

ROLE OF CENTRAL BANK DIGITAL CURRENCY IN THE DEVELOPMENT OF INDIA

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ABSTRACT:

Central Bank Digital Currency (CBDC) is a digital form of sovereign currency issued and regulated by a country's central bank. Similar to physical cash, CBDC can be used for payments and financial transactions, but it exists in electronic form and can be accessed through digital wallets, banking applications, and other online payment systems. In recent years, CBDC has gained considerable importance in India due to the rapid expansion of digital payments, financial technology, and internet-based banking services.

This study examines the role of CBDC in the development of India by analysing its impact on the financial and economic system. It highlights how CBDC can strengthen digital transactions, encourage a cashless economy, improve financial inclusion, and reduce illegal financial activities such as money laundering and black money circulation. The study also discusses the importance of CBDC in improving the efficiency of monetary policy and reducing dependence on privately issued cryptocurrencies and stablecoins. This paper explores how the Digital Rupee can contribute to faster and more affordable cross-border transactions while enhancing transparency and trust within the financial sector.

Keywords: Digital Currency, Digital Payments, Cashless Economy, Financial Inclusion, Cryptocurrency, Economic Development, Indian Economy, Reserve Bank of India.

Introduction:

Since ancient times, human societies have continuously searched for more effective methods of exchange and trade. In earlier periods, economic activities were carried out through barter systems, commodity exchange, handwritten accounts, and trust-based transactions managed by traders and kingdoms. These systems depended heavily on physical exchange, manual record-keeping, and personal trust. With the development of banking systems and technological progress, the concept of money gradually evolved from coins and paper currency to electronic forms of payment. In the modern era, advancements in financial technology, internet banking, and digital payment systems have transformed the

way financial transactions are conducted. The increasing use of smartphones and online banking services has created a strong demand for faster, safer, and more efficient payment mechanisms. In this context, Central Bank Digital Currency (CBDC) has emerged as an innovative form of digital money issued and regulated by central banks. Unlike traditional payment systems of the past, CBDC operates entirely through digital infrastructure and is supported by modern technologies that ensure security, transparency, and efficiency. In India, the introduction of CBDC by the Reserve Bank of India (RBI) represents an important step toward strengthening the country's digital financial system. The Digital Rupee aims to modernize payment mechanisms, improve financial inclusion, ensure secure transactions, and

support the growth of the digital economy. Therefore, CBDC can be considered the latest stage in the evolution of money, designed to meet the financial requirements of a rapidly developing digital society.

CBDC in India:

The Bahamas became the first country in the world to officially introduce a Central Bank Digital Currency (CBDC). In October 2020, the Central Bank of The Bahamas launched the "Sand Dollar," a digital form of the Bahamian currency. The main objective of introducing the Sand Dollar was to improve financial inclusion, make digital payments easier, and provide secure banking services to people living across different islands. This marked an important step in the global development of digital currencies issued by central banks.

The development of CBDC in India gained momentum after Finance Minister Nirmala

Sitharaman announced in the Union Budget 2022–2023 that the RBI would introduce the Digital Rupee using blockchain and related technologies. Blockchain refers to a decentralized digital ledger system that records transactions securely and transparently across multiple computer networks. India introduced CBDC in two phases:

1. Wholesale CBDC was launched on November 1, 2022, mainly for interbank settlements and transactions involving government securities.
2. Retail CBDC was launched on December 1, 2022, for public use through selected banks in specific cities.

Initially, pilot projects were conducted in cities such as Mumbai, New Delhi, Bengaluru, and Bhubaneswar with the participation of banks including the State Bank of India, ICICI Bank, Yes Bank, and IDFC FIRST Bank. Later, the RBI expanded the pilot program to additional cities and financial institutions across the country. Laws and Regulations Related to CBDC in India

India's journey toward Central Bank Digital Currency (CBDC) has developed gradually through several important stages. The first major step came in December 2020, when the Reserve Bank of India (RBI) introduced a regulatory sandbox to experiment with advanced payment technologies, including digital currency concepts. Later, in February 2022, Finance Minister Nirmala Sitharaman officially announced in the Union Budget that India would launch the Digital Rupee during the financial year 2022–23, describing it as a major boost to the country's digital economy. Soon after, in March 2022, the government amended the RBI Act of 1934 to legally recognize digital currency by including digital forms under the definition of banknotes.

Further progress was made in June 2022 when the RBI released its Payments Vision 2025 report, explaining that CBDC could support both domestic and international payment settlements. In October 2022, the RBI published its detailed Concept Note on CBDC, which explained the objectives, design, benefits, and possible risks of the Digital Rupee. The practical implementation phase began in November 2022 with the launch of the wholesale CBDC pilot for inter-bank settlements involving government securities. A month later, in December 2022, the retail CBDC pilot was introduced for the general public in selected cities through participating banks.

During 2023, the RBI expanded the CBDC pilot program to more banks and cities while aiming to achieve one million daily transactions. By March 2024, India successfully crossed one million CBDC transactions in a single day. Around the same period, IndusInd Bank used programmable CBDC transactions to compensate farmers through carbon credit initiatives. In August 2024, HDFC Bank introduced user-level programmability features, allowing Digital Rupee funds to be used only for specific purposes, such as subsidies redeemable at authorized outlets.

By the end of 2024, RBI Governor Shaktikanta Das described CBDC as the “future of currency” in his farewell speech. In January 2025, companies such as MobiKwik, CRED, and Yes Bank joined the CBDC pilot initiative, which expanded to 17 banks and nearly 60 lakh users. Looking ahead, India continues to explore innovative uses of CBDC, including securities tokenization, commercial papers, certificates of deposit, and offline NFC-based payment systems for rural regions.

The introduction of Central Bank Digital Currency (CBDC) in India has required a strong legal and regulatory framework to ensure its safe and effective functioning. Since the Digital Rupee is issued and controlled by the government through the central bank, several laws support its operation, security, and acceptance in the financial system. These laws help regulate digital transactions, protect users, prevent financial crimes, and maintain trust in the country's monetary system.

RBI Act, 1934

The Reserve Bank of India Act, 1934 is the primary law governing the issuance of currency in India. It gives the Reserve Bank of India the exclusive authority to issue and manage currency notes in the country. With the introduction of CBDC, this Act became the foundation for the Digital Rupee as well. The RBI is responsible for regulating the creation, circulation, and management of CBDC to ensure monetary stability and public confidence. The Act also empowers the RBI to frame policies related to digital currency and oversee its implementation across the banking system.

Finance Act, 2022

The Finance Act, 2022 played a major role in giving legal recognition to CBDC in India. Through this amendment, the government modified the definition of “bank note” under the RBI Act, 1934, to include digital currency issued by the RBI. This step officially recognized the Digital Rupee as legal tender, similar to physical cash. As a result, CBDC can now be legally used for

payments, settlements, and financial transactions within the country. The amendment also strengthened the government's vision of promoting a digitally advanced economy.

Payment and Settlement Systems Act, 2007

The Payment and Settlement Systems Act, 2007 regulates digital payment systems and electronic fund transfers in India. Since CBDC operates through digital platforms, this law becomes important for ensuring smooth and secure payment mechanisms. It provides a legal framework for payment service providers, banks, and financial institutions involved in CBDC transactions. The Act helps maintain efficiency, transparency, and reliability in digital payment operations while reducing risks related to settlement failures and transaction disputes.

Information Technology Act, 2000

The Information Technology Act, 2000 supports the technological and cybersecurity aspects of CBDC transactions. As Digital Rupee transactions are conducted electronically, protecting user data and preventing cyber threats are essential. This Act recognizes electronic records and digital signatures as legally valid, making digital financial transactions legally enforceable. It also contains provisions related to cybercrime, hacking, unauthorized access, and data protection. Therefore, the IT Act plays a crucial role in maintaining the safety and confidentiality of CBDC transactions.

Anti-Money Laundering (AML) and Know Your Customer (KYC) Regulations

AML and KYC regulations are important safeguards used in the financial system to prevent illegal activities such as money laundering, terrorism financing, fraud, and tax evasion. These regulations are also applied to CBDC transactions. Under KYC rules, users must verify their identity before accessing CBDC services through banks or authorized financial institutions. AML regulations help authorities monitor suspicious transactions and ensure that the Digital Rupee is not misused for unlawful

purposes. These measures increase transparency and strengthen trust in the CBDC ecosystem.

Together, these laws and regulations create a secure legal structure for the functioning of CBDC in India. They ensure that the Digital Rupee operates under proper government supervision while maintaining financial stability, cybersecurity, transparency, and public trust. As CBDC technology continues to develop, India may introduce additional legal reforms to address future challenges and expand the role of digital currency in the economy.

Major Factors beside the Emergence of CBDC in India:

Digital Transformation in Daily Life:

One of the major reasons behind the emergence of CBDC in India is the rapid digital transformation taking place across the country. Earlier, most financial activities required physical cash or direct visits to banks. Today, people can complete transactions, pay bills, book tickets, and transfer money instantly through smartphones and internet-based platforms. As digital services became more integrated into everyday life, the need for a secure and government-backed digital payment system also increased. CBDC emerged as a suitable solution capable of supporting India's expanding digital economy while ensuring central bank supervision and reliability.

- **Growth of Modern Banking Services:**

The banking sector in India has experienced significant modernization over the past few years. Customers increasingly rely on online banking and mobile applications because these services provide convenience, speed, and easy accessibility. Financial institutions have also strengthened their digital infrastructure to meet the growing demand for electronic banking services. This widespread acceptance of digital banking created a favourable environment for the introduction of the Digital Rupee. Since users were already familiar with electronic

transactions, the transition toward CBDC became more practical and convenient.

Impact of UPI and Digital Payments:

The success of the Unified Payments Interface (UPI) has played an important role in transforming India's payment ecosystem. Instant fund transfers, QR-code-based payments, and simplified digital transactions encouraged millions of users, including small traders and rural populations, to adopt cashless payment methods. The popularity of digital payment systems demonstrated that India was prepared for more advanced forms of digital finance. As a result, the RBI recognized the opportunity to introduce a central bank-backed digital currency capable of strengthening public trust in electronic transactions.

Need for Security and Public Confidence:

The increasing use of digital payments also raised concerns regarding cybercrime, online fraud, and data security. Many individuals became concerned about the safety of their financial information and digital transactions. CBDC was introduced as a more secure alternative supported directly by the RBI. Since the Digital Rupee carries official government backing, it provides the same level of trust associated with physical currency. In addition, advanced digital technologies can improve transparency and reduce the risk of unauthorized or fraudulent transactions.

Influence of Cryptocurrencies:

The growing popularity of cryptocurrencies such as Bitcoin attracted worldwide attention and initiated discussions about the future of digital finance. Although cryptocurrencies offer decentralized and technology-driven transactions, they are highly volatile and operate without central regulatory control. These uncertainties created concerns regarding financial stability and consumer protection. Consequently, India recognized the importance of developing a regulated digital alternative. CBDC was introduced to provide the

benefits of digital currency while maintaining the stability, trust, and regulatory oversight of the central banking system.

Improvement of Cross-Border Transactions:

International money transfers often involve high service charges, delays, and

multiple intermediaries. Businesses and individuals sending money across borders frequently face difficulties because of complex transaction procedures. CBDC has the potential to simplify cross-border payments by making transactions faster, more transparent, and cost-effective. For a country like India, which receives substantial remittances from abroad, an efficient international payment system can contribute significantly to economic growth and financial connectivity.

Financial Inclusion and Rural Development:

A major objective behind the introduction of CBDC in India is to strengthen financial inclusion. Even though banking services have expanded significantly, many people in rural and remote areas still face difficulties in accessing formal financial systems. The Digital Rupee can help bridge this gap by enabling people to perform digital transactions with minimal banking infrastructure. Through smartphones and digital wallets, individuals in underserved regions can participate more easily in the formal economy. This supports inclusive economic development and reduces dependence on cash-based transactions.

Reduction in Cash Management Costs:

Maintaining physical currency involves substantial expenses for printing, transportation, storage, and security. The Reserve Bank of India and commercial banks spend large amounts of money managing cash circulation across the country. With the introduction of CBDC, the dependence on physical cash can gradually decrease. Digital currency reduces operational costs associated with currency handling while improving efficiency in the financial system. This

makes the payment ecosystem more economical and technologically advanced.

Government Vision for a Digital Economy:

India has been actively promoting the vision of a digitally empowered economy through initiatives such as Digital India and cashless payment campaigns. The emergence of CBDC aligns with these national objectives by encouraging the use of secure digital financial systems. The Digital Rupee supports modernization in financial administration and strengthens India's position in the global digital economy. It also reflects the government's intention to adopt innovative technologies for economic growth and public convenience.

Technological Advancements in Financial Systems:

Rapid developments in technologies such as blockchain, cloud computing, artificial intelligence, and secure digital networks created favourable conditions for the emergence of CBDC. These technologies improved transaction security, transparency, and operational efficiency in the financial sector. The availability of advanced digital infrastructure enabled the RBI to experiment with and develop a reliable digital currency system capable of handling large-scale transactions safely and efficiently.

Faster and Efficient Payment Settlement:

Traditional banking systems sometimes involve delays in payment settlement, especially during non-banking hours or interbank transfers. CBDC can provide real-time settlement of transactions without the need for multiple intermediaries. This increases the speed and efficiency of the payment process while reducing operational complexities. Faster settlement systems are beneficial for businesses, consumers, and financial institutions, contributing to smoother economic activities.

• **Strengthening Monetary Policy Implementation:**

CBDC can help central banks improve the effectiveness of monetary policy implementation. Since digital currency transactions are recorded electronically, the RBI may obtain better insights into money circulation and payment behaviour within the economy. This can assist policymakers in monitoring liquidity, controlling inflation, and managing financial stability more efficiently. A digitally traceable currency system may also improve transparency in the overall financial environment.

• **Reduction of Black Money and Illegal Transactions:**

The use of physical cash sometimes enables tax evasion, corruption, and illegal financial activities because cash transactions are difficult to trace. CBDC can promote greater transparency by maintaining digital records of transactions within a regulated framework. This may help reduce black money circulation, money laundering, and unauthorized financial activities. A transparent digital payment system can strengthen accountability and improve trust in the financial system.

• **Response to Global Financial Developments:**

Several countries across the world have started researching or testing Central Bank Digital Currencies to modernize their financial systems. India recognized the importance of remaining competitive in the evolving global financial environment. The development of CBDC allows India to participate actively in international financial innovation and maintain its position as a rapidly growing digital economy. Observing global trends encouraged the RBI to accelerate research and pilot projects related to the Digital Rupee.

• **Support for E-Commerce and Online Businesses:**

The rapid growth of e-commerce platforms and online businesses increased the demand for

secure and seamless digital payment methods. Consumers today prefer fast and convenient online transactions while businesses require efficient payment processing systems. CBDC can support digital commerce by offering a trusted payment mechanism backed by the central bank. This can strengthen online trade activities and contribute to the expansion of India's digital marketplace.

• **Enhancing Transparency in Government Transactions:**

CBDC can improve transparency and efficiency in government-related financial transactions such as subsidy distribution, welfare payments, pensions, and public benefit schemes. A digital currency system can ensure that funds are transferred directly to beneficiaries with reduced leakages and intermediaries. This enhances accountability in public financial management and supports effective implementation of government welfare programs.

• **Preparedness for the Future Financial System:**

The global financial system is rapidly moving toward digitalization, and consumer behaviour is changing accordingly. India recognized the importance of preparing its economy for future financial innovations. CBDC represents a forward-looking initiative that can support emerging technologies, digital trade, and future payment ecosystems. By introducing the Digital Rupee, India aims to build a modern, resilient, and technologically advanced monetary system suitable for future economic needs.

Conclusion:

The emergence of CBDC in India reflects the country's transition toward a digitally driven financial system. Rapid technological development, increasing use of digital banking, the success of UPI, growing cybersecurity concerns, the rise of cryptocurrencies, and the need for efficient international transactions collectively influenced the introduction of the Digital Rupee. By introducing CBDC, the Reserve Bank of India aims to strengthen financial

inclusion, improve transaction efficiency, and support the country's digital economy. As digital finance continues to evolve, CBDC is expected to play an important role in promoting transparency, economic development, and modernization within India's financial system.

