Making e-rupee at par with paper currency

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- What is Central bank digital currency (CBDC) or e-rupee?
- Key highlights of the speech delivered by RBI Governor

Why in News?

RBI Governor Shaktikanta Das said that permanent deletion of transactions can make the e-rupee or central bank digital currency (CBDC) become anonymous and make it at par with paper currency.

He made those remarks while speaking at the BIS Innovation Summit.

What is Central bank digital currency (CBDC) or e-rupee?

- **About**
  - CBDC is the legal tender issued by a central bank in a digital form.
    - The digital rupee (e-Rupee) is the digital currency launched by Reserve Bank of India.

    - It is the same as a fiat currency and is exchangeable one-to-one with the fiat currency, only its form is different.
    - The central bank creates the CBDC and the banks distribute it.
    - To widen the reach of the e-rupee, the RBI recently announced the participation of non-banks in the pilot.
        - The idea is that their reach can be leveraged for distribution of CBDCs and for providing value-added services.
- **Launch of Digital Rupee**
    - RBI has demarcated the digital rupee into **two broad categories**: **general purpose (retail) and wholesale**.
        - This demarcation is based on the usage and the functions performed by the digital rupee and considering the different levels of accessibility.
    - From November 1, 2022, RBI launched its first pilot project to use digital rupee in the **wholesale market for secondary trade in government securities** (G-secs).
- From December 1,2022, **retail digital rupee** (e-R) pilot was launched.
    - In effect, the retail e-rupee is an electronic version of cash, and will be primarily meant for retail transactions.
    - It is available for use by all — the private sector, non-financial consumers and businesses. It will be distributed through intermediaries, i.e., banks.
    - It will not earn any interest and can be converted to other forms of money, like deposits with banks.
- **CBDC is non-remunerative**
    - India has made CBDC non-remunerative, by making it non-interest bearing to mitigate any potential risks of bank disintermediation.
- **Introduction of offline functionality in Central Bank Digital Currency (CBDC) -Retail**
    - In February 2024, the RBI announced to introduce an offline functionality in CBDC-Retail for transactions in areas with poor or limited internet connectivity.
        - The CBDC Retail (CBDC-R) pilot currently enables Person to Person (P2P) and Person to Merchant (P2M) transactions.
        - It is now proposed to enable additional functionalities of **programmability and offline capability** in CBDC retail payments.
        - Programmability will facilitate transactions for specific/targeted purposes.
        - Offline functionality will enable these transactions in areas with poor or limited internet connectivity.

Key highlights of the speech delivered by RBI Governor

- **CBDC transferable in the offline mode**
    - He said that India is also working on making the CBDC transferable in the offline mode along with introducing the programmability feature to help its financial inclusion goals.
- **Anonymity can be addressed through legislation and/or through technology**
    - Since the introduction of the CBDC in late 2022, there have been concerns about the privacy aspect.

    - Many experts have said that the electronic nature will leave a trail of where all the currency has been used, unlike cash which offers anonymity.
    - In this context, the governor said that the anonymity can be addressed through legislation and/or through technology.
        - For example, through permanent deletion of transactions.
    - The basic principle is that CBDC can have the same degree of anonymity as cash, no more and no less.
- **UPI (unified payment interface) still popular among retail users**
    - Despite the efforts which are being undertaken by the Reserve Bank, the RBI still sees preference for UPI (unified payment interface) among retail users.

Q.1. What is Unified Payments Interface (UPI)?

Unified Payments Interface (UPI) is a real-time payment system developed by the National Payments Corporation of India (NPCI) in 2016. It allows users to make instant peer-to-peer (P2P), person-to-merchant (P2M), and person-to-person-merchant (P2PM) transactions using a mobile app.

Q.2. What is Fiat money?

Fiat money is a government-issued currency that is not backed by a commodity such as gold. Fiat money gives central banks greater control over the economy because they can control how much money is printed.

Source: Permanent deletion of transactions can help make e-rupee anonymous: Shaktikanta Das | The Hindu | Live Mint | Times of India

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