

Digital Rupee – a central bank digital currency (CBDC)

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In news– In her Budget speech, the Union Finance Minister announced the launch of the Digital Rupee – a central bank digital currency (CBDC) 2022-23 onwards.

About Digital Rupee /CBDC-

- CBDC is a **legal tender issued by a central bank in a digital form.**
- It is **similar to a fiat currency** issued in paper and is interchangeable with any other fiat currency.
- It will be fungible with physical currency.
- CBDC is the same as currency issued by a central bank but takes a different form than paper (or polymer).
- It is sovereign currency in an electronic form and it would appear as liability (currency in circulation) on a central bank's balance sheet.
- **It will be launched by the Reserve Bank of India** and it will be **backed by blockchain technology.**
- Digital Rupee transactions will be instantaneous as opposed to the current digital payment experience.
- The **goal is to provide users with convenience and security of digital as well as the regulated, reserve-backed circulation** of the traditional banking system.
- The announcement in the Budget essentially expresses the government's intention on cryptocurrencies and other virtual currencies.
- The RBI has on several occasions flagged concerns of money laundering, terror financing, tax evasion, etc with private cryptocurrencies like Bitcoin, Ether, etc and had planned to announce its own CBDC.

CBDCs advantages over other digital payments system-

- Payments using CBDCs are final and thus **reduce settlement risk in the financial system.**
- The need for **interbank settlement disappears.**
- CBDCs would also potentially enable a **more real-time and cost-effective globalization of payment systems.**
- It is conceivable for an Indian importer to pay its American exporter on a real time basis in digital Dollars, **without the need of an intermediary.**
- This transaction would be final, as if cash dollars are handed over, and would not even require that the US Federal Reserve system is open for settlement.
- **Time zone difference would no longer matter in currency settlements** – there would be no ‘Herstatt’ risk.
- Another advantage of CBDCs is India’s high currency-to-GDP ratio.
- **The cost of printing, transporting, storing, and distributing currency can be decreased** to the extent that substantial amounts of cash can be substituted by CBDCs.

What is blockchain technology?

A blockchain is essentially a digital ledger of transactions that is duplicated and distributed across the entire network of computer systems on the blockchain. It is a system of recording information in a way that makes it difficult or impossible to change, hack, or cheat the system.

Extra reading – National strategy on blockchain – JournalsOfIndia