RBI’s e-Rupee

Why in news?

The Reserve Bank of India (RBI) has indicated that it will soon commence limited pilot launches of e-rupee or Central Bank Digital Currency (CBDC), for specific use cases.

What is e-rupee?

- e-rupee or digital rupee is a digital version of the Indian rupee and is exchangeable one-to-one with the fiat currency.
- The digital rupee would appear as liability on a central bank’s balance sheet.
- **Features-** It must be accepted
    - as a medium of payment
    - as a legal tender
    - as a safe store of value by all citizens, enterprises, and government agencies
- It is freely convertible against commercial bank money and cash.
- It is a fungible legal tender for which holders need not have a bank account.
- It is expected to lower the cost of issuance of money and transactions.
- **Issuance**- RBI will issue e-rupee and it cannot be mined like bitcoin.
- **Interest**- RBI is not in favour of e-rupee with interest.
- **Anonymity**- For e-rupee, the RBI concept note has proposed partial anonymity where small amounts can be anonymous but not large amounts.

What other features were proposed by RBI?

Versions of CBDC

- The RBI has proposed to issue two versions.
- **Retail CBDC**- It will be potentially available for use by all — private sector, non-financial consumers and businesses.
- It can provide access to safe money for payment and settlement as it is a direct liability of the central bank.
- **Wholesale CBDC**- It is designed for restricted access to select financial institutions.
- It has the potential to transform the interbank settlements.

Forms of CBDC

- The central bank says that e-rupee can be structured as token-based or account-based.
- **Token-based CBDC**- It would be a bearer instrument like banknotes, meaning whosoever holds the tokens at a given point in time would be presumed to own them.
- It is preferred for CBDC-R as it would be closer to physical cash.
- **Account-based CBDC**- It would require maintenance of record of balances and transactions of all holders of the CBDC and indicate the ownership of the monetary

balances.
- This system is to be considered for CBDC-W.

Model for issuance

- Two models for issuance and management of CBDCs were under the RBI's consideration.
- **Direct model (single tier model)** - The central bank will be responsible for managing all aspects of the digital rupee system such as issuance, account-keeping and transaction verification.
- **Indirect model (two-tier model)**- The central bank will issue CBDC to consumers indirectly through intermediaries and any claim by consumers will be managed by the intermediary.



What are the advantages of e-rupee?

- Reduction in operational costs involved in physical cash management
- Foster financial inclusion
- Bring in resilience, efficiency in the payments system
- Add efficiency to the settlement system
- Boost innovation in cross-border payments space
- Provide the public with uses of private virtual currencies, without the associated risks
- Perceived as environment-friendly

10 countries already launched CBDC and 105 countries, which cover 95% of global GDP, are in the process of exploring CBDCs.

What are the risks in adopting digital currencies?

- **Capital flight from bank accounts to digital wallets**- Some fear that people may begin converting their bank deposits into digital cash.
- **Effect on loans**- The withdrawal of bank deposits can affect the amount of loans created by banks.
- **Effect on RBI**- When bank customers convert their deposits into digital rupee, the RBI will have to take these liabilities from the books of banks and onto its own balance sheet.

References

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Quickfacts

CBDC

- The world's first digital currency- **Sand Dollar** by Bahamas.
- China introduced the **e-CNY**, the digital form of the Chinese yuan, at the Winter Olympics in Beijing.
- The latest CBDC launch- **JAM-DEX** by Jamaica.

