CBDC: A Game Changer

Why in news?

With the rise in popularity of cryptocurrencies such as Bitcoin,Ethereum, Tether, etc., the central banks of various countries are researching and experimenting the Central Bank Digital Currency (CBDC).

What is a CBDC?

- A CBDC is a legal tender issued by a bank in a digital format.
- Also known as digital base money or digital fiat currencies, a CBDC is no different from hard cash, apart from the fact that they are in a digital or virtual form.
- It is not meant to replace hard cash but coexist as an additional form of payment method.

What are the types of CBDC?

- CBDC are basically of two types:
    1. **Account-based**: An account-based CBDC works just like a regular deposit account. It is also known as the central bank electronic money.
    2. **Digital tokens**: The token-based system of CBDC involves the transfer of an object of value from one wallet to another.

How CBDCs work?

- CBDCs are designed to function as a unit of account, store of value, and medium of exchange for daily transactions.
- It has the full faith and backing of the issuing government just like fiat money does.
- Central banks or monetary authorities will be solely liable for their operations.

What are the pros of digital currency?

- Lower the economy's reliance on cash
- Enable cheaper and smoother international settlements.
- Promote financial inclusion
- Minimise the processing time for transactions
- Simplify the implementation of monetary and fiscal policy.
- Use of distributed ledger technology (DLT) provides transparency to authorities and stakeholders
- Improves the resiliency of a financial network by eliminating the need for a centralised database of records.
- Maintains high-volume, low-value payments that are commercially unattractive for commercial banks
- Ease cross-border payments by reducing the cost and time of transactions unlike traditional methods like SWIFT.

Society for Worldwide Interbank Financial Telecommunication (SWIFT) is a global member-owned cooperative that acts as a secure financial message carrier. It is headquartered in Brussels, Belgium.

What are the disadvantages of digital currency?

- Cyber-security threats
- Issues of terror financing
- Lack of deeper penetration of high-speed Internet and telecommunication services
- Weakening of banking system in the long run
- Low financial literacy among the people
- Increased probability of fraud and financial crimes

What is the difference between CBDC and cryptocurrencies?



What is India's stance with digital currency?

- The RBI is working toward a phased implementation strategy of a CBDC.
- It is examining the scope of CBDCs, being a retail, wholesale, token and account based currency.
- With this, India joins the likes of China, Russia and the UK among major economies evaluating the issuance of their own digital currency.
- For launching a CBDC, an enabling legal framework which includes

amendments to several sections – 24,25,26 – of the RBI Act ,Coinage Act of 2011, FEMA and IT Act is needed.
- India and Singapore are working to link their digital payments systems to enable instant low-cost fund transfer.

CBDC initiatives undertaken in other countries include US (Digital Dollar), China (Digital Yuan), EU (Digital Euro), Sweden (eKrona), Japan (J Coin)

Is e-RUPI a digital currency?

- e-RUPI is a contactless digital prepaid payment utility, built on the UPI platform.
- The payments can be made via a QR code (smartphone users) or an SMS string based e-voucher (non-smartphone users).
- While the introduction of e-RUPI is the first step towards having a digital currency in India, it in itself is not a digital currency .
- It is a social service voucher based payment system that can be used only on specific grounds or specific goods.

Source: The Hindu Businessline, Economic Times

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