

What is a Central Bank Digital Currency (CBDC)?

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About Central Bank Digital Currency (CBDC):

- CBDCs are a **form of digital currency issued by a country's central bank**.
- Examples of central banks include the Reserve Bank of India (RBI), the US Federal Reserve System, the Bank of Japan.
- CBDCs are **similar to stablecoins**, except that **their value is fixed by the central bank and equivalent to the country's fiat currency**.
- **Advantages:**
 - It provides businesses and consumers with **privacy, transferability, convenience, accessibility, and financial security**.
 - It also **decreases the cost of maintenance** that a complex financial system requires.
 - It **reduces cross-border transaction costs**.
 - It would also **reduce the risks associated with using digital currencies, or cryptocurrencies, in their current form**. CBDCs, backed by a government and controlled by a central bank, would

give households, consumers, and businesses **a secure means of exchanging digital currency.**

What are Stablecoins?

- They are **cryptocurrencies whose value is pegged** or tied **to that of another currency, commodity, or financial instrument.**
- Stablecoins **aim to provide an alternative to the high volatility of** the most popular **cryptocurrencies**, including Bitcoin (BTC).
- **Unlike cryptocurrencies** like Bitcoin, **stablecoins' prices remain steady** in accordance with whichever fiat currency backs them.
- E.g., **USDC stablecoin** is **backed by dollar**-denominated assets.

Q1) What are Cryptocurrencies?

A cryptocurrency is a digital or virtual currency secured by cryptography, which makes it nearly impossible to counterfeit or double-spend. Many cryptocurrencies are decentralized networks based on blockchain technology—a distributed ledger enforced by a disparate network of computers.

Source: [RBI's Shankar urges increased adoption of CBDC for efficient cross-border payment](#)

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