

WHAT IS A CBDC OR DIGITAL RUPEE? - EXPLAINED

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

On the digital currency side, Finance Minister Nirmala Sitharaman in her Budget 2022 speech mentioned that India will take the route of Central Bank Sponsored Digital Currency. She said that the introduction of CBDC or [digital currency](#), will give a big boost to digital economy.

"Introduction of Central Bank Digital Currency (CBDC) will give a big boost to digital economy. Digital currency will also lead to a more efficient and cheaper currency management system. It is, therefore, proposed to introduce Digital Rupee, using blockchain and other technologies, to be issued by the Reserve Bank of India starting 2022-23," said the Budget document. A blockchain is basically a digital ledger that records transactions that can be tracked.

The currency, called 'digital rupee', will be issued by the Reserve Bank of India (RBI) in digital form and will be fungible with physical currency. Central bank digital currencies, or (CBDCs) are digital or virtual currencies. They are basically the digital version (in an electronic form) of fiat currencies, for India that would be its domestic currency rupee.

The RBI has been working on a phased implementation strategy for a central bank digital currency since last year. In a speech last year in July, RBI Deputy Governor T. Rabi Sankar had said that the central bank is working on a phased implementation strategy for a central bank digital currency (CBDC) and examining use cases to ensure that there is little or no disruption.

"They are not commodities or claims on commodities as they have no intrinsic value; some claims that they are akin to gold clearly seem opportunistic," he said, adding that a CBDC is the same as a currency issued by a central bank but takes a different form than paper.

Many central banks are seeking to popularize a more acceptable electronic form of currency, while some jurisdictions with significant physical cash usage want to make issuance more efficient.

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