


Chapter 15

Central Bank Currency in India: Policy and Regulatory Aspects

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ABSTRACT

India has made remarkable progress in digital payments innovation, showcasing a vibrant shift in the nature and functions of money. Recent technological advancements have made it possible to digitize currency, and the introduction of central bank digital currencies (CBDCs) is a significant development in this area. The study explores various aspects of the subject, including the legal framework, technological issuance architecture, fundamental principles, potential hazards, stakeholder influence, use cases, and critical CBDC-R issues. This study is relevant considering India's advancements in digital payments and the increasing global acceptance of CBDCs. The study highlights the potential of CBDC-R to improve India's economic landscape, emphasizing the importance of taking proactive measures to ensure its successful implementation and widespread acceptance.

INTRODUCTION

Since the 2007 global financial crisis, concerns have grown about the structure and conduct of different banking systems (Poskar R. 2022). The 2008 collapse of well-known US investment firm Lehman Brothers Holdings Inc. severely damaged public confidence in banks (Estrada, E. J. 2011). A new kind of asset that functioned independently of conventional financial institutions emerged due to this occurrence. The rise of digital currency, beginning with Bitcoin's launch in 2009, has taken the world by storm (Wenker, N. 2014). The first commercial transaction was done in 2010, and the first Cryptocurrency exchange emerged in 2013 (Panda, S. K, et. al. 2023). Numerous alternative cryptocurrencies, such as Bitcoin, started to appear in 2011 (Grinberg, R. 2012), and the concept of decentralised cryptocurrency began to gain popularity. The world trades hundreds of cryptocurrencies these days, and fresh "Initial Coin Offerings" (ICOs) are introduced every few days (Felix, T. H., & von Eije, H. 2019). It ignited a

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“revolution” in the world of cryptocurrencies, paving the way for the emergence of numerous well-known digital coins such as Tether, XRP, and many others.

The emergence of cryptocurrency or digital currency has sparked discussions across the globe, and India finds itself right in the middle of these conversations. As interest grows and potential risks become apparent, clear regulations are increasingly important.

The general desire for 'digital money' is shaping the future of the payments industry by promoting the shift from physical (cash) payments to digital alternatives and fostering financial inclusion. The threshold question is how central banks will influence the payment models in the future, and there is a need to understand the long-term impact of this development.

However, India has expressed reservations about the use of Bitcoin and other cryptocurrencies (Sharma, M. 2017). The government’s concerns are primarily rooted in the potential misuse of these digital assets for illicit activities, such as money laundering and funding illegal operations. This apprehension has led to a cautious approach towards the country's acceptance and regulation of cryptocurrencies. It’s a complex issue that requires balancing the potential benefits of blockchain technology and digital currencies with the need to prevent misuse.

Table 1. Time of cryptocurrency and CBDC in India

Year	Time of Cryptocurrency & CBDC in India
2008	Global Emergence: Satoshi Nakamoto introduces Bitcoin, the first cryptocurrency.
2010	First Crypto transaction: The first cryptocurrency in India was Bitcoin, which was launched in 2009.
2013	Early Awareness: Tech-savvy Indians and niche groups start to notice Bitcoin and other cryptocurrencies. Exchange Transactions: Unocoin, an Indian cryptocurrency exchange, debuted in December 2013. Regulatory Caution: The RBI released a circular alert alerting users of the dangers of virtual currency security.
2014	Another cryptocurrency trading platform that originated in India is ZebPay.
2016	Demonetization Impact: In November 2016, the Indian government demonetised 500 and 1,000 currency notes. This event increased interest in Bitcoin and other cryptocurrencies as alternative stores of value.
2017	Growing Popularity: Bitcoin's price surge captures wider attention in India. More people start investing in cryptocurrencies.
2018	RBI Ban: The RBI barred banks from providing services to crypto exchanges and consumers.
2019	Limited Familiarity: Cryptocurrency remains relatively unfamiliar to the general Indian populace, with limited adoption and awareness.
2020	Supreme Court Lifts Ban: Banking on cryptocurrency transactions resumed after the Supreme Court of India overturned the RBI's 2018 prohibition. Cryptocurrencies gain popularity and investment. Increased Adoption: In January 2020, bitcoin began to impact the Indian economy. The number of new users rises from 50 per day before January 2020 to 1,200 per day by December 2020.
2021	Massive Growth: India's cryptocurrency growth tops 500%. In India, Bitcoin and other cryptocurrencies rise in value and appeal. Government Caution: Despite increasing use, the Indian government and RBI warn about cryptocurrency hazards. Regulatory uncertainty persists. Regulatory Discussions: The Indian government will draft a law establishing a sovereign digital currency and prohibiting private cryptocurrencies.
2022	Tax on Cryptocurrency: In the Union Budget 2022, the finance minister introduced a cryptocurrency tax scheme. CBDC: The RBI has been promoting the use of CBDCs in retail and wholesale settings.

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