

RBI DIGITAL CURRENCY IN THE WORKS: CENTRE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

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The Reserve Bank of India (RBI) is working on a plan to introduce a central bank digital currency (CBDC), given its benefits, the finance ministry told Parliamentarians on Monday.

The government received the central bank's proposal in October to amend the Reserve Bank of India Act, 1934, to enhance the scope of the definition of 'bank note' to include currency in digital form, the ministry said in a written reply to a question in the Lok Sabha.

"RBI has been examining use cases and working out a phased implementation strategy for the introduction of a CBDC with little or no disruption," the ministry said, adding that such a move has potential to offer significant benefits, including reduced dependence on cash, higher seigniorage (government profit from issuing currency) due to lower transaction costs and reduced settlement risk.

A digital version of the fiat currency, CBDC has some advantages of cryptocurrency but is regulated by the central bank and, hence, less prone to volatility, said Rashmi Deshpande, partner at law firm Khaitan and Co. For CBDC transactions between two parties, there is no need for settlement or approval by a financial intermediary, which enables fund transfers to take place on a real-time basis. "CBDC also does not require the kind of investment needed in physical infrastructure for minting fiat money and is very cost-effective. Financial literacy of the users and a robust IT system to withstand potential cyberattacks are two imperatives for a CBDC," said Deshpande.

The ministry, meanwhile, said the introduction of CBDC would also possibly lead to a "more robust, efficient, trusted, regulated and legal tender-based payments option. There are also associated risks that need to be evaluated against the potential benefits".

The ministry also clarified in response to another query that cryptocurrencies are unregulated and that RBI has in May advised its regulated entities to carry out customer due diligence as per regulations. These cover 'know your customer' norms and obligations related to anti-money laundering, combating of financing of terrorism and Prevention of Money Laundering Act provisions in addition to ensuring compliance with the provisions of the Foreign Exchange Management Act for overseas remittances.

The ministry is expected to introduce a bill in the ongoing winter session of Parliament for the creation of the official digital currency by RBI. This bill will prohibit all private cryptocurrencies in India but will allow for certain exceptions to promote the underlying technology of cryptocurrency and its uses, according to the schedule for legislative business in the current session of Parliament

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