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**Topic-India's digital currency needs
nuanced approach**

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Introduction

A nuanced and calibrated approach is essential for the launch of India's maiden digital currency as it would have various implications for the economy and monetary policy, Reserve Bank deputy governor T Rabi Sankar said Thursday.

RBI is planning to come out with a digital currency using blockchain technology in 2022-23.

Discussion

"I think almost all central banks, and we are no exception, will probably go in for a very careful and calibrated nuanced manner.... assessing impact all along with the line and then making the course correction depending on what is most desirable," he said at an event organised by economic thinktank ICRIER. Finance minister Nirmala Sitharaman, had in her Budget speech on February 1, announced that digital rupee or Central Bank Digital Currency (CBDC) would be issued by the RBI in the coming fiscal year. This, he said, was given the large number of uncertainties in terms of which model works, which design works well in terms of its impact on the banking system and on data privacy on

monetary policy. The essential learning does not come from global experience but basically from your own experience, he said. Observing that one of the principles for introduction of any technologies, especially for a central bank, is that it should "do no harm", he said. As far as India is concerned, he emphasised that RBI is looking at CBDC as just the digital form of paper currency and no distinction whatsoever. He also added that the digital currency planned by the central bank is unlikely to be interest bearing. Highlighting that CBDC would have cost and distributional efficiency, he said, the other motivation for introduction is settlement efficiency. It will significantly bring down time taken for cross-border transactions and make transactions real time, he said.

About the implications of CBDCs, he said, "while these motivations do exist, one must realise that global experience is virtually non-existent at this point in time on a few things like CBDCs might affect the banking system". CBDCs could affect the transactional demand for deposits in the banking system, he said. "To the extent that happens, the deposit creation would get affected negatively and to that extent the ability to create credit by the banking system also goes down... to the extent low-cost transactional deposits move away from the banking system, the average cost of deposits might go up, which generally would lead to slight upward pressure on the cost of funds in the system itself," he said. The other implication would be on monetary policy, he said, adding that surveys done by BIS and others seem to

indicate that most central banks feel it will have an impact on monetary policy and on transmission. With regard to stable coin, he said, it could emerge as a much bigger threat to dollarisation than a cryptocurrency. Stable coin is a kind of cryptocurrency backed by assets. Cryptocurrencies are so volatile that they cannot be used for small value transactions, he said, citing the example of Tesla, which had announced that cryptocurrencies can be used for buying its cars. Later, the company withdrew the decision considering the volatility of cryptocurrencies.

Conclusion

The cryptocurrencies are a hot topic in the global financial system. There is great volatility of cryptocurrencies exchange rates. With this, there is a high risk of trading these cryptocurrencies. Their growth has been able to gain the attention of many speculators. They are easily portable. It is only after the required trust in the cryptocurrencies after which they will be used on a wider scale. If the cryptocurrencies fail to gain that

trust, then their boom might decline. They are still in their infancy, and it is not sure as to when they will be maturely traded in the markets globally. Many different cryptocurrencies have gained the required attention. Some nations have started to issue national cryptocurrencies (Hofman, 2014). It is quite possible that shortly, the bitcoins might have a way for cryptocurrencies to flourish. Despite the flaws, bitcoins are still considered tour-de-force in the digital currency. It has provided an alternative currency for the less developed countries and has opened the doors of economic transformation. In this way, it gives the individuals more choices to manage their finances. Without regard to bitcoins accomplishing the lofty

transformations, the cryptocurrencies
are seen to be entering the financial
stage and changing the global financial
landscape forever