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REGULATING THE DIGITAL RUPEE: BALANCING PRIVACY AND INSTITUTIONAL CONTROL IN INDIA'S CBDC FRAMEWORK

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Abstract

With a single move, India's introduction of the Digital Rupee literally changes the entire Indian financial system. The country is now a front runner for the global Central Bank Digital Currency (CBDC) experiments. Intended as a supplement to the already existing digital payment instruments, the Digital Rupee is expected to make transactions quicker, less expensive, and more accessible to the unbanked population. Besides, it is supposed to decrease the economy's reliance on cash in circulation. The questions behind this endeavour are, however, far, reaching in terms of regulation, constitution, and technology which the authors express in their article. This article constitutes a thorough analysis of the legal regime that governs the implementation of CBDC in India and especially with respect to the issues regulated innovation, confidentiality and state control. It questions whether the current statutory measures, which include the RBI Act, Payment and Settlement Systems Act, and Information Technology Act, are sufficient to govern the Digital Rupee, while also contemplating that there are gaps which require a separate legal framework. The article is devoted to privacy issues in shadow of the Supreme Court's judgment in Puttaswamy, by which it points out dangers of transaction, level surveillance, data centralisation, and excessive state control. Besides, it weighs the conflict between the programmability of the account and the individual freedom, the AML/KYC obligations' role, and the requirement for strong cybersecurity standards.

In the end, the authors affirm that the Digital Rupee is packed with revolutionary potentials, yet the question of its permanence and eventual acceptance will be decided by the extent to which privacy, by, design principles, open governance, and explicit statutory safeguards are incorporated into it. Thus, a well, balanced regulatory model will not only stimulate innovation, but also preserve constitutional rights, so that India's CBDC framework will be inclusive, accountable, and future, ready.

Keywords: Digital Rupee; Central Bank Digital Currency (CBDC); Financial Regulation; Privacy Rights; Institutional Oversight.

Introduction: Evolution of Digital Currency and India's CBDC Vision

The global financial system has been transformed dramatically during the last 10 years, in large measure this change is a result of technological developments, digitization of payment system, and the rise of decentralized cryptocurrencies. The initial idea of Bitcoin in 2009 as a peer-to-peer, trustless value transfer was merely an experiment is now used to show how governments and central banks have to rethink the very nature of money because this

technology is so disruptive. As private digital currencies proliferate, the issues of monetary sovereignty, financial stability, capital flight, and illicit flows have come to the fore, thus pushing those in power to consider sovereign digital alternatives. That is the global framework within which the idea of a Central Bank Digital Currency (CBDC) was formed - a digital money which is a direct representation of the fiat money issued, regulated, and backed by a central bank. Presently, over 100 countries are either involved in active research or pilot projects on CBDCs, signaling the onset of a financial regulation and digital monetary policy era.

India's move towards the implementation of a CBDC is a perfect fit with its massive digital transformation. The Indian economy has turned into a highly attractive market for digital payments in the last ten years with the help of such innovations as the Unified Payments Interface (UPI), Aadhaarenabled services, and extending mobile connectivity. These kinds of progress not only have reduced transaction time and increased financial inclusion but also raised fundamental questions about the next stage of the evolution of money. In particular, because the private cryptocurrencies have attracted local users, regulatory uncertainty and macroeconomic risks have become a concern. The Reserve Bank of India (RBI) which has always been skeptical about private virtual currencies, realized the need for a sovereign, safe, and digitally controlled solution that could keep the monetary authority while benefitting from the technology.

This led to India's announcement of the CBDC project in the Union Budget 2022–23, signaling an important move towards the modernization of its monetary system. The RBI has therefore commenced pilot studies on the wholesale (CBDC-W) and retail (CBDC-R) versions of the digital rupee. The wholesale CBDC intends to facilitate the settlements of interbank transfers and government bonds markets, while the retail version aims to provide individuals and businesses with a digital payment tool that resembles the properties of physical cash. These pilots constitute a cautious yet important trial stage, thus allowing regulators to evaluate aspects such as operational resilience, cybersecurity risks, user behaviour, and infrastructural needs on a smaller scale before nationwide rollout.

The digital currency journey in India does not depend solely on economic factors but is also a result of technological and regulatory considerations. From an economic standpoint, the digital rupee can help India to lower the hard cash management cost, accelerate the efficiency of payment systems, and also make cross-border transactions faster. On the technology side, the use of CBDCs could open up opportunities in terms of programmability, interoperability, offline use, and the possibility to connect to the new technologies like blockchain, distributed ledgers, and tokenization platforms. The digital rupee from a regulatory point of view is instrumental in strengthening the anti-money laundering (AML) and counter-terrorist financing (CTF) measures through increased traceability and establishing a more transparent financial ecosystem. However, it is the concern for privacy, data protection, and the possibility of enhanced state surveillance over individual financial behaviour that oppose these regulatory features.

The debate about implementing a CBDC in India should not be limited to the technological aspects only because it also has socio-economic and constitutional implications. According to the Supreme Court recognising the right to privacy as a fundamental right in the Puttaswamy verdict, it sets a vast bar for the handling of financial data. For any CBDC system, this would mean that it should not only allow the state to perform financial monitoring but also sufficiently protect the individual's informational autonomy. This balancing act of trade-off risk between innovation and surveillance is at the core of the discussion on India's digital rupee. Furthermore, talking about digital literacy, access to the rural areas, cyber

security weaknesses, and compatibility with already existing payment systems is just the tip of the iceberg in terms of ensuring fair implementation.

The Indian government's CBDC project is essentially shaped by the desire to strengthen its financial system, keep its sovereignty in the digital age, and facilitate the growth of the economy in an inclusive manner. However, the accomplishment of such a goal will be contingent upon the creation of an unambiguous and all-encompassing legal and regulatory framework that also tackles issues of privacy, liability allocation, consumer protection, and cross-border regulatory harmonization. While countries are facing such challenges in their own ways, India's method to come up with a balanced, rightsrespecting CBDC could be a landmark for the rest of the world of emerging economies.

Regulatory Architecture Governing the Digital Rupee

The regulatory architecture governing the Digital Rupee (Central Bank Digital Currency or CBDC) in India is a complex mix of elements from local and international law. It incorporates aspects of monetary policy, payment system regulation, data governance, and technology law relating to the emerging field. While it is the Reserve Bank of India (RBI) that has been at the forefront, not only in retail (CBDC, R) but also in wholesale (CBDC, W) models, the legislation forming the basis of the framework is still found in several statutes that have been in force long before the idea of digital sovereign money came up. Hence, the situation provides the possibility for innovating in the space of digital money, but on the other hand, it is littered with gaps that could potentially undermine the regulatory measures aimed at providing legal certainty, consumer protection, and constitutional compliance which must be filled by the means of law enforcement and policy planning.

The digital rupee should be ultimately understood as a concept that emerges from changes made around the Reserve Bank of India Act, 1934. Section 22 of the Act confers the RBI the sole power to issue banknotes, and the 2022 Finance Act amendment has added a new section 2(aiv) and a new Section 22A, formally authorizing RBI to issue "bank notes in digital form." By this law, a traditional currency and its digital counterparts (CBDCs) shall be treated on the same legal basis and refer to the concept of the same legal tender. However, the Act has not yet gone beyond this to define the operational standards, data governance, privacy safeguards, or technological architecture, and as such, most of the work has been left to be carried out by the subordinate legislation and RBI circulars. Therefore, the question of legality has been solved, but the rest of the regulatory ecosystem is in its infancy stage.

The Payment and Settlement Systems Act, 2007 (PSS Act) is the second essential foundation that holds up the regulatory structure. Since the CBDC transactions will be conducted via digital payment channels, they will be regarded as payment systems. This status allows RBI to regulate the intermediaries that participate in the distribution of CBDC, commercial banks, payment system providers, and digital wallet operators. The PSS Act empowers the RBI with various supervisory and regulatory powers, including the authority to oversee settlement systems and enforce cybersecurity standards. Even so, CBDCs are not the same as traditional payment instruments; rather, they are a form of sovereign currency instead of being a claim against an intermediary. This fact gives rise to a certain level of conceptual ambiguity which basically boils down to the question of how the PSS Act can be applied without causing confusion between money and payment systems that only handle money while being two separate things.

The Information Technology Act 2000 and the CERT, In Rules are also applicable in the case of the Digital Rupee ecosystem. Given that the CBDC platform is online, it should adhere to the

Act's provisions dealing with data security, cybercrime, and authentication. Additionally, CERT, In's 2022 Directions which require reporting cyber incidents within six hours, maintaining logs for 180 days, and KYC obligations for virtual asset service providers affect the intermediaries of CBDCs as well. Nevertheless, the IT Act was put together almost twenty years ago and does not take into account the presence of these issues, such as algorithmic surveillance, encryption, or government access to transaction, level data. Therefore, its use in this case is quite limited, especially concerning privacy, which is still far from being adequately addressed without a specific financial data protection regime.

An important aspect of the regulatory architecture is the pilot program for the digital rupee announced by RBI in 2022. The program uses a tiered model to distribute the digital rupee: The RBI issues the CBDC to the banks, which then disseminate it to the end, users. Wholesale CBDC aims at interbank settlements, government securities, and financial markets, while retail CBDC targets selected banks that operate digital rupee wallets integrated with existing payment systems. Even though the pilot guidelines standardise the functionalities of wallets, interoperability, offline capabilities, and transaction limits, they are still at the testing stage and do not have the force of law. This leads to the absence of clarity in aspects like dispute resolution, consumer liability, and the provision of security standards that are compulsory.

Besides the outlined above, there are other legal regimes, which also intersect with CBDCs regulation. For example, the Prevention of Money Laundering Act (PMLA) is a regulatory framework that governs

KYC, AML, and CFT performed by financial institutions engaged in the handling of CBDCs. Since CBDCs are designed to be traceable, the requirements for monitoring and reporting of suspicious activities will also apply to entities involved in them. On the other side, the Banking Regulation Act, 1949, is the one that governs the participation of banks in CBC distribution and how they handle the liabilities arising from wallet balances. Moreover, the lack of clear standards on settlement finality, reversibility, and wrongful transfer liability further complicates the situation. Taken altogether, the regulatory structure of the Digital Rupee is spread over several pieces of legislation, none of which were purposely drafted with the idea of CBDCs in mind. As a result of this fragmented ecosystem, there is a risk of having interpretative ambiguities, especially with regard to privacy, programmability, cross, border use, and digital identity integration. The adoption of a single Digital Currency Regulation Act could alleviate compliance burdens, establish technological standards, define liabilities, and set up privacy, by, design requirements, among other things. Prior to that, the Digital Rupee's regulatory framework will be subject to continuous change, which is mainly due to RBI directives, gradual law amendments, and court rulings.

Innovation vs. Legal Constraints: Opportunities and Regulatory Challenges

The unveiling of the Digital Rupee is a game, changing moment for India's financial and tech space. With the Reserve Bank of India (RBI) experimenting with both the wholesale (CBDC, W) and retail (CBDC, R) versions, the country is experiencing a fine blend of fast, paced innovation and the pressing need for a wise legal oversight. The central bank digital currencies (CBDCs) hold great potential, the transaction costs are to come down; the settlements will be done in real, time; the currency can be programmed; and the financial inclusion will be easier. However, all these advantages can be realized only if there is a strong regulatory framework that addresses legal, constitutional, and cybersecurity risks. Therefore, finding the right equilibrium is at the core of the success of the Indian digital currency scenario in the long run.

Just to name a few, the Digital Rupee is a step in the right direction to modernize the country's payment systems by significantly increasing their efficiency. Automating government instruments and central bank operations through the wholesale settlement system will lead to considerable cost savings due to the reduction of the current inefficiencies and instant finality of transactions. To put it simply, programmability is the one, on, one relationship with conditional payments, automatic compliance, and targeted welfare. For instance, government subsidies can be efficiently used for authorized products and within a certain time frame. Thanks to such features, a new model of fiscal governance is born, a system that is transparent and gives an account of public spending. Retail payments may also see a rise in offline capabilities through a CBDC, R, which would allow transactions even in places without Internet access, thus, rural dwellers and the digitally unbanked will benefit greatly from this.

Nevertheless, the legal limits must be kept alongside the innovations. Among the regulative impediments, India's laws that regulate digital transactions in a less uniform manner, stand out prominently. Though the RBI Act, 1934 has been remodeled to allow the issuing of digital currency, the other several acts, Payment and Settlement Systems Act, 2007 (PSSA), Information Technology Act, 2000 and data protection laws are not adequately adjusted to the framework of CBDCs. The Digital Rupee instigates query about its legal characterization: Is it currency, a digital token or sovereign data? In the absence of clear legal provisions, disputes concerning liability, consumer protection, and smart contracts linked to CBDCs enforcement will be around for a long time.

Moreover, there is the issue of interoperability. The hatching of the new rupee can only be a success story if it is able to work hand in hand with present payment modes like UPI, NEFT, RTGS, and IMPS. Lack of harmony between CBDCs and the broader financial ecosystem may lead to fewer people taking up the technology and thus the operational side getting more complicated. At the same time operating at full interoperability level calls for the regulator to be clear about it being final, risk, sharing framework as well as monitoring of private intermediaries who may be providing wallets or processing transactions.

Security is yet another prominent issue in terms of law and policy and also a pain, point which must be addressed comprehensively. Since CBDCs require a digital set of supplies as their backbone, they come with more risks in terms of hacking, data breaches, viruses, as well as possible cyberattacks at the state level. Current laws under IT are not designed with the security measures for the newly established electronic payment scenarios in mind, thus, they cannot provide close security for them especially when the payment system is operating in real, time, continuous monitoring is required, and incident reporting should be quick and efficient. Additionally, the issue of accountability in cases of security breaches is still open: whether the RBI, intermediaries, or consumers should be held responsible needs to be legislated clearly.

Innovation also challenges the regulations of the financial market. One of the possible negative sides of programmability is that the government may have too much control over how the citizens are spending their money. If people are prevented from buying certain things with their money, then constitutional issues related to personal freedom, economic liberty, and the right to privacy may arise. In the absence of statutory boundaries, the use of programmable money may lead to the conducting of financial surveillance. Hence, innovation must not be in conflict with the constitutional safeguards stated in the K.S. Puttaswamy v. Union of India decision, which recognizes informational privacy as a fundamental right.

Moreover, from the standpoint of consumer protection, adopting CBDCs would necessitate

a legal overview that affords security provisions against fraudulent schemes, transaction errors, dispute handling, wrongful debit, and mistaken transfers. Most disputes arising from cash, based transactions will not occur in digital currencies, and the present regulations for digital payments may not be sufficient for the state, issued digital money. At the same time, insufficiencies in financial literacy may put consumers in a position where they can be manipulated, misused, or have unauthorized transactions committed against them unless explicit protections are built in.

Finally, innovations in CBDCs should not be at odds with the banking sector's stability. For instance, if a large number of people decide to transfer their savings from commercial banks to digital wallets directly held by the RBI, then banks may suffer from a shortage of funds. It is hence the role of regulatory design to make sure that CBDCs are the bank's allies and not rivals. Layered intermediaries, transaction caps, or interest, free CBDC models can contribute to keeping this equilibrium.

To wrap it up, India's journey with the Digital Rupee is an elaborate interaction of two aspects, innovation and legal constraints. While on the one hand, CBDCs bring in boundless possibilities of making payments faster, welfare delivery more efficient, and financial inclusion stronger, on the other hand, these advantages have to be supported by thorough legal safeguards. A trustworthy and resilient CBDC ecosystem necessitates addressing of different aspects such as interoperability, cyber, security, constitutional compliance, consumer protection, and financial stability. The most significant regulatory challenge is not about putting a stop to innovation but rather about shaping it, developing rules that recognize the technological possibilities while safeguarding the basic tenets of privacy, autonomy, and rule of law.

Privacy, Surveillance & State Control Concerns

The Digital Rupee launch is a major relief in India's financial system but at the same time, it raises doubts about whether it is legally and constitutionally sound. The device is often associated with concerns regarding users' privacy, the monitoring of their activities, and the problem of the imposition of State control over personal financial conduct. Unlike money that is physically present, the digital rupee is not only disclosed but is also liable for tracking individuals. This newly created possibility of centralizing the financial data in the Reserve Bank of India or government systems gives rise to the deepest questions about privacy, freedom, and the limits of the regulator's powers in a democratic society.

The fundamental issue arises from the very design of the CBDCs. India needs to decide between a token, based model that provides cash, like anonymity and an account, based model that entails identity, linked transaction records. In the first case, privacy is better protected, whereas the second case allows for more rigorous regulatory checks. The RBI's pilot project hints at a hybrid model, but, even so it complicates matters. Under the account, based system theoretically, every transaction could be scrutinised, logged, and analysed without any exception. Such an example of detailed financial surveillance has an adverse effect on personal freedom in case the government is able to track one's habits, transactions, social interactions, and even political inclinations through the analysis of the expenditure patterns.

The question of constitutionality is addressed in the light of the K.S. Puttaswamy v. Union of India (2017) case, where privacy was recognized as a fundamental right by the Supreme Court. According to this decision, any interference must be legal, serve a legitimate purpose, be necessary, and proportionate. These criteria upon reflection indicate that an account, based CBDC set, up, which is not regulated, may lead to the infringement of the requirements concerning the least intrusive nature and proportionality in data processing. The government should clarify why total transparency is still needed, why less invasive

means cannot be used for the same goal, and what provisions exist to prevent the abuse of or unauthorized access to the data.

Moreover, CBDCs might become the cause of what the academics call "financial panopticism", a situation where people are always convinced that their actions are watched and thus modify their behaviour accordingly even though there is no direct coercion. This raises questions about the democratic nature of the monetary systems. One example is that due to their programmable characteristic, authorities could be enabled to prevent consumers from using their money for certain products, set deadlines on digital money, or activate the process of deducting funds from the account for taxes or fines without the involvement of the judiciary. Even though India might not have been thinking about such uses, the lack of legal provisions against them means that it becomes possible for such misuse to happen in the future.

Another major issue is the protection of data. At present, India does not have a fully, fledged and operative data protection system similar to the GDPR. Although the Digital Personal Data Protection Act, 2023, provides a framework, there are still some areas of concern, mainly relating to the State exemption clauses, the broad grounds for data processing, and that financial data are not explicitly mentioned as sensitive personal information. If there is no strong data governance regulation that addresses the issue of CBDCs directly, then what follows is a possibility of over, collection, limitless retention, or non, transparent data, sharing between the government departments, law, enforcement agencies, and financial institutions.

Besides that, linking CBDCs with current digital infrastructure like Aadhaar, based payments, e, KYC systems, and the Unified Payments Interface (UPI) only increases the danger of data centralisation. If all financial transactions are made fully traceable and cross, linked with identity databases, then a single source of vulnerability for cyberattacks or unauthorized access would be created. In contrast to private cryptocurrencies which are decentralized thus spreading risks, a CBDC being centralised is inherently a lucrative target for evil doers.

The problem of state overreach is also on the table. The past has shown that the use of emergency powers and a national security narrative may result in expanded surveillance capabilities. Without strict legal limitations, the digital rupee could be the means through which real, time surveillance is conducted on dissidents, journalists, members of minority communities, or politically unfavored groups. Even if the capability is seldom used, it deeply changes the power balance between citizens and the state.

To remove these worries, India should implement privacy, by, design features in the CBDC setup such as gradually disclosed anonymity (anonymous low, value transactions), decentralised or anonymous data storage, strict purpose limitation, and independence regarding audits. Moreover, a separate Digital Rupee Regulation Act should regulate what the state is not allowed to do with CBDC data instead of merely listing the activities that it can do.

In short, despite the fact that CBDCs can be very beneficial in terms of efficiency and innovation, they come with serious privacy and surveillance issues. The safeguarding of constitutional freedoms necessitates the existence of a regulatory framework that prevents the digital rupee from turning into an unbridled State surveillance tool while at the same time allowing it to be used for financial governance. The fine line between innovation and privacy is what will eventually determine the legitimacy and public trust of India's CBDCs.

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The Way Forward: Building a Balanced, Inclusive, and Rights, Respecting CBDC Framework

The effective launch of a digital rupee is largely dependent on India's ability to engineer a regulatory environment which is conducive to innovation yet does not violate people's rights as laid down by the constitution, financial stability, and consumer interests. Now that India is ready to move beyond pilot projects and consider a possible nationwide adoption, the policy architecture needs to mature from mere guideline fragments to a coherent legislative and institutional framework. Hence, a well, functioning CBDC system calls for a multi, layered strategy that merges legal changes, technological security measures, and regulatory accountability.

To begin with, India needs to create a single consolidating "Digital Rupee Regulation Act" which would represent a detailed legal basis for the issuance, circulation, and supervisory activities related to CBDC. The present dependence on the RBI Act, Payment and Settlement Systems Act, and IT Act does not provide enough room to deal with singular CBDC risks such as money that can be programmed, instant data trails, or even the possibility of transactional anonymity being limited. A special statue would do the following things: it determines the legal status of the digital rupee, the extent of RBI's power, what kind of use for CBDC data is allowed, and who is accountable if intermediaries cause some kind of mishap. This law would also align India's CBDC policy with the international standards of BIS, IMF, and FATF thus making it globally interoperable and conforming to the anti, money laundering rules.

Next, privacy is the aspect that cannot be compromised under any circumstances in the design of the digital rupee. In fact, the central bank may now get detailed, transaction, level data for the whole economy because of the digital rupee. So, there is a real fear now that some sort of mass surveillance or totalitarian state control might take place. Every limitation put on privacy after Puttaswamy has to be lawful, necessary, and proportionate according to the judgment. As a result, the CBDC system should be structured according to privacy, by, design norms like collecting data only when necessary, limiting the usage of personal data, encrypting data fully, using tokens and decentralising storing of sensitive data. An effective privacy plan may also allow for varying degrees of anonymity such that, as an example, small transactions are mostly pseudonymous while transactions of a great value would require KYC. Furthermore, independent inspections, the period during which data can be stored, and legal sanctions in case the financial data is misused are essential in keeping up with public trust.

Also, ensuring adequate consumer protection should be at the core of the regulatory roadmap. The launch of the digital rupee will bring changes in the risk environment which will affect retail users and they may find themselves in situations such as losing access to their private keys unintentionally, the theft of their wallets, problems with the system, or fraudulent transfers. Proper mechanisms for dispute resolution, supported by an upgraded RBI Ombudsman framework, must be in place. Imparting information on security breach cases or malfunction scenarios, responsibility handover from users, wallet providers, and the RBI through brief statements should let the audience know what measures have been taken. On the other hand, the CBDC community should secure that elderly people, persons with disabilities, and illiterate groups can access the digital platform through multi, platform wallets and the possibility for offline transactions.

Moreover, the government should allow thought, out uses of CDBCs while placing regulations on such activities to ensure safety. One of the promising facets of CBDCs is programmable money, which in future may help in automating the process of payment of subsidies, targeted welfare distribution, or time, bound payments. On the other hand, if the

programmability feature is not regulated properly, then it might be that the state or private actors will be able to affect the individual spending behavior raising ethical as well as constitutional issues. To prevent such situations from happening, India should implement a govenance framework for programmability which stipulates that the controlling elements of a program cannot be intrusive, disallow discriminatory conditions and carry out features automated with the user's consent and court, verifiable guarantees.

Additionally, the capability to withstand cyberattacks should be greatly enhanced. Besides, the new vulnerabilities come with the introduction of a CBDC: the hacking of wallets, interception of communication channels, or tampering with consensus mechanisms of the ledger. The three entities; RBI, MeitY, and CERT, In needs to jointly create a national cybersecurity protocol for CBDCs in which they would also perform penetration tests, multi, factor authentication, secure hardware modules, and quick, response cyber, incident procedures. Along with this, frequent checking, the use of AI as threat detectors, and involvement with other global cybersecurity agencies should be the other elements of the strategy.

Furthermore, the establishment of a balanced CBDC framework calls for collaborative and adaptive regulation. It is imperative that the RBI receives support in synchronization with NPCI, SEBI, TRAI, MeitY, and the Ministry of Finance, for a successful integration of the digital rupee into India's existing digital, payments and fintech framework. Regulatory sandboxes should facilitate the development of new ideas by enabling fintech companies to carry out trials on CBDC, based solutions under supervision. Also, parliamentary oversight and stakeholder consultations, which include consumer groups, privacy experts, and industry participants, will be the main instruments for policy design legitimacy and transparency.

Lastly, the digital rupee should be an instrument that helps with financial inclusion rather than one that deepens the digital divide. These are some of the most important measures that will be needed for fair access to the digital rupee: an offline, capable CBDC tool, compatibility with feature phones, inexpensive hardware wallets, and public digital, literacy initiatives. The CDBC implementation plan needs to be the one that elevates India's digital public infrastructure instead of UPI's substitute that is already very successful.

To sum up, the Indian CBDC path is expected to be steered by a balanced set of principles: on the one hand, those include technological innovation, economic efficiency, and robust security; on the other hand, constitutional rights, consumer welfare, and democratic accountability. If well, regulated and inclusively designed, the digital rupee may become not only a change, making tool that enhances trust, empowers financial sovereignty, and modernizes India's monetary ecosystem but also one that does not compromise the most basic freedoms.

Conclusion

The Digital Rupee is a significant step in India's financial journey that not only brings efficiency and technological progress but also enhances financial inclusion. However, as is the case with any CBDC, the positive aspects of the innovation should not override the constitutional provisions and risks related to potential State overreach. The current regulatory framework around the RBI Act, PSS Act, IT Act, and RBI guidelines is only partially adequate to support the operations of a CBDC and is not enough to solve problems related to privacy, surveillance, security, consumer rights, and socio, economic effects of using programmable money.

By the time the India CBDC moves beyond its pilot phase and is ready for a nationwide rollout, the law governing it must be in line with the reality. This means that a separate law on the Digital Rupee should be created that sets

the limits of the RBI's authority, lays down privacy, by, design requirements, regulates data collection and defines the standards of accountability for the State and intermediaries. After the Puttaswamy judgment, no one can argue that financial innovation should be achieved by giving up personal autonomy and informational privacy.

The main factor that will determine whether the Digital Rupee succeeds in the end, is India's capability of coming up with a regulatory framework that embraces technological changes, respects the constitution, and allows for global cooperation. If India manages the process well, ensures transparency in regulation, and has strong norms for data protection, it has the potential to become a trendsetter in the world, thus dispelling the myth that it is impossible to leverage the most advanced digital currency innovations while maintaining democratic values, civil rights, and trust of the public.

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