Need for an Official Digital Currency

Why in news?

- It is four years since an inter-ministerial committee recommended that India launch fiat money in digital form.
- In this regard, the RBI has indicated that pilot projects to figure out its viability are likely to be launched soon.

What is the global scenario?

- In recent years, there is a significant rise of private cryptocurrencies such as Bitcoin and Ether.
- This has quite disturbed the central banks throughout the world.
- It has naturally pushed the case for official digital currencies.
- A 2021 BIS (Bank for International Settlements) survey of central banks, found that:
    1. 86% were actively researching the potential for digital currencies
    2. 60% were experimenting with the technology
    3. 14% were deploying pilot projects
- China, having already engaged in pilot projects for its digital RMB (renminbi), is in fact planning a major roll-out soon.
- So, with all these developments there is little doubt that India needs a digital rupee.

Where does India stand currently?

- RBI is currently working towards a phased implementation strategyfor a central bank digital currency (CBDC).
- It is examining use cases which could be implemented with little or no disruption.
- [A CBDC is a sovereign currency in an electronic form.
- It would appear as liability (currency in circulation) on a central bank's balance sheet.]
- Meanwhile, the much-awaited Cryptocurrency and Regulation of Official Digital Currency Bill, 2021, is yet to be introduced.

What are the challenges involved?

- Official digital currencies can borrow the underlying technology feature of

private cryptocurrencies.

- But they significantly differ from the latter in their philosophy and goals.
- The important questions are about the details and the timeline.
- These include the decisions to be made about -
    i. the design of the currency with regards to how it will be issued
    ii. the kind of technology that is to be used
    iii. whether CBDCs should be only used in retail payments or in wholesale payments too
    iv. whether it should be a distributed ledger or a centralized ledger
    v. whether it should be issued directly by the RBI or through banks
    vi. the degree of anonymity it will have
- The question of the degree of anonymity, especially, will be quite a challenging one.
- The possible impacts on people, the monetary policy, and the banking system are also to be considered.
- Therisks from cyberattacks is another key challenge to be taken into account while designing.
- Many laws need to be amended to make the digital rupee a reality.

Source: The Hindu, Hindustan Times

