

Central Bank Digital currency can be a great challenge when it comes to solving the purpose of financial inclusion. Discuss.

Introduction.

The RBI's concept paper on CBDC sets in motion the process for its introduction..

CBDC

↳ It is digital platform of a country's Fiat currency.
↳ Issued and regulated by a nation's monetary authority or central bank

Advantages

- ↳ Accelerating the pace of financial inclusion and digitisation in the economy.
- ↳ Enhancing the efficiency of the payment system
- ↳ Lowering the costs associated with physical cash management
- ↳ Ensuring financial stability given the proliferation of cryptocurrencies.
- ↳ International remittance may increase.

Challenges

Technological Backbone - whether the underlying infrastructure of the CBDC will be a centrally controlled database or based on a decentralised ledger technology like Bitcoin

(Please do not write anything except the question number in this space)
कृपया इस स्थान में प्रश्न संख्या के अतिरिक्त कुछ न लिखें।

UPSC

Answer Questions in NOT MORE THAN the Word Limit specified for each in the Parenthesis.
Content of the Question is more important than length.
(Specimen Answer Booklet - For Practice Purpose Only)

उम्मीदवारों को इस हिसाब में नहीं लिखना चाहिए
Candidates must not write on this margin

↳ choice Bet → wholesale digital currency whose usage is restricted only to financial institutions or retail digital currency which allows for its widespread usage.

↳ whether CBDC be issued and managed solely by the central bank or will its management be left to intermediaries.

↳ Form of Issuance → a currency note or account based which is akin to Bank Deposits.

↳ Design of Instrument is addressed. Conflict with Banks which can visualise deposits being converted to CBDC rather than lying with the Bank.

Way Ahead

RBI has mentioned that everything will be done in a calibrated manner. There are interesting times ahead for the monetary system as the RBI has switched on the ignition with this rather comprehensive concept paper.