



THE MAKING OF e₹

Central banks across the globe are exploring the possibility of issuing digital currency. The motivations for such an initiative vary from one country to another depending on their priorities. *Business Standard* takes a deep dive into the RBI's concept note, which promises "easier, faster, and cheaper" digital currency or digital rupee

SOME FEATURES OF CBDCs*

▶ A sovereign currency issued by central banks in alignment with their monetary policy

▶ Appears as a liability on the central bank's balance sheet

Must be accepted

- i) as a medium of payment
- ii) as a legal tender
- iii) as a safe store of value by all citizens, enterprises, and government agencies

▶ Freely convertible against commercial bank money and cash

▶ Fungible legal tender for which holders need not have a bank account

▶ Expected to lower the cost of issuance of money and transactions

BANKNOTES

Financial year

% increase in the value of bank notes

2020-21

16.8

2021-22

9.9

% increase in the volume of bank notes

2020-21

7.2

2021-22

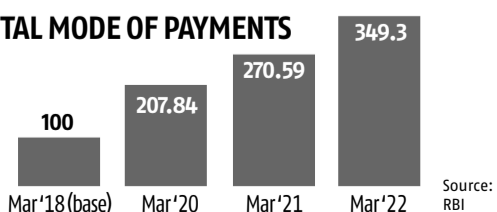
5.0

#FY22 saw a higher-than-average rise in banknotes in circulation primarily due to precautionary holding of cash by the public induced by Covid-19 pandemic
**CBDC can be a preferred mode of holding central bank money rather than cash in any uncertain situation like the one of Covid-19 pandemic



RAPID ACCEPTANCE OF DIGITAL MODE OF PAYMENTS

The Reserve Bank Digital Payment Index (RBDPI) demonstrates significant growth in adoption and deepening of digital payments across the country since its inception



*CBDC: Central Bank Digital Currency

Compiled by Manojit Saha

THE GLOBAL SCENE IN NUMBERS

60 No. of central banks expressed interest in CBDCs, with a few of them implementing pilot

10 No. of countries already launched CBDC

Bahamian Sand Dollar: **1st** CBDC launched in **2020**

105 No. of countries, which cover 95% of global GDP, are in the process of exploring CBDCs

Jamaica's JAM-DEX is the latest CBDC launch

17 Countries, including China & South Korea, are in a pilot stage and preparing for launch

China was the first large economy to pilot CBDC in 2020, aims for widespread domestic use of the **e-CNY by 2023**

THE COST ADVANTAGE

▶ **CBDC affects the overall value of the money-issuing function to the extent that it reduces operational costs** – those related to printing, storage, transportation and replacement of banknotes, and associated with delay in reconciliation and settlement

▶ **Establishing a CBDC issuance may come with significant fixed infrastructure costs, but subsequent marginal operating costs are likely to be very low.** Cost-effectiveness of cash management using CBDC vis-à-vis physical currency provides an additional motivation for introduction of CBDC, which may be also perceived as environment-friendly

Expenditure incurred on security printing

FY21# ₹ 4,012.10 cr

FY22 ₹ 4,984.80 cr

#July 1, 2021, to March 31, 2022

* This cost doesn't include environmental, social, and governance cost of printing money, and is predominantly borne by four stakeholders – general public, businesses, banks, and the central bank Source: RBI

'Enhancing digitisation towards a less-cash economy'

"The growing use of electronic medium of payment has not yet resulted in a reduction in the demand for cash" – RBI's concept note of CBDC

CHANGING PREFERENCES WITH INCREASE IN VALUE OF TRANSACTION

Preferred mode of transaction according to RBI survey	Cash	Digital	Cheque
Below ₹100	87.1	26.4	Nil
₹100-₹200	83.9	33.6	Nil
₹200-₹500	73.8	44.3	Nil
₹500-₹2,000	52.1	57.7	Nil
₹2,000-₹5,000	38.3	57.3	9.5
₹5,000 & above	30.0	53.6	16.7

Note: Data will not add to 100 as participants could select multiple options