

RBI's e-Rupee

Why in news?

The Reserve Bank of India (RBI) has indicated that it will soon commence limited pilot launches of e-rupee or Central Bank Digital Currency (CBDC), for specific use cases.

What is e-rupee?

- e-rupee or digital rupee is a digital version of the Indian rupee and is exchangeable one-to-one with the fiat currency.
- The digital rupee would appear as liability on a central bank's balance sheet.
- Features- It must be accepted
 - o as a medium of payment
 - o as a legal tender
 - as a safe store of value by all citizens, enterprises, and government agencies
- It is freely convertible against commercial bank money and cash.
- It is a fungible legal tender for which holders need not have a bank account.
- It is expected to lower the cost of issuance of money and transactions.
- Issuance- RBI will issue e-rupee and it cannot be mined like bitcoin.
- **Interest** RBI is not in favour of e-rupee with interest.
- **Anonymity** For e-rupee, the RBI concept note has proposed partial anonymity where small amounts can be anonymous but not large amounts.

What other features were proposed by RBI?

Versions of CBDC

- The RBI has proposed to issue two versions.
- **Retail CBDC** It will be potentially available for use by all private sector, non-financial consumers and businesses.
- It can provide access to safe money for payment and settlement as it is a direct liability of the central bank.
- Wholesale CBDC- It is designed for restricted access to select financial institutions.
- It has the potential to transform the interbank settlements.

Forms of CBDC

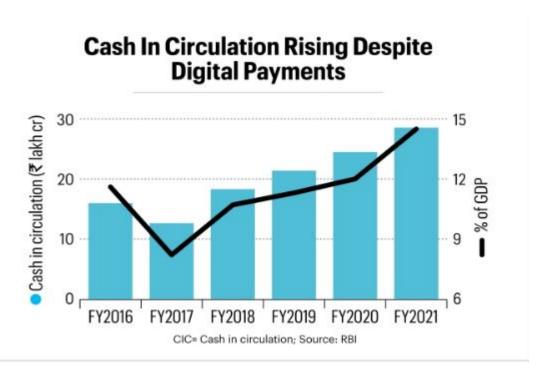
- The central bank says that e-rupee can be structured as token-based or account-based.
- Token-based CBDC- It would be a bearer instrument like banknotes, meaning whosoever holds the tokens at a given point in time would be presumed to own them.
- It is preferred for CBDC-R as it would be closer to physical cash.
- Account-based CBDC- It would require maintenance of record of balances and transactions of all holders of the CBDC and indicate the ownership of the monetary

balances.

• This system is to be considered for CBDC-W.

Model for issuance

- Two models for issuance and management of CBDCs were under the RBI's consideration.
- **Direct model (single tier model)** The central bank will be responsible for managing all aspects of the digital rupee system such as issuance, account-keeping and transaction verification.
- **Indirect model (two-tier model)** The central bank will issue CBDC to consumers indirectly through intermediaries and any claim by consumers will be managed by the intermediary.



What are the advantages of e-rupee?

- Reduction in operational costs involved in physical cash management
- Foster financial inclusion
- Bring in resilience, efficiency in the payments system
- Add efficiency to the settlement system
- Boost innovation in cross-border payments space
- Provide the public with uses of private virtual currencies, without the associated risks
- · Perceived as environment-friendly

10 countries already launched CBDC and 105 countries, which cover 95% of global GDP, are in the process of exploring CBDCs.

What are the risks in adopting digital currencies?

• Capital flight from bank accounts to digital wallets- Some fear that people may

- begin converting their bank deposits into digital cash.
- **Effect on loans** The withdrawal of bank deposits can affect the amount of loans created by banks.
- **Effect on RBI** When bank customers convert their deposits into digital rupee, the RBI will have to take these liabilities from the books of banks and onto its own balance sheet.

References

- 1. https://indianexpress.com/article/explained/explained-economics/pilot-launch-of-e-rupe-e-for-specific-use-cases-what-is-the-rbis-plan-8198117/
- $2. \ \underline{https://www.livemint.com/industry/banking/rbis-proposed-digital-rupee-10-things-to-know-11665203034030.html$
- 3. https://www.business-standard.com/article/finance/the-who-what-when-where-and-why-of-central-bank-digital-currency-122100900349 1.html

Quickfacts

CBDC

- The world's first digital currency- **Sand Dollar** by Bahamas.
- China introduced the **e-CNY**, the digital form of the Chinese yuan, at the Winter Olympics in Beijing.
- The latest CBDC launch- JAM-DEX by Jamaica.

