

Money changer

India needs to move forward on introducing an official digital currency

In contrast to India's continued ambiguity over the legality of cryptocurrencies, its stance on introducing an official digital currency has been reassuringly clear and consistent over time. And, four years after an inter-ministerial committee recommended that India launch fiat money in digital form, the Reserve Bank of India has indicated that pilot projects to figure out its viability are likely to be launched soon. In a speech a few days ago, T. Rabi Sankar, Deputy Governor, RBI, said, "RBI is currently working towards a phased implementation strategy and examining use cases which could be implemented with little or no disruption." The clarity is welcome, given that the much-awaited Cryptocurrency and Regulation of Official Digital Currency Bill, 2021, is yet to be introduced. In recent years, the significant rise of private cryptocurrencies such as Bitcoin and Ether has spooked central banks throughout the world, and pushed the case for official digital currencies. Mr. Rabi Sankar himself cited a 2021 BIS survey of central banks, which found that 86% were actively researching the potential for such currencies, 60% were experimenting with the technology, and 14% were deploying pilot projects. China, having already engaged in pilot projects for its digital RMB, is in fact planning a major roll-out soon. There has been little doubt, therefore, that India needs a digital rupee. The important questions are about the details and the timeline.

There are crucial decisions to be made about the design of the currency with regards to how it will be issued, the degree of anonymity it will have, the kind of technology that is to be used, and so on. It is possible that the question of the degree of anonymity, especially, will be quite a challenging one. While official digital currencies can borrow the underlying technology feature of private cryptocurrencies, they significantly differ from the latter in their philosophy and goals. Also to be considered are possible impacts of the introduction of an official digital currency on people, the monetary policy, and the banking system. There are risks to be considered as well, not the least of which will be those emerging from cyberattacks. What is more, many laws need to be amended to make the digital rupee a reality. So, while India might have done exceedingly well in digital payments in recent years – the Deputy Governor said they have grown at a compounded annual growth rate of 55% over the last five years – the digital rupee will be something else altogether. Notwithstanding all these challenges, it would seem that the answer to Mr. Rabi Sankar's speech title, 'Central Bank Digital Currency - Is This the Future of Money', is a yes.