

Central Bank Digital Currency Glitches

Why in news?

Recently, a digital currency that is being used by seven Caribbean nations experienced glitches that have kept it offline for more than a month.

What is a CBDC?

- CBDC is a legal tender issued by a central bank in a digital form.
- It is similar to a fiat currency issued in paper and is interchangeable with any other fiat currency.
- The goal of CBDCs is to provide users with convenience and security of digital as well as the regulated, reserve-backed circulation of the traditional banking system.
- According to the Atlantic Council's CBDC tracker, 9 countries or currency unions have launched their digital currencies, while 15 are in the pilot phase.
- Additionally, 16, including India, are in the development stage, and 40 are in the research stage.
- 7 are inactive and 2 have cancelled any plans to launch it.
- The Bahamas launched the world's first CBDC in October 2020 called the **Sand Dollar**.
- China introduced the **e-CNY**, the digital form of the Chinese yuan, at the Winter Olympics in Beijing.
- The RBI is expected to launch the CBDC from the upcoming financial year.

What are the glitches being faced?

- The digital version of the East Caribbean dollar called **DCash** has been offline for over a month and could take several more days to get restored.
- The occurrence of such glitches has made financial sector experts call for central banks to make necessary preparations to allow enough leeway to banks and other stakeholders in the financial services ecosystem.
- The Central American nation of **El Salvador** last year adopted **Bitcoin** as a legal tender alongside the US dollar, and faced technical glitches on its Chivo payment platform that was to be used for making transactions.
- The country also ran into macroeconomic problems with the volatility of the Bitcoin.
- The Chivo system also reportedly failed to prevent identity fraud, leading to unscrupulous use of the 30 dollar sign-up bonus being offered to users.
- To fund the deficit spending, El Salvador had asked for 1 billion dollar in loans from the International Monetary Fund but the agency refused to lend the money, raising concerns about the country's Bitcoin scheme.
- The volatility and the speculative nature of private cryptocurrencies like Bitcoin, Ether is what is pushing many central banks across the world to adopt their own digital currencies.

Where does India's plan stand?

- During the Budget Speech, Finance Minister Nirmala Sitharaman announced that RBI would launch the CBDC in the upcoming fiscal.
- While the RBI is still working on the finalities, it is understood that the CBDC will be based on Blockchain technology.
- Prime Minister has said that with the launch of the revamped digital version of the Indian rupee, people could convert digital currency to physical currency and vice-versa with ease, and this will strengthen India's digital economy and ecosystem.

Reference

1. <https://indianexpress.com/article/explained/digital-currency-glitches-india-7786901/>

