

# CRYPTOCURRENCY: AN OVERVIEW ON ITS IMPACT ON INDIAN ECONOMY

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## **Abstract**

Cryptocurrency is an innovative concept of decentralized virtual currency. It has turned out to be a new avenue of investment instrument in India similar to gold. Even though the government hasn't formulated any regulatory body or legislation with regards to cryptocurrency trading and transaction in India, the government restricts the buy and sell of cryptocurrencies like bitcoin, litcoin, etc. Cryptocurrencies raises various limitations on its existence in Indian markets. This study focuses on understanding what cryptocurrency is all about and its impact on the Indian economy. The study also focuses on the present situation and future prospects of cryptocurrencies in India.

*Keywords: Cryptocurrency, Blockchain technology, impact on Indian Economy.*

## **I. INTRODUCTION**

Over in the recent past cryptocurrency has been a subject of discussion among the public at large. In the world of technological advancements, cryptocurrency is becoming more comfortable for investors who values privacy and creation of money. In these days cryptocurrencies like Bitcoin, ethereum, Ripple, Litcoin, etc are trending in the financial market as people are showing interest in buying cryptocurrencies. On the other hand there are a greater population at a confused state of mind with regards to the overall performance of cryptocurrency. Bitcoin was the first decentralized cryptocurrency created in the year 2009.

Cryptocurrency doesn't form any physical form as it is completely a digital value in the web. These currencies can be used as cash equivalent for transactions and other business. Cryptocurrency doesn't rely on the financial institutional regulations but are encrypted and protected which makes it difficult to increase the supply of money over a predefined algorithm rate. Cryptocurrency charges fee at a minimum rate which are comparatively lesser than the fee collected by a financial institution for the processing of a credit card. Cryptocurrency can be changed over into different types of money and kept into client's records at a faster pace

## **II. OBJECTIVES**

The objectives of this study are as follows:

1. To learn the impact of cryptocurrency on Indian economy
2. To study the current status of cryptocurrency in India and the future it holds

## **III. Review of Literature**

**Kurihara & Fukushima, 2017** explained, it is not digital cash, which has prevailed all over the world. Unlike central bank- and government-issued currency, Bitcoin can be inflated at will, the supply of Bitcoin is limited to a certain volume, which cannot be changed.

Wonglimpiyarat, 2016 highlights that there are obstacles of lawless tender where Bitcoin wants the government's legislation to boost the permissibility of this new currency. Bitcoin currency may transform the future of banking in developing countries but it is hard to substitute a cash-based society.

#### Terminologies used:

- **Cryptocurrency:** It is digital money. It is considered to be more secure than the real money.
- **Cryptography:** It is a method of converting comprehensible data into complicated codes which are tough to crack.
- **Block Chain** – A Block Chain is a collection of linked Blocks from the most current one to the Genesis Block

#### IV. DISCUSSION:

##### A. Cryptocurrency in India

The impact of cryptocurrencies on the Indian economy is clearly depicted as the prices of cryptocurrency market are now falling down. Indian government has made it clear with their stand of not providing a legal status for cryptocurrency in India. The reason for this kind of a decision from government hails from first, the challenge of monitoring the decentralized transactions in cryptocurrencies are difficult to trace which could be advantageous for the hackers, criminals and also for terrorist activities. The second reason being cryptocurrency market could be a leading competitor for the banking service industry.

Cryptocurrency like Bitcoin has become popular in India like other nations as the volume of Indian rupee being traded in cryptocurrency have been at the highest post demonetisation. Researches shows that the volume generated by the rupee dominated cryptocurrency is the third largest volume traded after American dollar and yen. The demonetization policy of 2016 may have encouraged the implementation of cryptocurrencies amongst a substantial share of the population but realities rapidly began to come out that have subdued the growth of the market in the country. In spite of its enormous population, India only contributes two percent of the whole global cryptocurrency market capitalization. Cryptocurrencies in Indian context portrays few limitations. They are as follows:

1. **Reliability and security:** Cryptocurrency for its characteristic of being a digital mode of transaction, it has become a very common platform for hackers, terror finance, drug transaction, and money laundering. This has brought tiredness among the population to a larger extent as it brings lesser security and lack of reliability.
2. **Speculative and risky:** There are various types of cryptocurrencies available in the market and these cryptocurrencies function on the speculative market it creates. Not all the cryptocurrencies may fetch good returns for a cryptocurrency investor. The price is purely decided upon the demand supply of the cryptocurrency. Speculation becomes the key player in case of pricing cryptocurrency and hence the risk factor comes in.
3. **Taxing trouble:** The income Tax rules don't make it clear on the taxability of cryptocurrency gains. However the income tax authorities haven't ruled out the possibility of taxing the gain out of cryptocurrencies. If an investor makes a capital gain from the investments of cryptocurrencies, it invites tax liability as long term capital gain or short term capital depending upon the period of holding the cryptocurrency.
4. **Lack of regulatory body:** Indian government is following a wait and watch policy towards cryptocurrencies; whereas other nations of the world have already responded to the use of cryptocurrency. There are no regulatory body to look after the transaction of cryptocurrencies. This has led to increased chances of fraud, threat to investor protection,

monitoring of the movement of money in the economy. Reserve bank of India along with other central banks of the world was unable to track the activities of cryptocurrencies.

5. **Price Volatility and KYC Norms:** Cryptocurrency is a highly volatile market as the pricing strategy depends upon demand and supplies along with speculation, Hence an investor who signs up for a cryptocurrency transaction have to go under the KYC norms which may take some time for the approval by the respective wallets. This approval time taken could vary from wallet to wallet and may even take a few days time. In such cases the investor tends to lose the chance of making profit as the value of the currency would be fluctuating at a larger pace.

## B. Present and future of Cryptocurrency in India

Presently there is no regulation in India for cryptocurrencies. The absence of a regulation certain bitcoin exchanges such as Unocoin, Zebpay, etc have initiated their operation in trading or cryptocurrencies with Know Your Customer (KYC) norms. The Reserve Bank of India initially was against the trading of cryptocurrencies in India, however in the year 2014 RBI showed its interest in block chain technology used by cryptocurrency to reduce the physical paper currency circulation. In 2015, a financial stability report was published by RBI to identify the importance of private blockchain. In 2016, ICICI bank with Emirates NBD (in terms of assets, one of the largest banking groups in the Middle East) has executed transactions and remittance using block chain technology. Then in 2017, a white paper has been issued by Institute for Development and Research in Banking Technology (IDRBT) of RBI and also a pilot test was taken.

The Union finance minister in his Union Budget 2018 speech said, “The government does not consider cryptocurrencies legal tender or coin and will take all measures to eliminate use of these crypto-assets in financing illegitimate activities or as part of the payment system.” However, the government has recognized blockchain and said that a “distributed ledger system or the blockchain technology allows organization of any chain of records or transactions, without the need of intermediaries. The government will explore use of blockchain technology proactively for ushering in digital economy.”

Though government is taking a cautious approach on cryptocurrencies, it is bullish on the use of blockchain. Cryptocurrency industry believes that blockchain and cryptocurrencies have to go hand in hand. But unless and until a decentralised system is formed, it is as good as keeping track. If only block chain technology is to be accommodated that just builds up a centralised system which gives authority to a person or a body to rectify and modify it.

Experts and observers in the country hope and predict that the government will regulate cryptocurrencies in India in different stages. This favourable and positive signs give hopes to the industry of cryptocurrency. Mean while private companies dealing in cryptocurrencies have set up an association called, the Digital Assets and Blockchain foundation which has been engaged in educating the public on the advantageous and investment avenues in cryptocurrency by conducting security checks, identification documents issued by the government, Permanent Account Numbers (PAN) or Aadhaar IDs.

As the arrival of internet, cryptocurrency also has a tremendous growth potential. With the help of both these factors of internet and blockchain technology, in future there are probabilities of virtual banks in India. Hence to prove it on a positive note the Reserve Bank of India has taken initiatives to launch its own cryptocurrency named as ‘Lakshmi’.

## V. CONCLUSION

Crypto-currency is such an invention which has become a global phenomenon. Earlier RBI warned the Indians from using crypto-currency that to be associated with money laundering and terrorist financing. However, cryptocurrency is a modern technology and a tool which needs to look forward for. Even though there has been no regulatory response from the Indian government, the number of investors in cryptocurrency is increasing rather swiftly over the last few years. Indian government should take responsible steps now to regulate such currency as its user in India is rapidly growing. Future of cryptocurrency in India looks promising and there is ray of hope.

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