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Central Bank Digital Currency

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Why is in news? We expect to reach a million Central Bank Digital Currency transactions per day by end of year: RBI's Deputy Governor T. Rabi Shankar

RBI's Deputy Governor said that by the end of July, Central Bank Digital Currency (CBDC) will be **interoperable with the UPI QR code**.

It means **participants of CBDC's pilot project** will be able to transfer CBDC to another user's CBDC account if he has one, else the CBDC will be transferred to his UPI-linked Bank account.

Currently 13 lakh retail customers are 3 lakh merchants are the participants in pilot testing of CBDC launched in November last year.

Currently **around 5 to 10 thousand transactions** are being done using CBDC, but RBI expects it to reach a million transactions per day by the end of the year.

Deputy Governor also said that **there will not be much difference between UPI transactions and CBDC transactions at user end**. He also clarified that RBI is not thinking of providing incentives for the usage of CBDC.

Deputy Governor reiterated that **CBDC is not just a payment instrument but it is a digital currency**. Its potential is much wider, he added.

Central Bank Digital Currency:

CBDCs are a **digital form of a paper currency** and **unlike cryptocurrencies** that operate in a regulatory vacuum, these are **legal tenders issued and backed by a central bank**.

It is the **same as a fiat currency and is exchangeable** one-to-one with the fiat currency.

A fiat currency is a national currency that is not pegged to the price of a commodity such as gold or silver.

The digital fiat currency or CBDC can be **transacted using wallets backed by blockchain**.

Though the concept of CBDCs was directly inspired by Bitcoin, it is **different from decentralised virtual currencies and crypto assets**, which are not issued by the state and lack the 'legal tender' status.

The main objective is to **mitigate the risks and trim costs in handling physical currency**, costs of phasing out soiled notes, transportation, insurance and logistics.

It will also wean people away from cryptocurrencies as a means for money transfer.

SC Garg Committee recommendations (2019):

Ban anybody who mines, hold, transact or deal with cryptocurrencies in any form.

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It recommended a jail term of one to 10 years for exchange or trading in digital currency.

It proposed a monetary penalty of up to three times the loss caused to the exchequer or gains made by the cryptocurrency user whichever is higher.

However, the panel said that the government should keep an open mind on the potential issuance of cryptocurrencies by the Reserve Bank of India.

Challenges:

It has potential cybersecurity threat.

Lack of digital literacy of population.

Introduction of digital currency also creates various associated challenges in regulation, tracking investment and purchase, taxing individuals, etc.

Threat to Privacy: The digital currency must collect certain basic information of an individual so that the person can prove that he's the holder of that digital currency.