foreign Exchange Management Act (FEMA) and Information Technology Act**.
- **Sudden flight of money** from a bank under stress is another point of concern.

- **Recent Developments:**

- **El Salvador**, a small coastal country in Central America, has become the **first in the world to adopt Bitcoin, as legal tender**.
- **Britain** is also exploring the possibility of creating a Central Bank Digital Currency (Bitcoin).
- In 2020, **China started testing its official digital currency** which is unofficially called "Digital Currency Electronic Payment, DC/EP".
- In **April 2018, RBI banned banks and other regulated entities from supporting crypto transactions** after digital currencies were used for frauds. In **March 2020**, the **Supreme Court struck down the ban** as unconstitutional.

Way Forward

- The creation of a Digital Rupee will provide an opportunity for India to empower its citizens and enable them to use it freely in our ever-expanding digital economy and break free from an outdated banking system.
- Looking into its impact on macroeconomy and liquidity, banking systems and money markets, it is imperative of policymakers to thoroughly consider the prospects of Digital Rupee in India.

[Source: TH](#)

