

## A REVIEW ON CRYPTO CURRENCY IN INDIAN ECONOMY

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### **Abstract**

Currency is the blood of an economy. At the course of time, the currency has faced many changes in its form in respect to demand of the time and situation of an economy. Development of information and communication technologies shifted human economic activities to online platform that is massive promotion has done by the Government Digital India initiative. Due to the rapid increase in the number of online transaction users has activated the virtual term concepts and created an innovative business phenomenon that is crypto currency to pave the way of alternative way of money activities such as investing, saving, buying, selling, and trading. It is used electronically with the help of various applications and networks such as online social networking sites, online social games, virtual worlds and peer to peer networks. It represents digital trade form of value and used as a medium of exchange, or a stored value that can be used later.

### **Introduction**

Currencies were evolved spontaneously as the replacement of the barter system. Currencies are largely accepted by universe due to the extreme liquidity nature of it. The daily used currency also called the fiat currency because they are backed by a convertible or a commodity that is government issued or government issued promissory note promising to pay the bearer the amount specified on the currency. On the other hand, Crypto Currency is a special form of virtual currency that is decentralized and protected by cryptographic encryption techniques. It is not a fiat currency and is not government backed. Crypto currency does not have physical existence it is basically a collection of binary data, which is recorded using cryptography to secure transaction. In this system there is no any status of a legal tender. No central authority found to keep the transaction record where anyone can transact. The transactions data are stored and shared through a technology across multiple distributor networks through independent computers this technology is called Distributed Ledger Technology (DLT).

## Objective of the Paper

1. This paper studies the status of using of the crypto currency in the context of Indian economy.
2. Visualizing the frame work concept of crypto currency.
3. Reviewing the acceptance and reaction of different country.
4. Examining the legal status

## Rationale of the study

The virtual currencies are not legal tender and have no regulatory authorization or protection in India hence the investors and participants who deal with them do so entirely at their own risk and should avoid participating (Ministry of finance, December 2017). The government of Indian's Minister of finance announced in the budget speech in the 2018-2019 that the government does not consider crypto currencies to be legal tender and will take all measures to eliminate their use in the financing of illegitimate activities or in connection with a payment system. In April 2018 Reserve Bank of India notified that entities regulated by it should not deal in virtual currencies or provide services to assist any person or entity to transact or settle virtual currencies. At this juncture various question arise in front of Indian online transaction user such as "is crypto currency platforms safe enough to be used?", "will crypto currency alternate monetary platform?". The study presents many aspects of crypto currency platform answering such question. It explores many facts about crypto currency.

## Discussion

Crypto currency is a digital currency that uses cryptography to secure transactions based on block chain technology. The block chain technology through which the cryptography works is an ever-growing list of records, called blocks that are linked and secured using cryptography. It is an open distributed ledger that can record transactions between two parties in an efficient, verifiable and permanent manner. Prior to crypto currency as we familiar it today, there were few attempts had done to create a digital currency that would use cryptography and use a decentralized ledger system. The Distributed ledger is essential to keeping crypto decentralized because by using this system, anyone can facilitate transactions between him and other people and earn a fee in the form of crypto for doing so. These transactions fee is comparatively lower than central bank of a country. The phenomenon came to the economy in the form of a person named Satoshi Nakamoto, when he published his article titles "Bit Coin"- A Peer to Peer Electronic Payment System" in 2008. There years later, the world first crypto currency "BITCION" was introduced. The main drawback of Bit coin is the limited supply to ensue constant appreciation in value. At the beginning, it was designed to function as a mode of exchange on the internet where the anonymity of its users remains intact. Since then, many other crypto currencies have been developed, collectively known as "Alcuin's. Bit Coin, Ether, Ripple are some notable crypto currency. Country like United State of America and Japan have welcomed crypto currency and are working to improve the technology on the other hand China are skeptical and fear it will be used as a terrorist financing tool. India also not permitted it legally so anyone have to participate it on own risk. There are several ways of acquire crypto currencies. It can be acquire facilitating

transactions and obtaining remuneration for service. Another way is, one can exploit that use computer by solving complex mathematical problems which can be done using many programs available online. Other way to get crypto is to buy it using fiat currency. The acquired crypto can be exchanged or sent to another person as payment for any transaction. The notable system of crypto currencies use in its implication is called "a peer to peer system". In this system one can send or receive money from anyone at any time, regardless of what part of the world they both live in without any external intervention. To keep all the transaction record in a public ledger block chain technology is used which provides security and transparency.

### **Issues relating to crypto currency**

Crypto currencies have many disadvantages side by side its Advantages. Although it can facilitate the transfer of funds between two users without the need for a thirty party like a bank or Credit Card Company and also it employ minimal processing fees for transaction thus allowing them to avoid high bank fees, but it has many problems that must be recognized before they are solved. Crypto currencies are easy to use in illegal activities like money laundering and tax evasion due to its semi- autonomous nature. It is a virtual or digital currency no physical existence and basically it is not stored in database, therefore it can be high risk for any one of sudden complete lost if the hard drive where it is stored on is lost or destroyed. Another notable defect of Crypto currencies is susceptible to drastic fluctuations and therefore presents a huge risk when investing a particular crypto. It holds the view that it is nothing more than a passing fad or speculative bubble that will eventually collapse. Some critics also reveal its environmental issues. Bit coin mining uses a lot of electrical energy, which is bad for the environment. It takes 72,000 GW of power to mine one bit coin.

### **Status of Crypto Currency in India**

India is the most populous nation in the world. Despite its large population, India only accounts for 2% of the global crypto market capitalization (RBI, 2021-21). In India, Crypto currency has gone through many phases to reach what it is today with over \$1.5 billion invested by Indians in crypto. Main cause of less use of crypto currency in India is lack of technological facilities and its using knowledge of massive people and the risk taking of lost. Only 45% of Indians have access to telecommunications and internet services. One of the major causes of low using of crypto is the high cost of crypto currency purchasing and the government crackdown led by the RBI of India (RBI Circular, 2021-21). The price level of crypto currency is above the global average most of the Indian people cannot effort it. Reserve Bank of India and ministry of finance also warned citizens of the risks associated with crypto and the government hasn't exactly banned it, but it certainly has not endorsed it. If we look into the introduction of bit coins in India then we trace back to the 2012, which was still just beginnings of bit coin, small-scale bit coin transactions were operational in the country. When the bit coin was gaining popularity internationally in the year of 2013 then few business started accepting bit coins payment in India, a Vintage era pizzeria called Kolonial in Worli, Mumbai is become the first restaurant in India to accept payment in bit

coin. Soon after, crypto currency exchanges started popping up in the country and established many over the counter (OTC) and Bit coin ATMS in many major cities in India.

On November 8, 2016 Prime Minister Narendra Modi announced the demonetization of almost 86% of the country's paper currency people with large amounts of cash began looking for ways to continue to hold such wealth substantial tax cut that led to the adoption of crypto currency by some people. RBI of India banned the financial institutions from providing services to business dealing in crypto trade and exchange through the RBI Circular 2021-2022. The crypto trading entities Internet and mobile Associations moved to the Supreme Court against the Circular of RBI. In this case the circular was struck down by Supreme Court. The SC held that crypto currency is capable of being accepted as valid payment for the purchase of goods and services, and payment system can be regulated by the RBI. Supreme Court held that the RBI was well within its rights issuing the concerned circular as it was doing it to protect the interest of the public, depositors and banking policy itself. Supreme Court stated that irrespective of any activity not forming the part of the credit system or payment system, RBI can regulate or even prohibit it if can potentially pose to the financial system of the country. Crypto Currency Bill, 2021 imposed a complete ban on crypto currencies then crypto traders will just move to an un-monitored platform for trading. The bill made a provision of introducing a state-owned crypto currency which will be regulated by the central bank. The inter-ministerial committee (IMC) suggested a ban on the private crypto currencies in India, like Bit coin, In India (Finance Minister Nirmala Sitharaman, 2019). RBI also cautioned the general public on the matter of possible misuse of private crypto currencies time and again. The main reason of introducing the bill relating to virtual currency or crypto currency is to simply the process of trading and holding in a safer technological environment instead of banning it completely.

### **Analysis**

Crypto Currencies limited to the certain financial issues and security concerns. Security threats are highly associated with crypto currencies. Hackers and malicious users can create as much as they want from virtual currency if they break the system and know the method of virtual currency creations. Collapse issues are largely involved with Crypto currencies. Unlimited issuance of virtual currency in the virtual variety will lead to economic problems because its issuance is not based on supply and demand. It will impact on real money system increasing inflation. The global economic crisis started over ten years ago, in the year of 2008, which was extremely devastating for many countries, including America. This was happened due to the uncontrolled economic conditions. Fluctuation in the value of virtual currency is largely affect on economy of country. It is an electronic medium of exchange user neither can see the process nor free from the hesitation. It uses cryptography to secure transactions recorded digitally on a distributed ledger, such as a block chain. Distributed ledger technology uses independent digital systems to record, share and synchronizes transactions, the details of which are recorded in multiple places at the same time, no central data store or administrative functionality. Indian government has taken an initiative towards removing uncertainty over the legal status of crypto currency transactions by revealing its intention to tax income from the transfer of virtual assets at

30%. Crypto currency investment in India increase after country's top court overturned restrictions imposed by the RBI in March 2020.

### **Conclusion**

India with such a huge population plays a key role in any kind of technological revolution and it is no poles apart with digital currency. India is a tech-friendly nation and for this reason the whole world is waiting for the next step from India. Initially, due to the security threat and lack of adaptation to the new technology banning was imposed on crypto currency in India but banning it will not be such a good idea and the government should instead look for ways to reform the Indian market to effectively regulate crypto currency. There should also be experiments with crypto technology in other places like elections, health facilities etc. Many countries embrace crypto after making the appropriate reforms. After El Salvador, Paraguay is about to pass legislation to give bit coin legal tender status. The invention of Internet revolutionized whole universe similarly there is a possibility that crypto currency will be revolutionized the whole economy of the world. The SC Garg Committee report had stated categorically that "all types of crypto currencies were created by non-sovereigns and are in reality entirely private enterprises and there is less intrinsic value underlying these crypto currencies. At present India, provide certain exceptions to promote the underlying technology and its uses.

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