



## CRYPTO CURRENCY: ITS SCOPE AND IMPACT ON INDIAN ECONOMY

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**ABSTRACT** The advancement of information and communication technologies has always created innumerable opportunities in several aspects. Cryptocurrency is one such innovative concept of decentralized virtual currency. Cryptocurrency is a substitute for fiat money, designed to work as a medium of exchange. The use of cryptocurrency has become widespread in many different systems in recent years. This paper is an outcome of exploratory researches about Cryptocurrency and its impact on the Indian economy. The study also concentrates on the present and future scenarios of Cryptocurrency. Besides that, this paper also analysis the regulation and legislation towards Crypto currency to get a clear picture of laws and orders that regulates the working of Cryptocurrency in India.

**KEYWORDS :** Role Of Cryptocurrency, Scope And Impact Of Cryptocurrency, Cryptocurrency Legislation, User's Confidence In Cryptocurrency

**INTRODUCTION:**

The merging of the investment world with advanced technology has paved numerous opportunities in the field of cryptocurrencies, blockchain technologies and related ventures and projects. In recent years cryptocurrency has been a subject of discussion around the globe with advanced information and communication technologies, crypto are becoming a comfortable mode of transaction for those investors who prefers privacy and money creation. Cryptocurrencies like bitcoin, ripple, litcoin are trending in the financial market. On other hand, there are still huge population who has blur idea about the mechanism and performance of Cryptocurrency. The concept of digital currency was proposed in the early 1980s and is in use since early The 1990s in the form of web-based money. Cryptocurrencies are decentralized digital currencies. The first digital currency with the characteristics of independence, double spending protection and anonymity is bitcoin. It came into existence in the year 2009 by a programmer or group of programmer's pseudonym Satoshi Nakamoto. The feature of Cryptocurrencies is ensured through blockchain technology. It is not issued by any central authority. The science of cryptography is used for validating the transactions in the system, creation of new Cryptocurrency units and for providing the ownership of Cryptocurrency units. The identity of the person involved in the transaction and other relevant details are also kept in the system using cryptography. One of the important features to protect double spending is that the systems follow as most one of the instructions when two different instructions for changing the ownership of Cryptocurrency units are entered simultaneously. However, Cryptocurrencies are not devoid of risk. Many risks are associated with it. Few important ones to be discussed are its features of anonymity. It acts as a double edge sword. Everybody in the network is known by their cryptographic public address which may give way to money laundering, terrorist funding etc.

The irreversibility of transactions is also posed as a risk. If someone sends coins by mistake the transaction cannot be reversed. Low market capitalizations, volatility of its exchange rate are another risk that cannot be overlooked.

**LITERATURE REVIEW:**

**Elbahrawy and Alessandretti (2017)** in their paper analyzed history of the entire market and studied the behavior of 1469 cryptocurrencies for the period between April 2013 and May 2017. They find that Cryptocurrency appears and disappears continuously and their market capitalization is increasing exponentially. They concluded that several statistical properties of the market, as well as market share distribution and turnover of Cryptocurrency, has remained stable for years.

**Poyser (2017)** paper points 3 types of crypto price drivers organized into internal and external factors. In his paper, demand and supply of Cryptocurrency has been categorized as an internal factor that has a direct impact on its market price. Popularity, legalization and few macro-finance factors have been regarded as external factors.

**Yhlas Sovbeto (2018)** the paper investigates the factors that influence the price of the 5 most common Cryptocurrencies (bitcoin, Ethereum,

Dash, Litcoin and monero) over 2010-2018 using weekly data. The paper concludes market beta, trading volume, volatility to be the most significant determinants for all 5 Cryptocurrencies in both short-run as well as in long run. Concerning attractiveness as a determinant as per the paper, it matters but only in long run i.e. attractiveness of Cryptocurrencies are subject to the time factor.

**Mukund Gupta and Dr Teena Bagga (2017)** in their paper examined the consumer awareness on Cryptocurrency in India and they found Cryptocurrency to be still in an evolution phase. They found very less population aged between 18-24 is aware of Cryptocurrency and even if they are aware, they hardly use it. The paper concluded exchange rate volatility to be one of the main reasons behind people reluctance to use Cryptocurrency and its acceptability is mainly because of its feature of tax shields and low transaction cost. The findings say acceptance of Cryptocurrency by major banks and e-commerce websites and educating people about Cryptocurrency will boost the adoption of Cryptocurrency by more population in future.

**A.Seetharaman, A.S.Saravanan, Nitin Patwa and Jigar Mehta (2017)** in their paper found that bitcoin has huge potential yet it cannot affect USD though it can harm it significantly if its exchange rate against USD increases drastically. The paper highlighted regulatory hurdles to be one of the major reasons toward bitcoins growth and also its limited supply primarily due to the limited units i.e. 21 million. The paper concluded that people are willing to explore technology and is open to adapt different forms of virtual currency provided they get some reliable assurance such as regulatory backing and also have some stability in its value.

**Krishna Kumar Thakur, Dr G.G. Barik (2018)** in their paper they concluded Cryptocurrency to be in its nascent stage however gaining popularity on daily basis. They highlighted decentralization and anonymity as a major challenge for the government to monitor its uses in criminal activity and allows a legal system to it.

The paper emphasized that it's a long way for cryptocurrencies to replace credit cards and traditional currencies. And it's also highlighted patience, decisiveness and skepticism to be the most important tools in the world of crypto currency for savvy investors.

**OBJECTIVES:**

1. To study the impact of cryptocurrency on Indian economy.
2. To study the current status of cryptocurrency in India and the future it holds.
3. To analyze the laws and regulations governing in India for cryptocurrency.

**DISCUSSION:****Benefits and drawbacks of cryptocurrency****Benefits:**

- The transaction cost of cryptocurrency is low to nil.
- One can make a transaction at any time also there are no withdrawal or purchase limits.
- The use of cryptocurrency is open to anyone and everyone as it

doesn't require documentation and other paperwork.

- It takes minutes or even seconds for settlement in the transaction of cryptocurrency.
- The transaction is decentralized in that the network operates on a peer to peer basis.
- The use of blockchain technology makes the transaction most secured. It is very difficult for anyone other than the wallet owner to make any payment from the wallet unless they are hacked.

#### Drawbacks:

- The irreversibility of transactions is a major drawback associated with cryptocurrency. Once payment is made it cannot be reversed.
- Cryptocurrency is not immune to the threat of hacking.
- Since the price of cryptocurrency depends on the demand and supply therefore the exchange rate of the cryptocurrency with another currency can fluctuate widely.
- Market capitalization is low due to limited numbers of users in the cryptocurrency network.
- Every user has a unique cryptographic public address. The identity of a user is not required. This anonymity gives rise to the opportunity of money laundering, terrorist funding, illicit trafficking etc.
- If any user loses the private key to their wallets, the wallet will remain locked along with all the coins inside. They will result in the financial loss of the user.
- Mining Cryptocurrencies are highly energy-intensive. Mining requires advanced computers and lots of energy which have advanced effect on the environment will lead to an increase in carbon footprints tremendously.

#### Present and future scenarios of Cryptocurrencies in India

Presently Cryptocurrencies are unregulated domain in India. The government announced in the budget speech 2018-2019 that the government doesn't consider cryptocurrency as legal tender or coin and will take all measures to eliminate the use of these crypto-assets in financing illegitimate activities or a part of the payment system. The government will explore the use of blockchain technologies proactively for ushering in the digital economy. However, with humongous development for crypto tenders in India, RBI has said that banks or other financial entities cannot cite RBI's 2018 circular that barred them from dealing with virtual currency as the Supreme Court order has set aside RBI's ban order in March 2020.

RBI also asked banks and concerned entities to continue to carry out customer's due diligence processing online with the regulation governing standards for know your customers, anti-money laundering, combating of financing of terrorism and obligation of regulated entities under prevention of Money Laundering act 2002 in addition to ensuring compliance with relevant provisions under Foreign Exchange Management Act (FEMA) for other overseas remittances.

Cashaa, a crypto currency bank is gearing up to provide banking services for cryptocurrency consumers in India. The bank will be opening up a credit cooperative society to allow consumers to access services for digital currencies as well as fiat currencies. The company has launched Unicas in association with the United Multistate Credit Co-operation society. Unicas will be the world 1<sup>st</sup> financial institution catering to Cryptocurrencies at a physical location.

The development comes at a time when RBI has advised financial institutions to steer clear of the speculative crypto sphere and the government is looking to regulate such sections as well while cryptocurrency still awaits legal clarity in India, the future of Unicas is yet to be determined.

Since the past few years, cryptocurrency has grown tremendously and with the help of the internet and blockchain technology days aren't far enough when there will be virtual banks in India. As per data from top exchanges it is seen that crypto exchange are growing more from tier 2 and tier 3 cities than metros. Also in recent exchanges the investment grew tremendously on one side and dropping of investor age on another. As per the statement of WazirX, a Cryptocurrency exchange, the majority of its users is below 35 years and has recorded 2648% increase in user signups in 2021 from tier 1 and tier 2 cities of India. The reasons cited by experts for growth of cryptocurrencies in smaller cities are social media and aggressive marketing strategies by influencers. Another trend observed by experts is raising women investors. There is a hike of percentage between 30% and 40% across platforms and with such positive growth in crypto market, CoinDCX a

cryptocurrency exchange is making convenient payment methods for investors and is trying to enhance convenience in providing better customer service. These give positive signs to the Cryptocurrencies industry. The digital assets and blockchain foundation association has been set up by private companies for educating people about cryptocurrency. Even though Cryptocurrencies fails legal clarity in India from the government but RBI has expressed its desire to launch its own digital currency which will need legislative backing from the government.

#### Impact on Indian economy:

In 2009, bitcoin was created and till date cryptocurrency has gained much importance around the globe. When in 2010 trading price of bitcoin was just \$0.0008 and as of August 2021 its market price is around \$47500. Many new coins have been launched since bitcoins introduction and their cumulative market value touched around \$2.5 trillion in May 2021. Since the onset of the covid-19 pandemic, the industry grew 500%. As per recent data, India has invested around 15 crores in cryptocurrency, it has 300 cryptocurrencies and 60 lakhs investors. For reaching the aim of \$5 trillion economies, ignoring the cryptocurrency industry (\$1.7 trillion) will not be a smart decision. Unocoin made its way to India in 2013 and the following year country become the home of a crypto innovation boom. The crypto industry not only strengthens India's monetary policy but will also bridge the gap that exists in the current fintech landscape. Demonetization, RBI's circular against cryptocurrency or even the covid-19 pandemic couldn't curb its growth, despite the absence of specific government regulation. In a covid-19 pandemic, the industry has been creating jobs across many platforms and over 300 start-ups have generated tens of thousands of jobs and hundreds of millions of dollars in revenue and taxes.

The evolution of cryptocurrency industry in India holds similar economic importance as to what the internet had in the 90s'. The industry, increase the job opportunities, attract foreign investment, accelerate technological development and thus can help the nation becoming a global powerhouse.

#### CONCLUSION:

The paper introduces the fundamentals of cryptocurrency along with its benefits, drawbacks, scenario and impact. It's quite clear that cryptocurrency is in its evolutionary phase, there is no definite regulatory framework, the government is finding a challenging issue to give it a legal status because of its two important features i.e. decentralization and anonymity. This feature gives rise to many criminal activities. However, its growing acceptance by people as well as its economic importance cannot be ignored. The use of cryptocurrency can help India in reaching the next platform of e-commerce thus government should take necessary steps to regulate such currencies as the future of cryptocurrency in India looks promising. People should use cryptocurrency with due diligence till the above-mentioned issues related to cryptocurrency areas solve. Finally, it is expected that this paper will help people to make their independent decision regarding the use of cryptocurrency.

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