



E-Rupee / Digital Rupee

Description

Theme:

- On 7th October 2022, the Reserve Bank of India (RBI) released the outline of the Central Bank Digital Currency (CBDC) project. It announced that a trial run of the E-Rupee, which is also called the Digital Rupee will be started soon.
- As of September 2022, 105 countries are exploring the CBDC project to bring their own digital currencies. A few countries are already testing their digital currencies.

What is E-Rupee:

- 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 loopholes. So, several countries are working on launching their own state-issued digital currencies. India will also soon start the trial run of E-Rupee, which is still in the planning stage.

Advantages of Digital Rupee or E-Rupee:

- Digital currencies can save expenses of printing and managing physical cash.
- There is a scope for innovation. For example, RBI is exploring the possibility of programming the E-Rupee. If it has decided to take that step, the digital rupee can be programmed to use for only particular purpose. For example, if the government sends digital rupees to beneficiaries for girl child's education, the beneficiaries can only spend that money for the intended purpose. In this way, E-Rupee offers ample opportunity for innovation.
- 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 transactions using digital currencies.
- Digital currencies can store data such as who transferred it to whom. It will be like a digital ledger for each digital currency note. 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 detering financial crimes to a large extent.
- 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 cryptocurrencies, people are using them for multiple purposes due to the advantages they offer. That leads to less control of governments over economy. So, the only way to prevent the loss of governments control in the international financial system is to bring their own state-controlled cryptocurrencies. That is the reason several countries are working on launching their own digital currencies.
- The value of cryptocurrencies such as Bitcoin, Ethereum is highly volatile making them unreliable. As CBDCs are regulated by the governments, they are highly reliable digital currencies.
- The RBI mentioned about the offline functionality of the Digital Rupee. So, transactions can be made even without the internet. Moreover, people without a bank account can also use Digital Rupee. And hence E-Rupee promotes financial inclusion. This will also help in creating digital footprints of people without a bank account and thereby can help in issuing loans to the unbanked population.

Challenges:

- As cashless transactions are rising, cyber crimes are also increasing at a rapid rate. So, if the Central Bank Digital Currency 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.
- RBI mentioned that providing privacy, which currently available with physical cash would be a challenge because that may facilitate illegal transactions. However, it also mentioned that transfers in small amounts can be anonymous but not large amounts. So, protecting privacy of citizens from digital trails of E-Rupee while taking steps to prevent illegal transactions is a big challenge.

Conclusion:

E-Rupee has the potential to be a game-changer for the financial system. Launching the central bank digital currency can promote financial inclusion and can also help in tackling financial crimes. But to make it successful, there is a need to strengthen cybersecurity.

Your Turn?!

What's your take on Digital Rupee? Do you think digital currencies can change financial interactions for good? Express your thoughts through the comment section below. And subscribe to our blog to read answers to the trending GD topics.

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References:

- [Advantages and Downsides of Central Bank Digital Currencies](#)
 - [What an e-rupee really is must be crystal clear](#)
 - [RBI's proposed digital rupee: 10 things to know](#)
 - [RBI's concept paper seeks offline feature in e-rupee](#)
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