

How will RBI's CBDC Digital Rupee work, how is it different from digital money?

Ms. Mehak

What is Digital Rupee?

The Central Bank Digital Currency (CBDC) can be defined as the legal tender issued by the Reserve Bank of India, according to the concept note. Touted as Digital Rupee or e-Rupee, RBI's CBDC is the same as a sovereign currency and is exchangeable one-to-one at par with the fiat currency, the regulator mentioned

Features of Digital Rupee

- 1) CBDC is a sovereign currency issued by central banks in alignment with their monetary policy.
- 2) It appears as a liability on the central bank's balance sheet.
- 3) It must be accepted as a medium of payment, legal tender, and a safe store of value by all citizens, enterprises, and government agencies.
- 4) CBDC is freely convertible against commercial bank money and cash.
- 5) CBDC is a fungible legal tender for which holders need not have a bank account.
- 6) CBDC is expected to lower the cost of issuance of money and transactions.

The Central Bank Digital Currency can be classified into two types — general purpose or retail (CBDC-R) and wholesale (CBDC-W). Retail CBDC can be used by all including the private sector, non-financial consumers, and businesses. Wholesale CBDC is designed for restricted access to select financial institutions.

While retail CBDC is an electronic version of cash primarily meant for retail transactions, the wholesale CBDC is designed for the settlement of interbank transfers and related wholesale transactions.

"It is believed that retail CBDC can provide access to safe money for payment and settlement as it is a direct liability of the central bank. Wholesale CBDC has the potential to transform settlement systems for financial transactions and make them more efficient and secure. Going

by the potential offered by each of them, there may be merit in introducing both CBDC-W and CBDC-R," RBI said in the concept note.

How is Digital Rupee different from money in digital form?

Explaining the difference between CBDC and money in digital form, RBI said, "A CBDC would differ from existing digital money available to the public because a CBDC would be a liability of the Reserve Bank, and not of a commercial bank."

Why is RBI introducing CBDC?

"CBDC is aimed to complement, rather than replace, current forms of money and is envisaged to provide an additional payment avenue to users, not to replace the existing payment systems," the regulator said.

RBI believes that the digital rupee system will "bolster India's digital economy, enhance financial inclusion, and make the monetary and payment systems more efficient."

Pointing out the motivations for India to consider issuing CBDC, RBI mentioned these reasons:

- a) Reduction in cost associated with physical cash management
- b) To further the cause of digitisation to achieve a less cash economy.
- c) Supporting competition, efficiency, and innovation in payments
- d) To explore the use of CBDC for improvement in cross-border transactions
- e) Support financial inclusion
- f) Safeguard the trust of the common man in the national currency vis-à-vis proliferation of crypto assets

About Author**Ms. Mehak**

Assistant Professor, PG Department of Commerce, S.D. College, Hoshiarpur



Ms. Mehak is working as an Assistant Professor, PG Department of Commerce, S.D. College, Hoshiarpur. She has completed her M.com and has qualified UGC NET. She has teaching experience of 2.5 years. She has presented a number of papers in various National and International Conferences, Seminars, Webinars and Workshops. In addition, she has a number of research papers published in National/International Journals. She has specialized in subjects like Accounting and Finance, E- Commerce.