



INDIAN DIGITAL RUPEE: A PROSPECTIVE ANALYSIS

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Abstract: Digital innovation has been pursuing throughout global world for the efficient trend of operations of central banks; the Central Bank Digital Currency is one among them. Following the footsteps of the developed countries, India has launched the Digital Rupee in December 2022. Digital Transactions over the years has been directing the way people transact and has been the primary driver for launching of Digital Rupee. It is part of the broad initiative by the Indian Government and the Reserve Bank of India to modernise the financial system and enhance financial inclusion while promoting the use of digital currency over physical cash. How money is perceived, used for transactions and managed are the significant steps of Digital Rupee. Introduction of Digital Rupee presents multiple opportunities in generating economy as a significant move towards becoming a digitally evolving nation even though it faces certain challenges. The e-Rupee as a legal tender is different from an individual holding deposit in bank account. It usually does not gain interest like traditional deposits. Nevertheless, an individual held deposit in the bank can be converted into digital rupee and vice versa.

Digital Rupee, also known as e-Rupee (₹), is a digital form of Indian currency. It is often mistaken for being a form of cryptocurrency. However, unlike cryptocurrency, which is decentralised and operates without a central governing body, Digital Rupee is a sovereign currency backed by the RBI. The key aim of introducing this digital currency is to complement the existing

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physical currency and offer an alternative to people in terms of secure, efficient and convenient to conduct transactions.

The process of selection of rupee-sign was challenged in the High court of Delhi by Rakesh Kumar, the petitioner and also a participant-respondents of the Finance Ministry and the Chairman of Indian Rupee Symbol Selection Committee. The description process is 'full of discrepancies' and 'flawed'. The Delhi High Court single bench has dismissed the writ petition on November 26, 2010, maintaining that there was no justifiable ground for the stated allegations. However, later the Delhi High Court, on January 30, 2013, in *W.P. (c) 2449/2012* titled *Rakesh Kumar Singh Vs. Union of India* (PIL) and listed it before the Division bench of the Chief Justice of India and Mr. Justice V. K. Jain, taking cognizance and view of the irregularities and arbitrariness involved in the public competitions to design symbol or logo or designing logo or other method by the important national bodies or institutions. In their judgment they directed all the Ministries of the Government of India to formulate or prepare guidelines to ensure the transparency and wider participation of public and such guidelines should be of uniform nature and in uniformity with each other.

Many people support the implementation of Digital Rupee while some remain sceptical and uncertain about its features. Growth of financial economy and increasing population has necessitated introduction of Digital Currency. It is in a digital and electronic format and offers at lower transaction-costs and immediate payment. In other words, it can be directly sent to the involved parties unlike traditional money. Compared to the traditional payment method, like the clearing-house process, it allows for better and efficient currency management. The Government of India announced the Digital Rupee initiative in February 2022. A digital rupee is an 'electronic form' of paper currency. Its value and money in physical form are the same as 1 digital rupee is equal to ₹ 1 cash. The Digital Rupee (e₹) is a tokenized digital version of Indian rupee, issued by the Central Bank Digital Currency (CBDC) of RBI to enable instant cross-border money transfers and streamline the bank management and operations. This initiative aims to provide online and offline accessibility, benefiting the public, businesses, banks, and also reduce security, printing costs associated with physical currency.

The Reserve Bank of India has launched a regulatory sandbox in December 2020 to test the next-generation technologies for the cross-border

payments and their impact on the financial ecosystem. On January 29, 2021, the Indian Government proposed a bill to ban the trading and investments in crypto-currencies while empowering RBI to develop CBDC, referred to as 'programmable digital rupee,' leveraging experience from handling UPI, IMPS, and RTGS for distribution and validation purposes.

I. NECESSITY

The urgency behind the Implementation of Digital Rupee can partly be attributed to the rise of crypto-currencies and not entirely discouraging people from the point of falling for the 'get-rich-quick' attraction of crypto-currencies serving as a response to the China pre-empt plan of launching its e-CNY (Chinese Yuan currency), aiming to rival the dollar in cross-border trade and finance. The Finance Bill 2022 has brought amendments in Reserve Bank of India Act, 1934, paving the way for the introduction of Central Bank Digital Currency. The launching e₹-R and e₹-W caters to the needs of individual and the wholesale financial distribution respectively, facilitating to promote the stability of Indian economy.

Digital Rupee primarily serving to settle the secondary market transactions in the Government securities and reduce the transaction costs. Leading banks like State Bank of India, Bank of Baroda, Union Bank of India, HDFC Bank, ICICI Bank, Kotak Mahindra Bank, Yes-Bank, and HSBC have been actively participating, involving 40,000 to 50,000 individuals in the pilot project. The Government of India is actively working on the amendments to The Coinage Act, 2011, The Foreign Exchange Management Act, 1999, The Information Technology Act, 2000 and The Crypto-Currency and Regulations of Official Digital Currency Bill, 2021 to govern the Central Bank Digital Currency operations in the country.

The Government of India in its budget for the 2022-23 has announced its intention to issue a digital currency, setting it apart from the other major economies decision more cautiously. The advocates argue that the Digital Rupee will give a boost to digital economy of India, but it is crucial to assess carefully the potential-risks associated with hurried transaction of Digital Rupee.

II. HISTORICAL PERSPECTIVE

Introduction of Microsoft Money in 1994, enabled the regular households' access to the bank accounts digitally. Canada (1997) and the USA (1998) saw

the advent of banking only in digital. In India, digital banking had gained momentum in the late nineties leading with ICICI Bank in providing digital banking services to the retail clients.

Digital banking services involves automating processes of Software and Application Programming Interface (API), offering cross-institutional banking services accessible via desktop, mobile, and ATMs. Services like Unified Payments Interface (UPI), Internet Banking, Mobile Banking, Debit and Credit Cards, and Mobile Wallets fall under the digital banking. As of October 17, 2022, the operational digital banking units were in 75 districts across India, with Thrissur in Karnataka State being the first fully digitalized banking district.

III. CONCERNING INDIA

The economy is growing larger, and also trade is expanding. India ranks as the third-largest trading partner globally next to the US and China. India is eager to promote the use of Digital Rupee in international trade, and initiated this process through bilateral trade. Currently, The India's share of world trade remains relatively small, at approximately 2 per cent of global exports, and the country also faces a substantial trade deficit.

The true internalization (Inter-departmental) group with rupee can only occur with the removal of control on capital. This process is expected to be gradual and will develop in synchronization with the country's economic growth and global geopolitical changes. The RBI has established an inter-departmental group task with devising a roadmap. Additionally, the exporters will be incentivized to use the rupee for settlements, and the payment systems of nation will be integrated with those of other nations in the globe. Still, India faces a challenging task ahead on this path, requiring further economic growth and expansion of trade.

IV. WORTH CONSIDERATION OF DIGITAL RUPEE

The points raised about the potential benefits and motivations for the launch of Digital Rupee in India is significant and worth considering due to the following.

- It can indeed play a crucial role in promoting 'financial inclusion' with access to the formal banking services to the populations in areas of unbanked and under-banked.

- Truly, it can help reduce the economic disparities and empower individuals with better financial opportunities.
- It utmost ensures citizens 'privacy and security' in financial transactions and security of personal information as paramount. A striking true-balance between the privacy and the regulatory is supervision with the utmost care to gain public trust in e-rupee acceptance.
- Its regulations and restrictions on crypto-currencies indicate the concern authorities have about the potential risks to the financial stability and stability in use of cryptocurrencies for legal activities.
- It ensures a better visibility and control over the monetary system to the Government while mitigating some of the risks associated with unregulated cryptocurrencies.

IV.1 Digital Transactions: The volume of transactions conducted via digital channels in comparison to the traditional forms of transacting via physical bank notes has seen a great rise since the introduction of the Unified Payments Interface. In March 2024, the Reserve bank of India announced rise in retail digital payments as it increased from 162 crore transactions in Financial Year 2013 to over 14,726 crore transactions in Financial Year 2024 (as of February 2024). This implies that India leads at the global level accounting 8.26 percent of the world's digital transactions.

Evidence of India's including foreign players shift towards digitalisation and growth of digital rupee usage is due to massive popularity of UPI space. Digital currency enhances including the enablers of Google Pay, Walmart-backed PhonePe and Amazon Pay besides widespread usage of smartphones and growing internet penetration hold more than 85 percent of India's digital payments made through UPI. This collaboration with RBI and National Payments Corporation of India in expansion of user-base and adaptability of Digital Rupee is obvious.

IV.2 Financial Inclusion: Majority of Indian people is residing in rural areas and has been fighting with the challenge of financial inclusion. This implies much of population having no bank accounts due to lack of financial literacy and infrastructure. This is a result of lack of infrastructure, poor connectivity and barrier of socio-economy leading low financial inclusion of rural people. India's financial inclusion index is 56.4 percent as of March 2022

as per RBI report. This gap can boost financial inclusion by Digital Rupee as digital currency does not require fully functional bank accounts.

IV.3 Promotion of Cashless Economy: The Government and financial institutions have to incur a considerable cost to print, distribute and secure cash. The expenditure for printing currency notes between April 2021 and March 2024 was ₹5,894 crore as per RBI report. Cash was held as a safeguard for the ongoing challenges during COVID-19 time is again cash mis management. Cost involved reduces meaningfully due to launch of Digital Rupee with no diminishing of holding physical cash.

IV.4 Enhanced Transparency and Reducing Fraud: The scope for fraud and money laundering is reduced as each transaction can be tracked and recorded due to financial transaction transparency as CBDC is being based on blockchain.

IV.5 Implementation of Monetary Policy: A negative impact on the Indian financial system reflects global economic crisis, the RBI intervention and monetary policy help the country financial condition. Such a situation can aid the RBI issue or withdraw digital currency, and ultimately control money supply.

IV.6 Impact of Digital Rupee: It is probably making payments faster, efficient and secure and thus will have a big positive impact on the nation's economy. Effects of Indian Digital Rupee on business and individual are that it:

- Benefits nation's economy perceptibly and give a fillip to economic growth through empowering increased financial inclusion, reducing cost of financial transactions, increasing investments, increasing economic growth.
- Makes easier for business as to pay and receive payments from customers and the other stakeholders conducting business. It also benefits the businesses in reaching new customers and expanding their markets.
- Reduces cost of business payments as Digital Rupee transactions are managed between the wallets without the need for intermediaries.
- Processes transactions in real time, 24/7, and making payments more efficient.

- Accepts payments from anywhere in the world and helping business expansion in the markets and reach more customers.

IV.7 Impact on individuals: Digital Rupee has a positive impact on individuals and likely to enhance their convenience in making payments, saving money and investing. It also helps in protecting individuals' money from fraud and theft. The specific ways of impact on individuals are convenient payments, reduced risk of fraud and theft, increased financial inclusion and enhanced privacy.

V. PROBLEMS

As of last update in September 2021, the Digital Rupee was still a topic of discussion and exploration in India. While its potential implementation could offer several benefits with a set of challenges and considerations. Some of the problems and prospects associated with the digital rupee are as:

- It would necessitate a robust 'cyber security' measure to protect against potential hacking and data breaches coupled with privacy of users' financial transactions and personal information.
- It could have implications for 'financial stability.' For instance, it may affect the demand for traditional bank deposits which could lead to significant shifts in capital flows, potentially impacting the stability of the financial system.
- It involves great efforts to the general public to adopt and accept it as a mainstream payment method
- It requires an extensive education and awareness campaigns to encourage extensive adoption.

VI. PROSPECTS

- A digital rupee could provide banking and financial services to the remote and underserved areas, improving financial inclusion in the country
- Its transactions typically have lower-transaction fees compared to the traditional method, which could benefit businesses and individuals alike
- It could streamline cross-border transactions, making the international trade and remittances faster and more cost-effectively
- It would offer the Central Bank a more direct control over the money supply, tracking and enabling more efficient implementation of monetary policy

- It could stimulate innovation in the fin-Tech sector, leading to the development of new financial products and services
- It could encourage shift towards a cashless economy, reducing the reliance on physical currency thereby making it easier and swifter.

To conclude that digital currency has a potential to change the way making payments and managing finances; the Digital Rupee is a new and modern currency form. It has short- and long-term impact on the Indian economy and society. Still the Digital Rupee in the development stage, it offers major scope in the areas of cross-border payments, innovation in fintech space and Integration with Blockchain technology. Simply it can be said that 'Digital Rupee: An Economic Transformation' of nation.