

Theme:

- The US, UK, China and a few other countries are going to launch their own digital currencies.
- Reserve Bank of India (RBI) is exploring the possibility of launching its own 'Central Bank Digital Currency (CBDC)' in India.

What is CBDC:

- 'Central Bank Digital Currency (CBDC)' is just a digital version of currency. India's CBDC will be the digital version of the rupee, China's will be the digital version of the yuan etc.
- A few years ago, cryptocurrencies were launched. They have a lot of advantages over physical currencies. But they are unregulated and have several other loopholes. So, to take advantage of blockchain technology, (the technology behind cryptocurrencies), several countries are working on launching their own state-issued digital currencies.

Advantages of CBDC:

- Digital currencies can store data such as who transferred to it whom. It will be like a digital ledger for each digital coin. The transparency in the flow of money can help the government to trace illegal activities such as money laundering, black money, corruption etc. This will help in deterring financial crimes to a large extent.
- Transaction speeds of digital currencies are faster. And the transaction speeds stay the same all the time, even on the days of bank holidays. International transactions will become easier and faster using CBDC.
- The transaction fee is also very less for digital currencies. However, as CBDC is state-owned and it requires human resources and other infrastructure, the transaction fee of CBDC may be higher than cryptocurrencies.
- It's very difficult to tamper with the data when blockchain technology is used. So that will make digital currencies much secure and thereby will gain the trust of the public.
- As cryptocurrencies have a lot of benefits, they tend to have a significant share in the international financial system. Even though many countries are banning them, people are using them for multiple purposes due to the advantages they offer. That leads to less control of governments. So, the only way to prevent the loss of governments control in the international financial system is to bring their own state-controlled cryptocurrencies.

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Loopholes:

- As cashless transactions are rising, cyber crimes are also increasing at a rapid rate. So, if the CBDC is launched without strengthening cybersecurity, it may invite more trouble.
- Even though digital currencies maintain the ledger of transactions and contain advanced technology to trace financial crimes, they can be misused for money laundering purposes and also for illegal activities. At present, many criminals are using cryptocurrencies for illegal activities.
- As the transactions data can be accessed by governments, that results in privacy issues.

Conclusion:

Digital currencies have a lot of advantages. CBDC can be a game-changer for the financial system. Launching the central bank digital currency can help in tackling financial crimes. But to make it successful, there is a need to strengthen cybersecurity.

Your Turn...

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References:

- [Advantages and Downsides of Central Bank Digital Currencies](#)

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Table of Contents

- [Theme:](#)
- [What is CBDC:](#)
- [Advantages of CBDC:](#)
- [Loopholes:](#)
- [Conclusion:](#)
- [Get updates from GD Ideas](#)
- [New Topic suggestions](#)