

Central Bank Digital Currencies

- Garvit Raheja*

“The future of money is digital currency”- Bill Gates

Digital property and forex from valuable financial institutions, and digital currencies to crypto currencies gained maximum momentum during the recent past.

Let us now explain the concept of Central Bank Digital Currency (CBDC). Virtual currencies or crypto currencies are gaining a reputation across the world. This has made most important banks to launch digital forex control mechanism with the aid of which they can deal with their shortcomings whilst hastening the shift in the path of a cashless society. CBDC is a digital currency that can be transformed/exchanged at par with further denominated coins and traditional imperative financial institution deposits of a state.

The Finance Ministry's committee proposed the concept of introducing a virtual Rupee in February 2019.

There are different types of CBCDs as noted below:

- (1) Retail: Retail CBCDs are intended for use by individuals, households and corporations.
- (2) Wholesale: Wholesale CBCDs are intended for use via monetary institutions.

In case of India, the Reserve Bank of India (RBI) noted that technological advancements are rapidly transforming the payments landscape, prompting central banks throughout the world to consider whether they might use technology to issue fiat money in digital

*Student of Economics (Honours), Semester-II, The Heritage College)

form. The Reserve Bank of India has announced that it is conducting a feasibility study into the creation of a government-backed digital currency.

At the moment, important banks from a variety of countries are looking at the benefits that a virtual currency can bring to monetary inclusion, financial growth, technology, innovation, and increased transaction efficiencies. Some the benefits of government-backed digital currency are:

- a) Actual-time money switch: Cash transfers and payments can be made in actual time from the payer to the payee without the use of intermediaries such as banks.
- b) Clean monitoring of foreign money: With the advent of CBDC in a country, its valuable financial institution might be able to keep a tune of the exact vicinity of each unit of the currency.
- c) Tax: Tax avoidance and evasion may be difficult to achieve because techniques such as offshore banking and unreported employment cannot be used to conceal financial activities from the primary bank.

In May 2020, China commenced testing its digital Yuan-- virtual Renminbi (RMB). Several different countries have also started research and pilot initiatives related to CBDC along with Canada, America and Singapore. In addition, China and the USA are combating to gain supremacy across markets with the advent of latest-age financial products and India can also get caught up in this digital proxy battle. The needs for CBCDs in India are as follows:

- a) The digital Rupee allows India to establish the digital Rupee's dominance as an advanced currency for trade with its strategic partners, reducing its reliance on the dollar.
- b) This will additionally empower RBI to reveal transactions and credit floats across the Indian financial system, removing scams, frauds instantly, thereby defacing depositors' cash.

c) CBDC can even help in distracting the investors from investing inside the contemporary crypto assets that are particularly risky.

“Virtual Currencies may hold long term, promises particularly if the innovations promote a faster, more secure and more efficient payment system”-BEN BERNAKE.

“

The weak can never forgive. Forgiveness is the attribute of the strong.

- Mahatma Gandhi

”