



IMPACT OF CRYPTOCURRENCY IN INDIA

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Abstract

Crypto currency is a revolutionary decentralised virtual currency concept. It has proven to be a new investment instrument in India, comparable to gold. For security, it employs cryptography. Crypto currency is expected to be the future currency that will eventually replace paper money around the world. There are many things that India needs to learn from the digital era, some of which are beneficial to them, but others which cause anxiety and concern. Even though we all know that India is rapidly approaching the Digital Age and that the day is not far off when India will be considered one of the world's most developed nations. In the near future, this virtual digital currency will become more popular. Crypto currency is a difficult idea to grasp, but it is simple to utilise. It's challenging because it's so different from our traditional currency, which we've been using for centuries. Following the global financial crisis of 2008, Bit coin was established to operate independently of governments, central banks, and financial institutions.

This is a conceptual paper that attempts to investigate the various elements of crypto currencies. It focuses on the current state of crypto currencies in India as well as their future prospects.

Keywords: *Crypto currency, its impact on the Indian economy, its benefits and drawbacks.*

I. Introduction

In the recent past, crypto currency has been a topic of debate among the general public. Crypto currency is growing more appealing to investors who value privacy and the generation of money in the age of technological breakthroughs. Nakamoto (2008), an unidentified organisation or individual, was the first to offer Bit coin as the first digital currency enabling easier day-to-day transactions between individuals. Bit coin is run without the use of a middleman like banks or monetary institutions. The fact that a crypto currency is not issued by a central authority is one of its distinguishing characteristics. It operates on a purely decentralised basis. It is a type of peer-to-peer transaction in which one does not have to divulge one's identify in order to complete a transaction. Unlike present practise, the bank acts as a middleman or go-between, knowing the identities of both the buyer and the seller, raising concerns about personal data protection. The Bit coin platform has made crypto currency trading and transactions much easier and more autonomous, all while protecting personal information and details. Choosing this type of transaction has given some people the ability to transact freely and anonymously. Crypto currency is not rely on financial institution restrictions and is encrypted and protected, making it difficult to expand the quantity of money at a pace faster than a predetermined algorithm rate. Crypto currency 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.

Ii. Objectives

- To understand the concept of crypto currency, its working, its types and the top player Bitcoin.
- To learn the impact of crypto currency on Indian economy.
- To study the current status of crypto currency in India and the future it holds.
- To study the advantages and drawbacks of crypto currency.

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.

Mittal Alka (2017), analyzed in the study on “An Analytical Study Of Present Position Of Bitcoins”, the Indian Tax and legal considerations regarding Bit coins, the problems and risks related with Bitcoins such as Cyber



Attacks and Hacking, Price Fluctuation and Inflation, Fraud, Uncertainties in the Government Policies, and risks related with Bitcoins such as Money Laundering, Drug Trafficking, Tax Avoidance and Evasion and Terrorist Financing.

Sharma Kapil, Gupta Harshita et.al (2017) conducted exploratory research on “Role of Bit coin in Indian Economy-A brief study”. They focused on the Bitcoin adoption in India and mentions brief information on the Bitcoin crypto currency, the scope of the adoption of Bitcoin in the country and some challenges to Bitcoin adoption concerning Rupee exchange as well as security and privacy concerns. They also discussed the issues on both sides of bitcoin mainly in interest of financial organizations and economists with a prospective transformation, with an application of advanced technology, and revolution with a digital currency.

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

IV. Research methodology

This paper is purely based on secondary data referring to various sources such as journals, newspaper articles, websites and statutory reports.

V. Discussion

A. Rise of crypto currencies:

The first crypto currency, Bit coin, traded at a market price of \$0.0008 in 2010 where as it rise to \$65,000 in April 2021. After the launch of Bit coin, many new coins introduced which touched the market value by \$2.5trillion in May, 2021.

B. Types of crypto currencies

1. **Bit coin** (BTC) One of the most commonly known currencies, Bit coin is considered an original crypto currency. It was created in 2009 as an open-source software. Using block chain technology, Bit coin allows users to make transparent peer-to-peer transactions. All users can view these transactions; however, they are secured through the algorithm within the block chain. While everyone can see the transaction, only the owner of that Bitcoin can decrypt it with a “private key” that is given to each owner. Unlike a bank, there is no central authority figure in the Bit coin. Bit coin users control the sending and receiving of money, which allows for anonymous transactions to take place throughout the world.

2. **Litecoin** (LTC) Litecoin was launched in October 2011 as an alternative to Bit coin. Like other crypto currencies, Lit coin is a peer-to-peer crypto currency and open source-source software project released under the MIT/X11 licenses. Its creation and transfer is based on an open source cryptographic protocol and it is completely decentralized.Litecoin is different in some ways from Bit coin. A few differences between these digital currencies are: The Litecoin network aims to process a block every 2.5 minutes but Bit coin takes 10 minutes. this allows Litecoin to have faster transaction confirmation. The coin limit for Bit coin is 21 million and Litecoin is 84 million. Experts says that Lit coin are more complicated to create and more expensive to produce because it uses different algorithm called scrypt and FPGA (Field Program able Gate Array)and ASIC (Application Specific Integrated Circuit) devices made for mining

3. **Ethereum** (ETH) Ethereum is a type of cryptocurrency which was proposed in late 2013 by VitalikButerin, a crypto currency researcher and programmer. It was initially released on July 2015. It is an open source platform based on blockchain technology. While tracking ownership of digital currency transactions, Ethereum block chain also focuses on running the programming code of any decentralized application, allowing it to be used by application developers to pay for transaction fees and services on the Ethereum network.

C. Significance:

- It holds the promise of making the financial transactions easier and accurate.
- It transfers funds directly between two parties without the interference of third party like a bank.



- It allows us to hold the funds in one or two form of wallets, each of which is easily convertible in our accounts.
- There are no costs charged to store digital currencies using the wallets.

D. Banking ban on crypto currencies by RBI:

In 2018, RBI announced through a circular issued by them prohibiting all banks from dealing with such digital currency as it is a sign of cyber threat. Many cases of fraud were reported through the use of virtual currencies. Banks agreed and stuck to the orders of RBI with the prohibition of crypto currencies Later on this circular was declared unconstitutional by Supreme Court on May, 2020. Later, it was announced by court that crypto currencies were not illegal but are unregulated in India.

E. Positive impacts of crypto currency

- **No need for central regulations like banks or governments.**

It gives power in the hand of common man they can do person to person transactions all around the world in seconds without paying hefty charges to banks.

- **Anonymity is one of the important advantages provided by cryptocurrency.**

You don't need to reveal your identity.

- **Not affected by government actions** like DE monetization, inflation adjustment, etc. which control the value of fiat currencies.
- **It is in digital form** so that it can be carried away anywhere without fear of theft, robbery. You only need to store it in your personal wallet or you have to remember the keys that are it.
- **Lower transaction fees**, fast processing of payments.
- **Millions of trees can be saved** by not using paper currencies. It can help in making our environment safe.
- **With cryptocurrency, you are in charge.** No one can take your money away from you unless you lose it yourself. It still has a long way ahead before it can replace cash and credit cards.

F. Negative impacts of Crypto currency:

- **Bitcoins Are Not Widely Accepted**

Bitcoins are still only accepted by a very small group of online merchants. This makes it unfeasible to completely rely on Bitcoins as a currency. There is also a possibility that governments might force merchants to not use Bitcoins to ensure that users' transactions can be tracked.

- **Wallets Can Be Lost**

If a hard drive crashes, or a virus corrupts data, and the wallet file is corrupted, Bitcoins have essentially been "lost". There is nothing that can be done to recover it. These coins will be forever orphaned in the system. This can bankrupt a wealthy Bitcoin investor within seconds with no way form of recovery. The coins the investor owned will also be permanently orphaned.

- **No Buyer Protection**

When goods are bought using Bitcoins, and the seller doesn't send the promised goods, nothing can be done to reverse the transaction. This problem can be solved using a third party escrow service like [ClearCoin](#), but then, escrow services would assume the role of banks, which would cause Bitcoins to be similar to a more traditional currency.

- **Risk of Unknown Technical Flaws**

The Bitcoin system could contain unexploited flaws. As this is a fairly new system, if Bitcoins were adopted widely, and a flaw was found, it could give tremendous wealth to the exploiter at the expense of destroying the Bitcoin economy.

VI. Conclusion

According to the findings of this study, crypto money is catching the new technology wave, and its growing relevance is paving the way for the approaching era of digital transformation. Despite the fact that this digital currency carries a lot of hazards, it has attracted billions of dollars in investment because to its permanent transparency, traceability, low transaction costs, lack of processing fees, and high profile earnings. A blanket ban



is one thing; but, if they prohibit the use of digital currency, it will put investors in jeopardy. Many exchanges have managed to stay afloat by engaging in peer-to-peer and crypto-to-crypto trading without the need of an intermediary. These exchanges will be shut down as a result of the prohibition. A large number of work chances will be lost. The Indian government should take steps to regulate digital currencies, which are the future of profitable business and economic productivity.

V. Recommendations

India must move away from old payment systems and become one of the most active participants in the approaching IT-based era. It is not the best solution to prohibit such currency because it will demotivate start-up businesses. What is vital is that effective regulation with secure KYC criteria be implemented. All that is required is for policymaking to be done correctly. This type of digital transformation will provide new job opportunities at all levels, from IT developers to marketers, lowering unemployment and, in the long run, helping to revive the economy's poverty rate.