



U.S. Central Bank Digital Currency (CBDC)

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Context:

The recent **Order** in the U.S. prohibits the issuance, circulation, and use of the **U.S. Central Bank Digital Currency (CBDC)**, also referred to as the "Digital Dollar," within the jurisdiction of the U.S. This decision has significant implications for the potential adoption of **CBDCs** in the U.S. financial system.

About CBDC:

A **Central Bank Digital Currency (CBDC)** is the **electronic version of a country's sovereign currency** issued directly by the nation's **central bank**.

Unlike cryptocurrencies, which are decentralized and typically operate outside government control, CBDCs are **centralized** and governed by the issuing country's central bank.

Types of CBDCs:

1. **Wholesale CBDCs**: These are used by **financial institutions** and **market participants** for large-scale transactions, such as interbank transfers, securities settlements, and other high-value financial operations.
2. **Retail CBDCs**: These are designed for use by the **public**, including **retail consumers** and businesses, for everyday transactions. Retail CBDCs are further divided into:
 - **Token-based**: These are accessed using **private and public keys** and can allow for **anonymous transactions**, similar to how cryptocurrencies work.
 - **Account-based**: These require **digital identification** for users to access and use their accounts, which means they are more traceable and linked to an individual's identity.

Features of CBDC:

- **Medium of Payment**: It must be accepted as a **legal tender** and **store of value** by citizens, businesses, and government agencies alike.
- **Convenience**: CBDCs are expected to lower **issuance costs** and transaction fees, potentially increasing the efficiency of the monetary system.
- **Centralized Liability**: Unlike commercial bank money, which is a liability of commercial banks, CBDC is a **liability of the central bank** (e.g., **Reserve Bank of India (RBI)** or **Federal Reserve**).

Concerns with CBDCs:

- **Financial System Stability**: The centralization of currency could affect the **stability** of the financial system, especially if too much money is held in CBDCs, leading to changes in bank deposits and the broader money supply.
- **Privacy Issues**: Some concerns around CBDCs revolve around the potential **compromise of individual privacy**, as digital currencies are often traceable, leading to concerns about surveillance and data privacy.

- **Cybersecurity:** As a purely digital currency, **CBDCs** are vulnerable to **cyberattacks** and hacking, which could undermine trust in the system.

CBDC in India – The e-Rupee (e₹):

- **Launch:** India's **Central Bank Digital Currency (CBDC)**, called **e-Rupee (e₹)**, was launched in **2022** by the **Reserve Bank of India (RBI)**. The e₹ is essentially a **digital version of the Indian Rupee** and is **exchangeable one-to-one** with the fiat currency (physical rupee).
- **Functionality:** The **e₹** can be held and transacted using **e₹ wallets**, which are offered by both **banks** and **non-banking financial institutions (NBFCs)**. These wallets enable **person-to-person (P2P)** payments or **person-to-merchant (P2M)** transactions, facilitating **digital payments** across India.
- **Benefits:** The **e₹** aims to enhance the efficiency of digital payments, reduce the **cost of printing and managing physical currency**, and modernize the financial infrastructure, while also offering greater **transparency** in transactions.

The introduction of CBDCs like India's e₹ is a step towards **digitizing** monetary systems, with countries around the world exploring or implementing similar initiatives. However, the concerns around **privacy** and **financial stability** will continue to be critical points of debate as these digital currencies evolve.

The **U.S. stance on CBDCs** could have a broader impact on global discussions regarding digital currencies, their adoption, and the potential risks associated with them, especially in terms of **financial sovereignty and privacy rights**.