

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 strategy for 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.
- The risks 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