

7. Official Digital Currency of China

Prelims Syllabus: Information Technology

Prelims Tag: Digital Currency, Bitcoin, Central Bank Digital Currency, Cryptocurrency, Libra, Ethereum, Ripple, Litecoin, Blockchain Technology, Cryptography.

Mains Syllabus: GS-III Awareness in the fields of IT, Space, Computers, Robotics, Nano Technology, Bio-Technology and Issues Relating to Intellectual Property Rights.

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Why in News?

- Recently, China has started testing its official digital currency which is unofficially called “Digital Currency Electronic Payment, DC/EP”.

About the News:

- The digital currency of China has not been officially released but internal pilot tests are being carried out in four cities of China.
- China is expected to officially make the sovereign digital currency available to the public later in 2020.
- It could be considered the world's first Central Bank Digital Currency (CBDC) if it is officially issued by state bank People's Bank of China.
- The total size of China's digital currency could reach one trillion yuan (\$140 billion), equivalent to about one-eighth of China's cash.

What is Digital Currency?

- Digital currency is a payment method which exists only in electronic form and is not tangible.
- Digital currency can be transferred between entities or users with the help of technology like computers, smartphones and the internet.
- Although it is similar to physical currencies, digital money allows borderless transfer of ownership as well as instantaneous transactions.
- Digital currency is also known as digital money and cyber cash. E.g. Cryptocurrency.

About Cryptocurrency:

- A cryptocurrency is a digital or virtual currency that uses cryptography for security.
- Cryptocurrencies use decentralized technology to let users make secure payments and store money without the need to use their name or go through a bank.

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- They run on a distributed public ledger called blockchain, which is a record of all transactions updated and held by currency holders.
 - The most common cryptocurrencies are Bitcoin, Libra, Ethereum, Ripple, and Litecoin.

What is India's Stand on Digital Currency?

- The Reserve Bank of India (RBI) had banned cryptocurrencies in 2018.
- RBI had considered cryptocurrencies as a poor unit of account and also demonstrated by their frequent and high fluctuation in value.
- RBI also stated that it poses several risks, including anti-money laundering and terrorism financing concerns (AML/CFT) for the state and liquidity, credit, and operational risks for users.
- It had also said that it would seriously consider developing a sovereign digital currency when the time is appropriate.
- Subsequently, the Supreme Court has struck down a circular of the RBI, which bans financial institutions from enabling deals in digital or cryptocurrencies.
- The ban was challenged by the Internet & Mobile Association of India (IAMA) sighting that dealing and trading in cryptocurrency was a legitimate business activity and that the RBI did not have jurisdiction over it as these assets could be classified as commodities rather than Currency.