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**About the Editor**

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Dr. M. SUMATHY currently working as Professor Head Department of Commerce. Former Dean, School of Commerce, Bharathiar University, Coimbatore, and Tamil Nadu has taught Commerce and Management Subjects for three decades. Under her Supervision, 52 M.Phil. and 22 Ph.D Scholars have been awarded. She authored 16 Books including edited Volumes and Textbooks. She has published 206 research papers including Chapters in various National, International, Refereed, Peer-Reviewed, Scopus, and Web of Science Journals with high impact factor. She has been registered Six copyrights. She acted as a resource person in 135 national and international invited lectures. She is a member of the Editorial Board and Review Board for 15 National and International journals and the Life Member of All India Commerce Association, (ICA) TN 029 Association of Economists of Tamil Nadu, (AET) All India Accounting Association, Indian Institute of Public Administration, New Delhi (IPA) Regional Association for Women Studies (RAWS) Indian Academic Researchers Association (IARA). In recognition of the outstanding contributions made, the Tamil Nadu State Council for Science and Technology is privileged to confer her Esteemed TANSA Award in the Social Sciences Category for the year 2019 and also bestowed Winner in I$^{st}$ ICSI Gurushreshtha Award 2022 under the Commerce Category.

## About the Editor

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Jisha. TP is currently a full-time Ph.D. Research scholar (Junior Research Fellow-UGC) in the Department of Commerce, Bharathiar University, Tamil Nadu. She is a NET, JRF & SET holder in Commerce and NET holder in Management. Her area of specialization is Finance. She had completed her graduation and post-graduation from Sree Neelakanda Govt Sanskrit College, Pattambi (Kerala), and her B.Ed from Sree Swami Vivekananda Centre of Teacher Education (Kerala). She has participated in many conferences and workshops related to her research area. She published many articles in national and international journals. She has served as an assistant professor in the Department of Commerce and in the Department of Retail Management at the MES College, Cherpulassery, and MES KE VEE YAM College Valanchery.

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# Central Bank Digital Currency- Digital Rupee

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**ABSTRACT**
Around the world, there has been increased interest in the idea of Central Bank Digital Currency (CBDC), with the majority of central banks actively investigating and analyzing it. With the experimental launch of Central Bank Digital Currency, India has made an important step towards digitizing its financial ecosystem. Central Bank Digital Currency (CBDC) is an electronic equivalent of a country's official currency that is issued by the central bank. The RBI (Reserve Bank of India) will issue this legal cash, also known as the digital rupee, in India. More than 100 countries throughout the world are now working on developing CBDCs, which are happening at different stages. While some nations have already launched their digital currencies, others have given up or ceased working on their plans. Despite being heavily influenced by bit coin, the concept of CBDCs is distinct from decentralized virtual currencies and crypto assets, which arenot issued by the government and do not qualify as "legal tender." Although the RBI encourages the development of virtual and online currencies, it does not encourage those like bit coin because it is difficult to track their final destination. To track end-to-end virtual currency usage,CBDC should be introduced. This study aims to research and analyze what is the digital rupee,its benefits, risks, implementation methods and its impact on the economy

# I. INTRODUCTION

Money has changed over time, starting with the barter system, in which things were traded for money, and progressing to metallic and paper money, financial instruments, and now digital currency. Although money has taken many different forms over the years, these three aspects have remained constant. It serves as an accounting unit, a wealth depository, and a means of trade. Currency is any type of money that a country's central bank issues, guarantees, and recognizes as legal tender.

CBDC is typically described as a central bank's freely accessible digital liability. The only kind of central bank money that is now accessible to the general public in the United States is Federal Reserve notes or actual cash. CBDC would make it possible for the general public to make digital payments, just like with current currencies. CBDC, on the other hand, would be the most secure digital asset accessible to the general public as a liability of the Federal Reserve, with no accompanying credit or liquidity risk. CBDC is digital legal money issued by a Central Bank. It is used in the same way as fiat cash. In other terms, CBDC is a digitally issued sovereign currency. It is broadly divided into two major categories based on its usage within a country's financial and monetary ecosystem. **Wholesale CBDC** is often utilized for intra-country commerce between the central bank and both public and private banks. Using CBDC as payment aid, it reduces the risks associated with liquidity and counterparty credit. This is one ofthe most essential applications of CBDC since it helps to make the country's financial system quicker, safer, and more cost-effective. Secondly, **Retail CBDC** acts as the digital version of fiat money that is intended for the general public and is used by regular customers to make financial transactions for day-to-day activities. As a result, unlike a commercial bank debt, the CBDC hasno credit or liquidity risk. It is crucial to keep in mind that the proposed CBDC is not intended to replace or supplement the current payment systems, but rather to provide consumers with an additional platform and mechanism for holding and using central bank currency.

**Review of Literature**

Review of study literature is included in this chapter. The researcher gained a thorough understanding of the literature around the subject of the current study through the process of looking for relevant material. In this chapter, the researcher attempts to compile relevant literature on CBDC-Digital Rupee, its benefits, the risks involved in using CBDC, its impact onthe economy, and implementation methods.

Jasdeep (2023) investigated that consumers are being benefited from conventional payment methods in terms of liquidity, scalability, adoption, simplicity of anonymous transactions, and speedier settlement. The adoption of CBDC will increase, improve, and become more user-friendly with the help of the infrastructure that the government has provided. This development will expand people's access to digital currencies a manner similar to how UPI made digital cash more user-friendly.

Hussein Jundi (2023) emphasized that the central bank digital currency is also a commercial bank digital currency. It is in the stage of research and development to appropriately determine how they might mutually benefit by understanding their demands. It is critical to engage and communicate with all key stakeholders to foster a complete knowledge of how CBDC will impact the financial ecosystem and to align for what is to come.

Jyoti Prakash Gadia (2023) says his opinion on "Digital Rupee launched – Its impact on Indian Economy and Banks. It can significantly alter both the banking industry and the economy. Policymakers will be able to see the economy in real-time and get insights into it, and total cost-effectiveness and efficiency will increase.

Banagere (2022) says his opinion that it is India's first digital currency, the e-Rupee, is anticipated to be more inclusive, but its success depends on its digital infrastructure. With this,he has stated some benefits and risks involved in the CBDC's usage. They are as such quite convenient, more rapid transactions, lower maintenance expenses, transactions without touch, and loss of confidentiality, cyber attacks are common, and potential exploitation of fraudsters respectively.

**Objectives of the Study**

- To know about CBDC-Digital Rupee and its features.
- To study the benefits and risks involved in the CBDC.
- To research and analyze CBDC's impact on the economy.
- To identify the factors that influences the banking sector.
- And offer suggestions to overcome the same.

**Features of the Digital Rupee**

- It is a sovereign currency issued by central banks as part of their monetary policies.
- For government organizations, companies, and residents, this digital money will be acceptedas legal cash, a method of payment, and a safe store of value.
- People do not require a bank account to use it as fungible legal currency.
- Intended to reduce the cost of issuing currency and the cost of transactions.
- On the central bank's balance sheet, it is shown as a liability.

**Benefits of the Digi Tal Rupe**

**Faster Method of Payment**: Payments made via digital currency may be made considerably more quickly than with traditional methods like wire transfers or automated clearing houses, which need days for financial institutions to authenticate a transaction.

**Global Transfers at a lower cost**: At times global transactions can get very expensive. Individuals are charged high fees to move funds from one nation to another, especially when it includes currency conversions. Digital assets could interrupt this market by making the transaction cost-effective and quick.

**24／7 Availability**: Daily and weekly, transactions involving digital money go at the same rate. On the other hand, as banks are closed on weekends and beyond regular business hours, current money transfers typically take longer at those times.

**No Manufacturing Required**: Many conditions apply to physical currencies, such as the development of actual production facilities. In contrast, there is no such cost in digital currency. Furthermore, unlike real cash, digital currencies are not affected by soiling or physical faults.

**Well-organized Government Payments**: Instead of attempting to figure out prepaid debit cards or mail out cheque, the government could provide fast payments to citizens, such as food stamps, child benefits, and tax refunds, if it created a central bank of digital money.

**Risks in Digital Rupee**

**Loss of privacy**

The government would be able to monitor you since the RBI will be tracking e-rupeemovements.

**Lack of ability to make interest on money**

Unlike currency, which allows you to earn interest when you save or invest, e-rupee does not.

**Scammers' possible misuse**

Because no KYC or bank account is required, e-rupee may be accessible to fraudsters.

**Sharp Learning Curve**

Digital currencies need effort from the user to understand basic procedures like how to access a digital wallet and safely store digital assets. The mechanism has to be made simpler for widespread acceptance of digital currency.

**Issues of Cybersecurity**

People are always concerned about cyber security and experiencing numerous hazards as a result of less secure methods of storing digital cash. Cyber-attacks are likely to increase, and digital currency users may face virtual theft.

**Impact on the Economy**

**Cashless economy:** The economy's ability to transfer money to promote economic activity would suffer as a result of digitalization. It will assist in formalizing the economy, which would increase government revenue that can be used towards development initiatives and lower the government's fiscal deficit.

**Improve Financial Inclusion:** Access to financial services at a fair price is a key component of financial inclusion for both individuals and enterprises. Reaching remote areas of the country might be feasible with the advancement of technologies. Access to the financial system without opening a bank account would increase financial inclusion. It is possible to track government initiatives to reach the targeted group of people. Beneficiaries of government programmes' intended use of their currency may be tracked with precise coding.

**Improve monetary transmission:** Increased digitization of payments would minimize cash circulation and increase the efficiency of monetary transmission. If central banks create interest-bearing currencies, interest rate direction will be reflected in the market, further improving transmission. Furthermore, there would be no lower bound for interest rates to propel growth and combat market disinflation.

**Increase efficiency by incentivizing innovation and competition:** The payment industry is undergoing a digital transformation. The CBDC would eliminate banks' ability to act as intermediaries for payment providers. A single location will handle all transactions. To competewith established players like banks and card payment network providers, this will let new Fintech businesses into the market. Long-term gains would come from technological advancements, and it would also prevent payment firms from monopolizing the market.

**Protect the payment system from the rise of private digital currency:** It will prevent the growth of speculative private digital currencies. Private digital currencies may be harmful to countries because they allow transactions that would otherwise be flagged by KYC and AML to proceed, which can be used to support criminal and terrorist operations that could endanger society and the economy.

**Implications for the Banking Sector**

**Increase run on banks:** Funds would be moved with the click of a button, and any run on the bank would be magnified. As a result, central banks must act quickly to offer liquidity assistance to banks.

**Increase the cost of funds for banks (Depends upon the design of currency):** Increased competition will deprive banks of CASA. Banks will rely on wholesale funding to finance corporate activity, which will raise the cost of money. On the other side, currency in circulation of roughly Rs 30 lakh crore (Rs 30 Trillion as of August 12, 2022) will be returned to the banking channel, increasing liquidity and perhaps lowering bank costs.

**Cyber security:** The most crucial element in the architecture and use of digital currencies is cyber security. As digitization progresses, cyber-attacks have the potential to stop payments, putting users' data privacy at risk. It can also destabilize the economy and disrupt customers' confidence in payment systems.

**Use of Digital Currencies for Cross-Border Transactions:** Digital currencies will do away with middlemen in the payment process. It will shorten transaction time because settlements would take place directly without middlemen. Additionally, 24/7 access to settlement will be possible, and transaction costs will be decreased. SWIFT is being used by certain nations to impose financial sanctions on particular people or nations, which have an economic impact on those parties. With the use of digital currencies for cross-border transactions, it would be challenging to enforce such limits since, unlike the current payment system, where transactions are resolved through intermediaries like SWIFT, such transactions will be directly settled between Central Banks.

## II. CONCLUSION

As the world develops, technological involvement is making services as well as methods of working across industries to become digital. The digitalization of currency is the first stage in this development as more cutting-edge payment systems are created, and we are now on the verge of entering a new chapter of banking. These days, central banks are creating their digital currencies, often known as CBDCs or central bank digital currencies. By the beginning of 2023, India's official digital currency, which would mirror any of the existing private company-run electronic wallets, is most likely to be launched. The digital rupee will be comparable to existing online or virtual currencies, but it will have several distinguishing qualities. It will be intended to minimize the cost of printing and circulating currency notes and in promoting financial inclusion. In terms of liquidity, scalability, acceptance, convenience of transactions with anonymity, and faster settlement, CBDC can benefit customers' more than traditional payment systems. CBDC usage will expand, improve, and become easier for consumers to use with the support of government-provided infrastructure. This technology, like UPI, will broaden people's access to digital currency.

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