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A STUDY ON CRYPTOCURRENCY AND ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT

Due to development of information technology in finance and business sector, now business and trading is done in virtual world. The virtual business has given rise to cryptocurrency which is a digital or virtual currency that is secured by cryptography. It is a means of payment that may be used to buy and sell items and services online. Bitcoin is considered the first cryptocurrency created. There is no regulatory structure for cryptocurrencies in India. They are not illegal in India. In Union Budget 2022-23, Indian government has imposed a 30% fixed tax rate on all income generated through crypto trading while also aiming to introduce the digital rupee in 2022-23. This paper discusses the impact of cryptocurrency on Indian Economy.. It also answers the question whether Bitcoin is a Boon or Ban to the Indian economy. . This paper discusses the impact on investment in cryptocurrency after union budget 2022-23.

Keywords: - cryptocurrency, Bit coin, Union Budget 22-23, Indian economy

Introduction

In finance and business sector information technology has created many golden opportunities in several aspects. Due to increase in number of online users, now business and trading is done in virtual world. The virtual business has given rise to the remarkable forms that have been emerged in the past few years is Cryptocurrency. A cryptocurrency is a digital or virtual currency that is secured by cryptography. It is a form of payment that can be exchanged online for goods and services. Bit coin is considered the first cryptocurrency created and everything else is collectively known as an 'altcoin' (a combo word derived from alternative coin). According to statista, Nigeria ranks as the most active market for crypto with 32 percent of the population saying they won or use cryptocurrency. Cryptocurrency is virtual money based on software. When you purchase cryptocurrency, you purchase a digital based on algorithm. It is not government controlled like centralized currency but it is decentralized. The network regulates its value based on supply and demand.

The cryptocurrency industry at world level was last estimated towards the end of 2021 at \$910.3 million and is expected to grow at a CAGR of 11.1% to \$1902.5 million in 2028. In India the total cryptocurrency investors range between 15-20 million, where the total crypto holdings were estimated at 400 billion rupees (\$5.37 billion).

Investing in cryptocurrencies carries risk but has the potential to be very profitable. It is a good investment if you want to gain direct exposure to the demand for digital currency, while a safer but potentially less lucrative alternative is to buy the shares of businesses with cryptocurrency exposure.

Literature Review

Kurihara & Fukushima, 2017 explained that the supply of Bitcoin is limited which cannot be increased after a certain volume. Bitcoin can be inflated at will which is not possible in case of central Bank issued currency.

Wonglimplyarat, 2016 explained that Bitcoin currency can change the banking system in developing countries but it is not substitute to cash based society.

As per data source: en.bitcoin.it as of June 20, 2017, Bitcoin has reached a total circulation amount of 16.4 million coins which is about 78% of the total amount of Bitcoin. The limited supply of Bitcoin suggests that there is a limited amount of the mined currency in circulation. The quantity of Bitcoin that is really in use is less than what was mined. It is estimated that 25% of the mined currency has been lost for good from total 16.5 million Bitcoin that have been mined so far. The protocol of designing Bitcoin is that new Bitcoin can be created at a predictable and decreasing rate.

Need for the study

The most common word used by media, Investors, IT Employees, entrepreneurs is cryptocurrency. The need of the study is to find out whether the usage of cryptocurrency is a positive step to enable India to go cashless.

Objectives of the study

1. To study the status of cryptocurrency in India.
2. To study whether cryptocurrency is Boon or Bane to the Indian economy.
3. To study the impact of cryptocurrency on Indian Economy
4. To study the investment pattern in cryptocurrency after Financial Budget 22-23.

Research Methodology

An analytical research methodology has been selected for this study. The study is based on the secondary data available in financial websites, government of India, Books, journals, newspapers and magazines.

Sources of Data Collection

A pilot study has been conducted to collect data about different aspects of cryptocurrency. The study aimed to measure the spread of cryptocurrencies use to have a clear picture from the practical view.

Findings

Status of Cryptocurrency in India

There is no regulatory structure for cryptocurrencies in India. The government had constituted an inter-ministerial Committee (IMC) on November 2, 2017 to study virtual currencies. The groups report, along with a Draft Bill, flagged the positive aspect of distributed ledger technology and suggested various applications, especially in financial services, for its use in India including banks and other financial firms.

The center had flagged reservations around its misuse and wanted to put a blanket ban in India. Virtual asset income would be taxed at 30% according to Union Finance Minister Nirmala Sitharaman, who presented the FY 23 Budget to parliament on February 1. On these investments, 1% TDS (tax deducted at source) will be deducted. The tax regime, however, signifies that the government has legalized cryptocurrencies as an asset. In the speech she said that there has been a phenomenal increase in transactions in virtual digital assets. A specific tax regime must be established because to the size and frequency of these transactions.

The government offered a definition for virtual digital assets in the memorandum to the Finance Bill, 2022, which was "proposed to mean any information, code, number, or token (not being Indian currency or any foreign currency), generated through cryptographic means or otherwise providing a digital representation of value. All cryptocurrencies are included in the definition, including popular ones like Bitcoin, so-called altcoins like dogecoin, and private cryptocurrencies whose transactions are kept secret. The definition covers all cryptocurrencies, whether they are mainstream ones like Bitcoin, so-called altcoins like dogecoin and private cryptocurrencies in which transactions are concealed. The 1% TDS rule will help the government track each crypto transaction. A limit of Rs. 50,000 will be applied if the person paying consideration is an individual or Hindu Undivided Family, and either they are not involved in business or professions, or if they are, their yearly gross receipts or turnover do not exceed Rs. 1 crore for businesses, or Rs. 50 lakh for professions.

A surcharge of 10–37% will be applied to any short-term capital gains or commercial revenue resulting from the transfer of cryptocurrency. The surcharge rates on long-term capital gains from the transfer of cryptocurrency will not be more than 15%. The finance minister suggested that recipients might be taxed when giving away virtual digital goods.

Advantages of cryptocurrency investments in India

- One of the greatest advantages of cryptocurrency is that it protects from inflation. Cryptocurrency is issued with a set amount. As cryptocurrencies are issued with a set amount like, there are only 21 million Bitcoins released in the world. So, as the demand increases, its value will rise, which will keep up with market and that will control inflation in the long run.
- There is provision of 24-hour accessibility of cryptocurrency and you can use it instantly. Transactions can be completed using a mobile device. Those users who are not techno-friendly are able to make their investments and make decisions in real-time.
- Cryptocurrencies are self-governed and well managed which leads to its development. The miners keep transaction records precise and updated because they are paid for it.
- The cryptocurrency transactions are secured and private. It is very difficult to decode blockchain records.
- There is ease in currency exchange because it can be obtained using multiple currencies like the US dollar, European euro, Indian rupee or British pound. By trading in cryptocurrencies, one can exchange one currency for another while paying only a little transaction charge.
- The most important characteristic of cryptocurrency is its decentralization. They are not managed by the government or one person. It helps in keeping the currency monopoly free and in check so that no organization can ascertain the movement and value of the coin.

- Money can be transferred across borders in less cost. As there is no necessity of third parties to approve a transaction, so the verification requires very little time and the transaction expenses handled by a user are decreased to a negligible amount.

Disadvantages of cryptocurrency investments in India

The new form of currency has disadvantages that have prevented it from taking that next step. Its main limitation is the failure to protect buyers because the sites are against using a third party to delegate transactions, some buyers are left scammed.

- As the cryptocurrency transactions are secured and private it is difficult for the government to keep checks on their data, hence it can be used for illegal transactions. For example, Bitcoin can be used for acquiring drugs on the dark web or to convert their illegal money.
- Conversion of cryptocurrencies involves additional transaction fees which can make transactions expensive. Some cryptocurrencies can only be patronized in one or few currencies so they are converted into major currencies like Bitcoin or Ethereum. This requires unnecessary money.
- It requires a lot of power and electricity in mining cryptocurrencies. It requires advanced computers and enormous energy in mining Bitcoin. So there is an adverse effect of mining on environment.
- As the cryptocurrency transactions are immutable, so if a person wrongly transfers funds to the wallet address, it cannot be recovered by the sender. There is no provision of refund or cancellation policy.
- Dealing in cryptocurrencies can lead to market fluctuations. Currencies such as Bitcoin are only accepted by a very small group of online buyers.
- Crypto is used by terrorist organization, drug cartels to smuggle contrabands which negatively impacts society at large. Anonymity in cryptocurrencies has the potential to lead to more criminality overall.
- With increased use of crypto, people who are digitally illiterate are being left behind society. Thus, it can lead to a disproportionate rise in inequality.
- The transactions in crypto are cheap and faster. Thus, it makes capital more volatile posing risk to macroeconomic stability and consequent social consequences.
- Cryptocurrency has emerged as a new asset class. However, the value of cryptocurrencies has fluctuated, making both kings and beggars.

Impact of Cryptocurrency on Indian Economy

The Bitcoin has established itself as a popular and viable source of currency across the world since 2009. The cryptocurrency is accepted as it uses Blockchain technology, which is a decentralized record-keeping technology and spread across many computers. The sector that is engaged in the mining of cryptocurrency is addressed as the Crypto Tech Sector.

- **Increase in employment growth**

With the popularity of cryptocurrencies, a brand-new crypto community has arisen, consisting of professionals and novice investors, as well as new employment in the economy..

According to the reports, with more than 60 percent of the States in India emerging as Crypto Tech adopters and over 15 million retail investors, the industry is also increasingly attracting new start-ups. Over 230 start-ups are already operating in India in the Crypto Tech space, adding that the rising investment from institutional and retail investors has heightened awareness of the benefits of Crypto Tech in the country.

The reports suggest that the market of cryptocurrency in India is expected to grow 2 times faster and has the potential to create more than eight lakh jobs by 2030. It concentrates an economic value addition of \$184 billion in the form of investments and cost savings. The NASSCOM has recently said that the Indian

Cryptocurrencies market has been growing exponentially over the last few years and is expected to reach up to \$241 million by \$2.3 billion by 2026 worldwide and \$30 billion in India.

- **Time and cost effective**

Cryptocurrency transactions are both time and cost-effective and can enhance digital payments. The transactions are carried out between the sender and receiver without the need of a third party, making the transactions fast and speedy. There are no longer any transaction fees assessed by middlemen like banks and payment gateways. This helps bring down the cost of the transaction, helping save money on each transaction.

- **Boost to the Financial and technology sector**

India already has a sizable pool of IT specialists. Collaboration between the financial and IT sectors has the potential to provide countless commercial opportunities and foreign currency inflows. If the government brings strong regulatory measures and create laws for an official digital currency, it will attract huge foreign investments. This will provide a huge boost to the Fin Tech sector and propel the Indian economy forward.

- **Transparency improvement**

Cryptocurrency enhances transparency where every transaction can be traced back to the source. Additionally, blockchain technology on which cryptocurrency is based is immutable. As a result, transaction histories are unchangeable and irreversible. As the data cannot be changed in any way, this can considerably reduce corruption.

Objective of Atmanirbhar Bharat is achieved

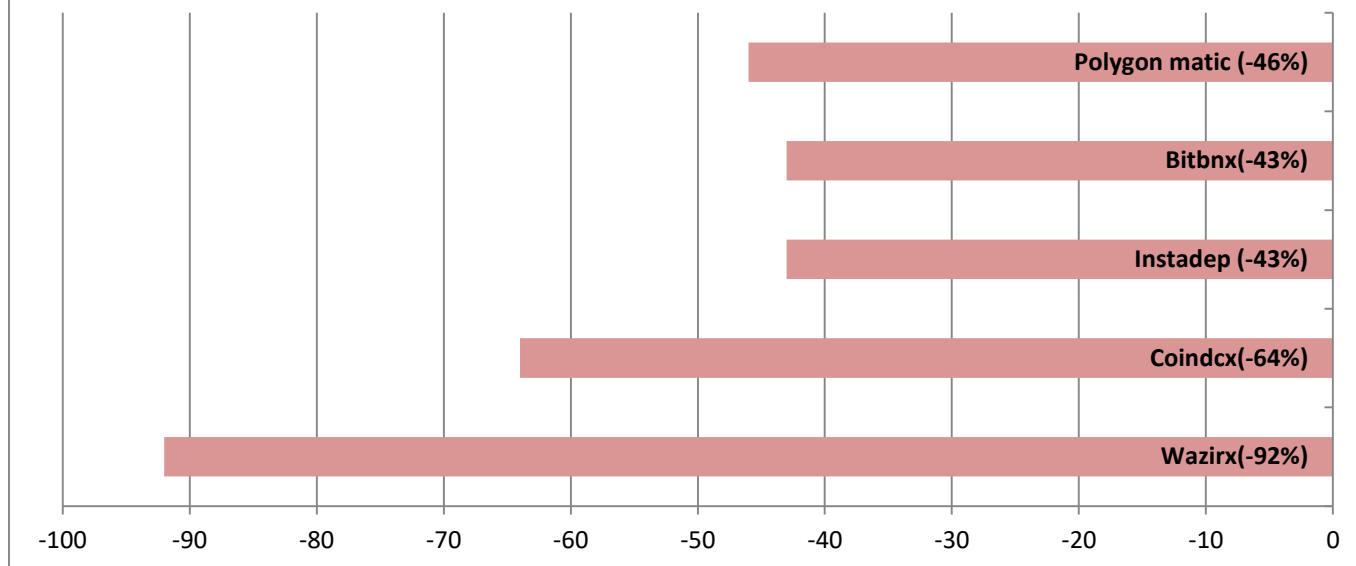
We can achieve the goal of Atmanirbhar Bharat. With the government proposing the creation of single, officially-recognized cryptocurrency, the dependence on third-party private, and foreign-based cryptocurrency will be eliminated. The nation's official cryptocurrency won't need to rely on other cryptocurrencies because it will be fully produced there. Investor, traders, and other individuals will have a single cryptocurrency for their needs and help the government fulfill their goal of 'atmanirbhar Bharat' in the cryptocurrency sector.

Impact on Investment after Union Budget 22-23

In Union Budget income on cryptocurrency will be taxed at 30% and on each transaction 1% TDS will be charged. The crypto tax news is happily welcomed by the crypto industry, founders and entrepreneurs. After that a survey was conducted by Brokerage Firm Grow. According to that survey 45% of Indians are ready to invest in cryptocurrency means the craze of investing in crypto has not reduced initially. But as per a survey in April-May 2022, crypto volume has gone down by 30-40%. Initially after the Union Budget 22-23, the investment in crypto increased but as banking sector has stopped supported the volume has gone down by 30-40%. As survey conducted by Coin Market Cap and CoinGecko, there was heavy downfall in volume and price of WazirX, coindcx and other crypto exchanges during April-May 2022. The volume of WazirX has gone down by 65% and coin dcx has gone down by 64%.

During April-May 2022, there was heave downfall in volume of cryptocurrencies in international markets but it is less in comparison of Indian Market. The reason for International downfall in crypto exchanges is due to Russia-Ukraine war. The decrease in volume of crypto exchange volume in India has been shown in chart below:-

Crypto Exchange Volume in India(April-May 22)



Source: Coin Market Cap

Suggestions

- There should be some rules governing cryptocurrency because legalization of cryptocurrency can take the Indians and India as nation at a platform which promises progressive growth.
- Cryptocurrency can be used as a great tool from the financial point of view.
- Measures should be taken so that conversion of cryptocurrency does not involve additional transaction fees.
- Technology development is required so that there is no adverse effects on environment while mining of Bitcoin.
- As cryptocurrency transactions are immutable, there should be provision of refund or cancellation of transactions in case of wrong or fraudulent transactions.

Conclusion

It is impossible to ignore the bitcoin market, and there are countless opportunities. Even the government has recognised the potential of cryptocurrencies as a form of payment, which is why it has proposed legislation to legalise and manage cryptocurrencies in the nation. The investors in India have suggested the usage of Bitcoin but it will have negative impact to the country but it may have a positive impact for the citizens of India who are rational and have individualistic consumer pattern behaviour. But cryptocurrency can serve as a great tool from the financial point of view. It has potential to replace the traditional monetary system but for this it must first evolve and accept a secure network of currency exchange. In the future, we see cryptocurrency becoming the primary layer fueling the country's economy. In the end, I can say legalization of cryptocurrency can take the Indians and India as a nation at a platform which promises progressive growth.

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