



Britain Considering New Digital Currency Bitcoin

Why in News

British authorities are exploring the possibility of creating a Central Bank Digital Currency, being touted as "Bitcoin."

- It is a step towards future proofing Pound Sterling (currency of the United Kingdom) against [cryptocurrencies](#) and improving the payments system.

Key Points

▪ About Bitcoin:

- In the wake of declining cash payments in the country partly due to the [Corona pandemic](#), the Bank of England and the Treasury are considering creating **Digital Currency**.
- The Digital currency, if passed, **would exist alongside cash and bank deposits and act as a new form of money** to be used by households and businesses in England.
- It would **sit at the interface between cash and private payments systems** and would **not necessarily be based on [distributed ledger technology](#)**.
- This 'bitcoin' **would be tied to the value of the pound** to eliminate holding it as an asset to derive profit.
- The move **could have an economic impact in the form of wider investment** into the UK tech sector and lower transaction costs for international businesses.
- Britain's digital currency would be different in a key sense as if passed, it **would be issued by state authorities**.
 - Currently, only the Bahamas has such a currency, though China is trialing it in several cities.

▪ Digital Currency:

- Digital currency is a **payment method which is in electronic form and is not tangible**.
- It 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 cyberscash. **E.g. Cryptocurrency.**

▪ Central Bank Digital Currency:

- A central bank digital currency (CBDC) uses an electronic record or digital token to **represent the virtual form of a fiat currency** of a particular nation (or region).
 - **Fiat Currency:** It is government-issued currency that is not backed by a physical commodity, such as gold or silver, but rather by the government that issued it.
- A CBDC **is centralized**; it is issued and regulated by the competent monetary authority of the country.
- Each unit acts as a secure digital instrument equivalent to a paper bill and can be used as a

mode of payment, a store of value, and an official unit of account.

▪ **Benefits:**

- CBDC **aims to bring in the best of both worlds**—the convenience and security of digital form like cryptocurrencies, and the regulated, reserved-backed money circulation of the traditional banking system.
- New forms of digital money **could provide a parallel boost to the vital lifelines that remittances provide** to the poor and to developing economies.
- It will ensure that **people are protected from financial instability** caused due to the failure of private payments systems.
- **Ensures that central banks retain control over [monetary policy](#)** against the remote possibility that payments might migrate into cryptocurrencies over which they have no leverage.

▪ **Risk Associated:**

- There is a need to enforce strict compliance of Know Your Customer (KYC) norms to prevent the **currency's use for terror financing or money laundering**.
- Existence of digital money **could undermine the health of commercial banks** as it removes deposits on which they primarily rely for income.

▪ **India's Stand on Digital Currency:**

- **[Reserve Bank India \(RBI\)](#)** had considered cryptocurrencies as a poor unit of account and also demonstrated by their frequent and high fluctuation in value.
- According to RBI, it pose several risks, including anti-money laundering and terrorism financing concerns (AML/CFT) for the state and liquidity, credit, and operational risks for users.
- However, it is **considering developing a sovereign digital currency** when the time is appropriate.

[Source: TH](#)

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