

ADVANTAGES AND DISADVANTAGES OF DIGITAL CURRENCY IN INDIA-A STUDY WITH SPECIAL REFERENCE TO RUPEE

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Abstract

The Modi government introduced a new digital currency called the "Rupee" for the year 2022-2023. This digital currency is expected to give a significant boost to the digital economy. The Digital Economy, also known as the New Economy, utilizes digital computing technologies in economic activities. The introduction of digital currency is anticipated to enhance the efficiency and reduce costs associated with currency management systems. Furthermore, the adoption of digital currency can streamline transactions, making them more efficient and cost-effective. Overall, the launch of the Rupee digital currency is poised to accelerate the growth of the digital economy and modernize currency management systems.

Keyword: AI-powered Learning Analytics, Education, Artificial Intelligence, Data Analysis, Data Collection, Data Processing, Data Visualization, Personalized Instruction, Struggling Students, Predictive Modelling, Educational Outcomes, Data Privacy, Data Security, Algorithmic Bias, Responsible Use, Actionable Insights, Teaching, And Learning.

Introduction

The introduction of Digital Rupee or Central Bank Digital Currency (CBDC) marks a significant step by the RBI to bolster India's digital economy. Announced during the Union Budget 2022-23 by Finance Minister Nirmala Sitharaman, the concept of Digital Rupee aims to address concerns surrounding cryptocurrencies like Bitcoin, while operating under the regulatory framework of the central bank.

The Digital Rupee, slated to be issued by the Reserve Bank of India in the fiscal year 2022-23, will leverage blockchain technology. Its regulatory framework is expected to encompass all transactions involving cryptocurrencies, including the trading of non-fungible tokens (NFTs). Tax obligations will also be imposed on transactions conducted through digital means.

This move signifies India's progress towards legitimizing the crypto sector, with the introduction of a blockchain-powered Digital Rupee being hailed as a significant development. It not only paves the way for crypto acceptance but also positions India at the forefront of innovation in the digital currency landscape. Additionally, the clarification on crypto taxation adds much-needed recognition to India's crypto ecosystem, providing clarity for banks to offer financial services to the crypto industry.

The introduction of Digital Rupee is viewed as a transformative step in India's journey towards a progressive digital economy. It dispels uncertainties surrounding crypto regulations and fosters a conducive environment for job creation in the IT and blockchain industries. With the government's proactive stance, India is poised to emerge as a leader in the blockchain sector.

Characteristics of Digital Currencies:

Digital currencies exist solely in digital form, lacking a physical equivalent.

They can be centralized or decentralized. Fiat currency, existing in physical form, is centralized, while prominent cryptocurrencies like Bitcoin and Ethereum operate in decentralized systems.

Digital currencies facilitate value transfer beyond traditional purchase transactions. For instance, gaming network tokens can provide players with in-game advantages, representing a transfer of value beyond simple buying and selling transactions.

Objectives of Study

- To know the conception, of digital Rupee or Central bank Digital Currency (CBDC)
- To know Advantages and disadvantages of Digital Rupee
- To know the Difference between digital rupee and crypto currency

Research Methodology

This paper relies solely on secondary data obtained from various sources such as journals, newspaper articles, websites, and statutory reports.

Digital currency refers to a form of currency that exists exclusively in digital or electronic form, also known as digital money, electronic money, electronic currency, or cyber cash.

A Central Bank Digital Currency (CBDC) is a digital representation of a country's legal tender issued by the central bank. It is equivalent to physical cash but in digital form and can be exchanged one-to-one with fiat currency. CBDCs are recorded as liabilities on the central bank's balance sheet under currency in circulation. Central banks worldwide are exploring CBDCs to promote the use of electronic money and to counter the rise of private digital assets like cryptocurrencies. According to a survey by the Bank for International Settlements (BIS) in 2021, a significant majority of central banks are actively researching CBDCs, with many experimenting with the technology or conducting trial projects. Over 90 countries, representing more than 90% of the world's GDP, are working on their own centralized digital currencies. India is also in the process of developing its own official digital currency.

India's central bank-backed digital currency, known as the 'digital rupee,' is expected to be launched in early 2023. It will function similarly to existing private company-operated electronic wallets but will be backed by the sovereign government. Finance Minister Nirmala Sitharaman announced the launch of the digital rupee during her budget speech for the fiscal year 2022-23. The Reserve Bank of India (RBI) has outlined plans to introduce the digital currency gradually, with the wholesale component making significant progress and the retail component expected to take longer. The digital rupee will utilize blockchain technology, reducing currency maintenance costs and allowing for fewer physical notes to be produced. Its digital nature will also prolong its lifespan, as digital forms cannot be easily destroyed or lost.

Difference between a CBDC (Digital Currency) and Crypto currency

CBDC (Digital Currency)	Crypto currency
The electronic form of fiat money used in contactless transactions is called a digital currency.	Crypto currency is a store of value that is protected by encryption.
A central body oversees the digital currency (RBI for India).	Crypto currency is uncontrolled and decentralized.
The value of digital currencies is stable, as they are accepted worldwide.	The value of crypto currencies is highly volatile, and digital coins are not yet generally recognized.
Only the sender, receiver, and bank are aware of digital currency transactions.	On a decentralized ledger, crypto currency transactions are made public.
Strong passwords are required to protect digital wallets, banking apps, credit cards and debit cards.	Encryption protects crypto currencies.

The Significance of Digital Currency

Digital currencies, particularly Central Bank Digital Currencies (CBDCs), offer several significant advantages:

Safer form of money: CBDCs, being direct liabilities of the central bank, are considered a safer form of digital money compared to cryptocurrencies. They function similarly to checking accounts held with the central bank.

End to paper cash: CBDCs eliminate the need for physical cash as all transactions are conducted digitally. This reduces the reliance on cash outlets and simplifies currency management.

Easier policy implementation and regulation: With CBDCs, all transactions can be monitored, making it easier for authorities to identify and prevent criminal activities. It also eliminates black markets that deal primarily in physical money.

Increased financial inclusion: CBDC transactions do not require a bank account, making them accessible to individuals without traditional banking services. This is particularly beneficial in developing countries where access to traditional finance is limited but mobile internet access is prevalent.

Cost savings: Digital currencies can significantly reduce the cost of currency management, including the production and circulation of physical notes.

Overcoming international differences: CBDCs facilitate real-time and cost-effective global transactions, overcoming issues related to time zone differences and currency conversions.

Advantages of Digital Rupee

The introduction of the Digital Rupee offers several advantages:

Complete transmission of monetary policy: The Digital Rupee empowers the RBI to directly control monetary policy, allowing for immediate effects of policy changes.

Safeguarding deposit holders' interests: Digital Rupee enables regulators to monitor transactions and credit flow, enhancing security for depositors and reducing the risk of scams and fraud.

New paradigm for banking: Digital Rupee transforms technology companies into fintech providers, fostering innovation and competition in the banking sector.

Enabler of a cashless society: Digital Rupee promotes cashless transactions, reducing tax evasion and expanding access to financial products and services.

Disadvantages of Digital Currencies

Despite their advantages, digital currencies also present certain disadvantages:

Storage and infrastructure issues: Digital currencies require internet connectivity, smartphones, and secure online wallets, posing challenges for storage and processing.

Hacking potential: Digital currencies are vulnerable to hacking, leading to theft or manipulation of funds stored in online wallets.

Volatility: Digital currencies used for trading can experience significant price fluctuations, leading to investment risks and market instability.

Regulatory challenges: The decentralized nature of some digital currencies complicates regulatory oversight and enforcement, raising concerns about consumer protection and financial stability.

Conclusion

The introduction of the Digital Rupee in India presents an opportunity to empower citizens and embrace the expanding digital economy while modernizing the banking system. Policymakers must carefully assess its potential impact on macroeconomics, liquidity, banking infrastructure, and consumer demands. By facilitating seamless transactions and reducing reliance on traditional banking, the Digital Rupee can enhance financial inclusion and efficiency. Its implementation requires thorough consideration of both benefits and challenges to ensure a smooth transition towards a digital future for India.

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