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UPSC MAINS ANSWER WRITING

(Q) Central bank digital currency is a new technological innovation designed to counter shadow impact caused by the crypto currency. Do you agree with this view? Comment.

Q. -> Since central bank digital currency utilizes technology to represent a country's official currency in digital form.

Some of the basic points regarding CBDC as follows:-

(i) A central bank digital currency (CBDC) would be a digital banknote. It could be used by individuals to pay business, shops or each other or between financial institutions to settle trades in financial markets.

(ii) Introduction of CBDC has the potential to provide significant benefits, such as reduced dependency on cash, higher efficiency due to lower transaction costs, reduced settlement risk.

(iii) Reports suggest that in the first half of 2021 alone, the crypto business has grown more than 12 times in the country's largest digital currency exchange.

(i) Central bank across the world have succeeded to massive pump priming hoping to rescue their economies from the cold quagmire.

(v) Central banks all over have a difficult choice to make; they have to either find ways to compete or risk witnessing private (BitCoin) and commercial cryptocurrency erode their monetary authority.

(vi) As regard confidentiality in transactions, CBDCs could be covered under existing banking secrecy laws and it needs to be examined whether it compromises personal data.

(vii) Unlike crypto currencies which can be lost and stolen, CBDCs will be an alternative to physical currency, a safe, robust and convenient payment instrument.

Thus we can say CBDCs are different and central banks owned by governments or it is safe for future.