

Central bank digital currency (CBDC)

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In news- The Reserve Bank of India (RBI) has proposed bringing in Central Bank Digital Currency (CBDC). The digital monetary asset would be implemented phase-wise.

Key updates-

- A CBDC is essentially a **legal tender** issued by the central bank.
- It has the **same functional capabilities as a fiat currency** and is considered **exchangeable** in nature with said fiat currency in a one-to-one form.
- The only notable difference is the form it takes, i.e., a digital form.
- While it is a digital currency, it is important to differentiate it from existing private digital currencies such as Bitcoin and Ethereum.
- Private crypto assets such as those have no legal issuers and they cannot be considered as money or currency, whereas the CBDC can be.
- The CBDC **minimizes the risks as it is not subject to the volatility of the market's fluctuations.**
- RBI is framing considerations for the legal framework to be put into place so that the CBDC can coexist with cash and digital payment methods in India.
- This form of currency ends up on the RBI's balance sheet as a currency in circulation.
- **Amendments to Sections 24, 25 and 26 of the RBI Act as well as to the Coinage Act of 2011** needs to be done.
- Additionally, changes would be required to the Foreign Exchange Management Act and the Information and Technology Act.