



A Study on Advantages and Disadvantages of Digital Currency in India with Special Reference to Rupee

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ABSTRACT:

Modi government launched new currency of the year 2022-2023 digital currency name as rupee. The Digital Economy also referred to as the New Economy, refers to an Economy in which digital computing technologies are used in Economic Activities. digital currency will give a boost, a big boost to the digital economy. Digital currency will also lead to a more efficient and cheaper currency management system.”

INTRODUCTION

Digital Rupee or Central Bank Digital Currency (CBDC) will be the after that attempt by the RBI to boost up India's digital Economy . Presented at the Union Budget 2022-23 by Finance Minister Nirmala Sitharaman, the conception of the Digital Rupee is meant to take some alleviation from cryptocurrencies like Bitcoin, but with the regulations of the central bank. The 'digital Rupee' which will be issued by the Reserve Bank of India in the fiscal time 2022-23. The central bank digital currency (CBDC) will use blockchain technology. The duty governance is projected to include all deals carried out with crypto currencies, including the trade of non-fungible commemoratives (NFTs). Still, the duty will have to be paid by the philanthropist, If digital means are blessed. “ India is eventually on the path to legitimizing the crypto sector in India. It's unique news that India launching a block chain-powered Digital Rupee is phenomenal news. This move will pave the way for crypto blessing and put India in the obverse seat of invention. It's also intriguing to note how our Indian government is beginning to fete crypto as an over-and- coming asset class given how our FM was pertaining to it as a virtual digital asset. The biggest development moment, still, was clarity on crypto taxation. This will add much- demanded recognition to the crypto bionetwork of India. We also hope this development removes any query for banks, and they can give fiscal services to the crypto assiduity.”

“ It's a big bang to a revolutionary trip in India; People feel to drink this ruinous move, as 30 per cent duty arbor washed to rumors about crypto ban; it gives a legality smash in better Crypto sphere. Our Government is lightening up the path to a progressive station. It lead to influence job occasion in IT and Block chain assiduity. Similar regard of government will take India to a top- notch position in block chain assiduity”

Characteristics of Digital Currencies

- As mentioned earlier, digital currencies only exist in digital form. They do not have a physical equivalent.
- Digital currencies can be centralized or decentralized. Fiat currency, which exists in physical form, is a centralized system of production and distribution by a central bank and government agencies. Prominent crypto currencies, such as Bitcoin and Ethereum, are examples of decentralized digital currency systems.
- Digital currencies can transfer value. Using digital currencies requires a mental shift in the existing framework for currencies, where they are associated with sale and purchase transactions for goods and services. Digital currencies, however, extend the concept. For example, a gaming network token can extend the life of a player or provide them with extra superpowers. This is not a purchase or sale transaction but, instead, represents a transfer of value.

Objectives of Study

- To know the conception, of digital Rupee or Central bank Digital Currency (CBDC)
- To know Advantages and disadvantages of Digital Rupee
- To know the Difference between digital rupee and crypto currency

RESEARCH METHODOLOGY

This paper is purely based on secondary data referring to various sources such as journals, newspaper articles, websites and statutory reports.

What is a Digital Currency?

Digital currency is a form of currency that is available only in digital or electronic form. It is also called digital money, electronic money, electronic currency, or cyber cash.

Central Bank Digital Currency

A Central Bank Digital Currency (CBDC) is a digital form of a legal tender issued by the central bank. It is equivalent to fiat cash and may be exchanged one-to-one but in a different form. A sovereign currency in electronic form will appear on the central bank's balance sheet as a liability (currency in circulation). It should be possible to exchange CBDCs for cash. Central banks worldwide are promoting digital currencies for various reasons including to popularise usage of electronic money and thwart the emergence of private digital assets such as cryptocurrencies. According to a poll by the Bank for International Settlements (BIS) in 2021, 86% of central banks were actively researching possibilities for CBDCs, 60% were experimenting with the technology and 14% were conducting trial projects. More than 91 countries, representing over 90% of the world's GDP, have their own centralised digital currency in works. India is in the development stage of its digital currency.

India's own official digital currency is expected to emerge in early 2023 and will be similar to any of the already available private company-operated electronic wallets, with the exception that it will be a sovereign-backed facility. Ms. Nirmala Sitharaman, Minister of Finance and Corporate Affairs, mentioned in her 2022–23 budget speech that a central bank-backed 'digital rupee' would be launched soon. The RBI has made public its proposal to adopt digital currency in stages. Mr. T. Rabi Sankar, Dputy Governor of RBI, stated in December that the wholesale component of the CBDC had made significant progress, while the retail component would take longer. The digital rupee will be based on blockchain technology, which will reduce the cost of currency maintenance and allow the government to manufacture fewer notes. The currency will be digital; its lifespan is extended because digital forms cannot be destroyed or lost.

Difference between a CBDC (Digital Currency) and Crypto currency

CBDC (Digital Currency)	Crypto currency
The electronic form of fiat money used in contactless transactions is called a digital currency.	Crypto currency is a store of value that is protected by encryption.
A central body oversees the digital currency (RBI for India).	Crypto currency is uncontrolled and decentralized.
The value of digital currencies is stable, as they are accepted worldwide.	The value of crypto currencies is highly volatile, and digital coins are not yet generally recognized.
Only the sender, receiver, and bank are aware of digital currency transactions.	On a decentralized ledger, crypto currency transactions are made public.
Strong passwords are required to protect digital wallets, banking apps, credit cards and debit cards.	Encryption protects crypto currencies.

Significance of Digital Currency

A safer form of money: CBDCs, such as paper currency, are direct liabilities of the central bank, making them a safer form of digital money. This can be compared to a situation in which every person has a checking account with the central bank.

End to paper cash: The central bank will be the custodian of everyone's cash and the clearer of all transactions, and there will be no need for conversion of paper money into digital money because a CBDC unit is a direct central bank liability that is precisely equivalent to paper money rather than merely convertible into it, rendering paper cash obsolete. People will no longer require cash outlets and will have fewer options for depositing cash and other valuables.

Easier policy implementation and regulation: In a CBDC environment, all transactions can theoretically be monitored using data analytics and AI to quickly identify banks that are failing or participating in questionable transactions. It becomes much easier for authorities to identify the parties to a transaction in a CBDC world where digital bank codes are visible to the clearing institution, which largely simplifies the detection of criminal activity and eliminates black markets that deal primarily in physical money.

Increased diversity: CBDC transactions do not require a bank account, which is crucial in developing countries where a third of the population lacks access to traditional finance but has mobile internet access. With an Aadhar number and a smartphone, an unbanked Indian customer can easily transact using a mobile app. This means that governments in the industrialised world will quickly incorporate those who had previously been excluded from the financial system.

Cost of currency management: Based on the market estimate, the cost of each Rs 100 (US\$ 1.33) note in its four-year life cycle is 15–17% on each tender of Rs 15–17 (US\$ 0.2–0.23). The cycle comprises a series of new notes being printed, and soiled notes being returned to the RBI via commercial banks. The cost reductions from a digital currency might be significant, given that bigger denomination notes are being phased out and people start switching to digital rupee instead of paper-based currency.

Overcoming international differences: CBDCs could help payment systems become more real-time and cost-effectively globalised. An Indian importer can pay an American exporter in digital dollars in real-time without an intermediary. This transaction would be complete, just like handing over cash in dollars, and it would not even require the US Federal Reserve system to be open for settlement. Currency settlements would no longer be affected by time zone differences.

Advantages of Digital Rupee

- **Complete Transmission of Monetary Policy:** Digital Rupee will empower the RBI by providing it direct tools to control monetary policy.
- Directly influenced creation and supply flow using a Digital Rupee will immediately reflect the effects of policy changes instead of relying on commercial banks to make those changes when they deem fit.
- **Safeguarding the Interest of Deposit Holders:** The recent NBFC crisis resulting in the current downturn in the economy and the PMC Bank scandal which has locked out depositors from withdrawing their funds due to high NPAs are a testament to the fragility of our current banking model.
 - Officially backed Digital Rupee will empower the regulators to monitor transactions and credit flow across the economy helping them weed out scams and fraud instantly and secure depositors' money.
 - Moreover, it will help distract investors from the current bunch of crypto assets that are highly risky.
- **New Paradigm For Banking:** Digital Rupee will turn every large technology company into a fintech company without the need for permission or partnership with a bank.
 - This will create new incentives for companies to bank the unbanked, while also providing financial services to those who have been at the mercy of banks till date.
- **Enabler of Cashless Society:** Official digital currencies can play an important role in weaning users away from using cash, which will

help control tax evasion.

- Digital Rupee will also make cash back, remittances, loans, insurance, stocks and other financial products a natural extension using programmable smart contracts.

Disadvantages of Digital Currencies

The disadvantages of digital currencies are as follows:

- **Storage and Infrastructure Issues:** While they do not require physical wallets, digital currencies have their own set of requirements for storage and processing. For example, an Internet connection is necessary as are smart phones and services related to their provisioning. Online wallets with robust security are also necessary to store digital currencies.
- **Hacking Potential:** Their digital provenance makes digital currencies susceptible to hacking. Hackers can steal digital currencies from online wallets or change the protocol for digital currencies, making them unusable. As the numerous cases of hacks in crypto currencies have proved, securing digital systems and currencies is a work-in-progress.
- **Volatile Value:** Digital currencies used for trading can have wild price swings. For example, the decentralized nature of crypto currencies has resulted in a profusion of thinly capitalized digital currencies whose prices are prone to sudden changes based on investor whims.
- Other digital currencies have followed a similar price trajectory during their initial days. For example, Linden dollars used in the online game Second Life had a similarly volatile price trajectory in its early days.

Conclusion

The creation of a Digital Rupee will give an occasion for India to empower its citizens and enable them to use it freely in our ever-expanding digital frugality and break free from an outdated banking system. Looking into its impact on macro frugality and liquidity, banking systems and plutocrat requests, it's imperative of policymakers to completely consider the prospects of Digital Rupee in India.



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