



THE IMPACT OF CRYPTOCURRENCY ON ECONOMIC DEVELOPMENT

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Abstract

The newfound world of virtual currencies is gaining popularity among individuals and government of various nations & new industry has established around these virtual currencies, businessmen, exchanges and investors who are increasingly dealing in them. In the present scenario, these cryptocurrencies especially bitcoins are getting catchline. Everyone is investing in it to get the more returns and made their money in millions. It enhances the transparency of the digital transactions and cuts down the time and cost of each transactions. The virtual platform has provided a new technology- based way to go about business. It has allowed many buyers and institutions to collaborate at global level for trade but on the other hand, the use of these cryptocurrencies creates a safety controversy. The nature of cryptocurrency is digital and clone, it can be easily hacked and it involves security threats. The another problem faced by the many people is the variation and fluctuations in the value of the currency that is not known to anybody as it is not certain. Anything that fluctuates makes it ineffective to use. These currencies do not have any intrinsic value or any physical presence and are traded on a common platform which does not have any central control and regulatory system. Today, bit coin is the most prominent crypto currency, reason being it is widely embraced and used. The more acceptability the currency has the better it is When it comes to bit coin, a country like India cannot be overlooked it is a country with a huge population where oligarchs are continuously seeking for safe and secure alternatives to invest their enormous wealth and citizens are looking for ways to save taxes. This study highlights how the government is controlling and governing Cryptocurrencies and how it is affecting the country's economy. This study also shows that why some countries ban these Cryptocurrency. It is building inquisitiveness to others whether it is legal to invest in bitcoins or it is just a bubble? Data are collected from secondary sources mostly particularly from journals, published reports. This paper reviews the regulatory mechanism of crypto currency and its role in uplifting the economy of the nation.

Keywords: Cryptocurrency, Bitcoin, security threats, impact on economy.

Introduction

In a historical prospective, it has been seen that there was rapid growth and development in the market, particularly in financial market. Earlier Barter system was used to facilitate the transaction where goods are exchanged for goods. With the passage of time, the exchange instruments had been devised that aims to make the trade transaction in an eased manner. The instrument which facilitate the exchange of goods are known as money.

It is defined as something that act as a medium of exchange, serves as an accounting unit and has store of value. It is regarded as a exchange medium that we all had accept it in doing the trade transactions. (Calderon, n.d.)⁽³⁾

Money is accepted in exchange for the services such as employee are paid in monetary terms in exchange for their labour. As a unit of accounting, money act a device which helps to identify, recognise and communicate value. From the period of Barter system to commodity money, metallic coins to the use of Gold and Silver, in continuation with economic and financial system and checks and finishing with the latest wide- reaching currency development in terms of the origin and commencement of cryptocurrencies such as bitcoins, Ethereum etc have passed centuries. Every form of money has played a avital key role in transaction activities over a long period of time. The introduction of cryptocurrency has brought a revolution in the international payment system. This growth is really unimagivable.

Meaning

Cryptocurrency is a cybernated and virtual currency that make the use of cryptography for security. It is not easy to feigned it because of this security feature. It is not issued by any central authority. It is basically used to transfer the funds between the two parties who are involved in the transaction. These transactions are simplified with the use of private and public key for the security concern. There is a charge of minimal processing fee while transferring the funds. It further help the users to avoid the steep fees that is charged on online based transactions by most of the banks and financial institutions. There are around 856 cryptocurrencies. The prices of crypto currencies are fluctuating rapidly. Market forces, demand and supply are primarily responsible for these changes. The crypto customers have wider option of investing them on fractional basis. They can even buy smaller amount of it at a time.

Background

In October 2008, the paper named Bitcoin A peer to peer Electronic Cash System was published. The paper reveals the innovative idea of cryptocurrency, resolving the issue of double spending as well as avoiding the need of central authority such as central bank for the supply of money and security enforcement. The system rules are encoded with in the system itself. While the real identity of the creator is not known, the bitcoin has achieved global recognition and set the benchmark for the new market of cryptocurrency. (Wolfgang K. Härdle, 2020)⁽⁴⁾

It is a digital model that works as a medium of exchange. It uses cryptography to secure the transactions. The first cryptocurrency that was implemented was Bitcoin but in present scenario, the total market is captured with more than 800 cryptocurrencies. The total share of bitcoin in cryptocurrency market is approx. 61.4%.

Popular Cryptocurrencies

Some of the most popular and famous cryptocurrency that are available in the crypto market are mentioned below:

- **Bitcoin** (BTC): The very first and most famous cryptocurrency that was developed in 2009 was bitcoin. This currency uses the blockchain technology.
- **Ethereum** (ETC): It was developed in 2013 by Vitalik Buterin. It holds the second position after the bitcoin in the crypto market. An updated and upgraded version of Ethereum 2.0 is also implemented.
- **Dogecoin** (DOGE): It came into force on 6th December, 2013. It was developed by Billy Marcus and Jackson Palmer. It is about to capture the high market capitalization.
- **Litecoin** (LTC): It was created in 2011 by Charlie Lee, an Engineer. It has the ability to do the transaction at much faster rate . (PARAGRAPH ON CRYPTOCURRENCY, 2021)⁽⁵⁾

Important features of Cryptocurrency: (Cryptocurrency In India, 2021)⁽⁶⁾

- 1) It is available in limited numbers.
- 2) It can be mined.
- 3) In it, transaction can't be altered.
- 4) Loosing the wallets means losing the bitcoins entirely
- 5) Money can be sent or transferred with minimum or no fee
- 6) The currency is not governed by single authority.
- 7) While creating the address for bitcoins, no approval is required.
- 8) There is no stability in the value of currency.
- 9) It is possible to buy the things online with bitcoins.

Government on Cryptocurrencies-

Right from the ban on cryptocurrency in 2016 to an upcoming bill for regulating it, the government outlook on the digital assets have switched considerably over the past few years. The coming bill on regulating official digital currency 2021 is distinct from the earlier one – ***'Banning of Cryptocurrency and Regulation of Official Digital Currency Bill, 2019.'***

While in the previous bill, a complete ban was imposed on all the crypto related activities such as buying and selling, mining and holding of cryptocurrency, dealing in it, the new bill has about to make a clear distinction in categorisation as a currency. The order of Supreme Court in march 2020 had reversed the

Reserve Bank Of India (RBI) Order banning the banks from assisting the cryptocurrencies. (Govt unlikely to bring bill on cryptocurrency, 2021)⁽⁷⁾

The Cryptocurrency and Regulation of Official Digital Currency Bill, 2021 is listed for introduction in Parliament's Winter Session looking for to forbid all "private cryptocurrencies" in India. However, it permits for certain exceptions to promote the underlying technology of cryptocurrency and its uses.

Take a look at the past year's situation of Cryptocurrency with regards to RBI

2013 to 2017

The Reserve Bank of India , RBI had issued a circular in 2013 in which warning has been given to the public against the use of digital currencies. The bank notified the users, traders and holders of virtual currency about the various risks attached with it such as operational, financial, legal and security risks. RBI indicated that it has been keeping an a close check on the growth and development of these currencies.

As the banks were continuously doing the transaction in the cryptocurrency exchange, another circular was released by RBI on 1 Feb 2017, restating its concern. At the end of 2017, RBI and Finance Minister issued another warning statement explicating that virtual currency are not legal tender.

After that , two Public Interest Litigation were filled in the Supreme Court, one is for prohibiting the use of cryptocurrencies in India and another one is for the regulations on it. In Nov, a committee was formed by the Government that studied the issues around these currencies and put forward the actions.

2018 to 2020

For banning the digital currencies, a draft was prepared by the Central Board of Direct Tax and it was submitted to finance ministry in march 2018. After a month, RBI circulated that statement that restrict the banks and other financial institutions to render financial services to currency exchanges. The chairman of CBDT, Sushil Chandra put forward his opinion in the favour of ban of crypto currency as it leads to create the chain of Black Money.

In April 2018, the appointed committee proposed a draft bill for regulating these currencies but this bill did not propose a ban on it. Later on , a fresh bill with blanket ban was proposed in Feb 2019. In march 2020 the Supreme Court of India lifted the restriction imposed by RBI on crypto assets.

2021 (last year till October)

A high level Inter Ministerial Committee was formed which studies the various problems related to virtual currency and it also recommended the specific actions to be taken.

Union Budget 2022-23: India introduces 'crypto tax' of 30% on all digital assets: In the Union Budget 2022-23, it is recommended that the gains from trading in cryptocurrencies will be taxed at 30% and 1% of TDS. On the short term capital gains and business income earned from it , surcharge rate or 10-37% will be applicable and on the long term capital gain , this rate can't exceed 15%. (Pranav Mukul, 2022)⁽⁸⁾

It's not hidden from anyone that many countries banned Cryptocurrencies already and Of course , there should be some reasons behind it So take a glance at it

Crypto-Currencies are regarded as illegal as the Government and the financial institutions are not able to control or regulate them so It can be considered as risky area.

Crypto-Currency market also lead way to Many crimes like tax evasion, cybercrimes & terrorism and many more. So it is a threat to security and privacy and also a way of doing theft by tax evasion.

As it involves huge investments. also lead many big risks.

The Crypto-Currency market is an intimidation for traditional banking institutions which are controlled by government .Unlike the cryptocurrency market as it is not controlled and regulated by any Single authority considered as decentralized market . For the banks, it is a Major alteration as there are ATMs in some places where people can exchange from regular currency to Bitcoins. it can be done by anyone without any issue of having any access to the banks or not.

The relationship between governments and cryptocurrencies has been tense, In some countries, this has led to outright bans on buying, owning, and trading. Here is the of some countries which prohibits Cryptocurrencies marketing in their nation :

Nigeria :

Nigeria doubled down on its crypto ban in February 2021. Nigeria was the biggest cryptocurrency market in Africa has had a ban on banks and financial institutions providing on and off-ramp crypto services since 2017. And these announcements also intimidate some banks which were performing crypto transaction.

Turkey :

Lately, central bank of Turkey enacted a ban on cryptocurrency payments Because Turkey's government said that as Cryptocurrencies are not controlled and regulated by any authority so it is a risk for the people who invest in the same as there is no way for recovery of losses ,you can lose the whole money in just seconds., Country already strengthening their restrictions from last month so it was not an amazement for the people of the nation.

Bolivia :

Bolivia's central bank banned any decentralized cryptocurrencies in 2014. The Nation made some laws for allowing the one which is created in Government. They took this step to give protection to country's currency investor

Algeria :

In 2018, Algeria outlawed the use of cryptocurrencies. A translation of the law from Arabic defines cryptocurrency as:

“A virtual currency is one used by internet users over the internet. It is characterized by the absence of physical support such as coins, paper money, or payments by check or credit card.”

Those breaking this ban are punishable under the financial laws already in place.

Nepal :

Nepal banned cryptocurrencies in a 2017 after noticing the situation by Rashtria Bank of Nepal , After referencing the law enforcement , Several people were arrested on that time for doing transactions in Cryptocurrencies. Till now , As such , the current situation of this case is not solved at all.

Qatar:

Qatar warned banks against trading in cryptocurrencies, in 2018.

A circular from the Supervision and Control of Financial Institution Division at Qatar’s Central Bank warned banks to not deal with any transactions related to Cryptocurrencies, neither open any account deal with it nor doing any exchanges and buying and selling. Those who will do have to face many penalties.

Egypt :

Cryptocurrencies are not directly banned in Egypt. However, the Islamic legislator declared transactions with cryptocurrencies haram (prohibited) under Sharia law, in 2017.

The Dar al-Ifita considers cryptocurrencies a threaten to national security and the economic health of Egypt.

Bangladesh :

Since 2017, Bangladesh has banned cryptocurrencies. The government warned public of the country to not deal with any exchange transactions of the crypto as they will be punished and have to face penalty. As a result, trading with unnamed people may go against the country’s Money Laundering Prevention Act.

It asked citizens “to refrain from performing, assisting, and advertising all kind of transactions through virtual currencies like Bitcoin to avoid financial and legal damage. . (Stein, 2021)⁽⁹⁾

Pros and Cons:

- i. First thing that is advantageous is payment freedom. With Bitcoin, we can send and receive money anywhere in the world at any time. We don't need to worry about crossing borders, rescheduling any meetings or holidays . As there is no any authority which regulates the Bitcoin or other crypto, so we've full control of money.
- ii. Second advantage is about security and control. It allows users to control their transactions which helps keep Bitcoin safe for the network. Traders cannot charge additional charges without being notified. They've to talk to the consumer before adding anything. Bitcoin payments can be done without sharing any personal information.
- iii. Bitcoin protects against identity theft, the bitcoin wallet can be encrypted and backed up to ensure money safety.

- iv. Another very important advantage is that the information is transparent. With the blockchain, all completed transactions are visible to everyone, but personal information is hidden.
- v. The Bitcoin protocol can't be manipulated by anyone, organization or government, because Bitcoin is cryptographically safe.
- vi. Another advantage is the low fee, as the fee is very low, it attracts more people also there is less or no charge of commission.

Digital currency exchanges help the trader to process operations by converting bitcoins into fictitious coins which have very less fee than other payment services.

- vii. The fact that bitcoin transaction cannot be reversed as such they do not contain any personal information which makes them safe and does not charge any potential charges which also advantageous.
- viii. With Bitcoin, traders can also do business in the places where crimes are high. That's because it's almost impossible to mislead any one in bitcoin because of public register (blockchain). (STEGĂROIU, n.d.)⁽¹⁰⁾

Disadvantages

- i. Can be used for illegal transactions –

Since the privacy and security of cryptocurrency transactions are high, it's hard for the government to track down any user by their wallet address or keep tabs on their data. Bitcoin has been used as a mode of exchanging money in a lot of illegal deals in the past, such as buying drugs on the dark web. Cryptocurrencies are also used by some to convert their illicitly obtained money through a clean intermediary, to hide its source

- ii. 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

- iii. 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.

- iv. Risk and volatility are two elements that pose a big disadvantage to Bitcoin. This is volatile, especially because there is a limited amount of coins and the demand for them that increases with every passing day.

However, volatility is expected to decrease as time passes.

From the standpoint of investors, cryptocurrency regulation is quite important. With the right kind of regulations in place, the government can make the cryptocurrency market a safer environment for investors. (Cryptocurrencies Need To Be Regulated, 2021)⁽¹¹⁾

1) **Prevent market manipulation and protect investors**

2) **Allow select cryptocurrencies:** It is important to disclose all the information about the crypto instruments and the various types of risks associated with it. There are so many currencies exists in the crypto market but the investors are not aware about all these. They are only familiar with a few of those, such as Bitcoin, Ether, Ripple. There is a need to form regulatory authority so that the interest of the investors could be protected.

3) **Understanding risks associated with technology:** With the rapid change in technical environment, there is a need to have professional financial and technical advisors. So that they can help the investors to understand the risk associated with these currencies and they can made their decision accordingly.

A critical assessment of cryptocurrencies

1) *What precisely is a cryptocurrency?*

. A cryptocurrency is designed to be a currency, but does it really function like a currency as we understand it. Firstly, currency always has an issuer, usually a trusted entity like the sovereign. Even when gold is used as a currency, the gold coins had to be issued by a sovereign entity. Cryptocurrency do not have any entity by which it can be issued. They do not have any instinct value just like regular currencies and they are not an instrument of debt .

The basic topic of any currency is Trust . And Cryptocurrency haven't earn trust till now. Because the trust on any currency is not give them the real identity of currency , which is not even stable . If technology such as Blockchain provides the trust for cryptocurrencies. Rather than just making a currency , they should not become a popular currency in larger society As they can at best perform the role of a currency within the private and closed environment of that cryptocurrency

It becomes a doubt in it that some of the countries think them as financial assets and also treat them as well.. This is also a flaw because all financial assets have underlying cash flows and necessary to become some person's liability. Cryptocurrencies are neither any person's liability nor do they have any underlying cash flows.

There is another attempt to treat cryptocurrencies as a commodity. But the thing we should need to understand that commodities are tangible and have utility. Cryptocurrencies have neither.

As people are very doubtful on its presence because cryptocurrencies are neither a currency as usual nor a financial asset or physical asset , it is obvious for being doubtful in the case . Some proponents have improvised to call them as digital assets. But it is still doubtful as it doesn't have nay underlying use.

As a store of value, there is no doubt that Cryptocurrencies have given massive returns. Cryptocurrencies are very much like a speculative contract working like a Ponzi scheme. In fact, it has been argued that the original scheme devised by Charles Ponzi in 1920 is better than cryptocurrencies from a social perspective. Even Ponzi schemes invest in income earning assets. A bitcoin is akin to a zero-coupon perpetual; it's like you paid money to buy a bond which pays no interest and which will never pay back the principal.

Cryptocurrencies are really put effect on economic and social phenomenon. If cryptocurrencies are actually intended to revolutionize finance, we need to understand what precise role they play in finance. As every transaction and financial assets or others play a role and do the work for the purpose they are made for. Like an equity share enables a business to mobilize risk capital, a bond enables a company or government to borrow money, a mutual fund enables retail investors to diversify their portfolio, derivatives enable users to manage their risk and so on. Every financial instrument exists to serve a basic goal or purpose somewhat different from its use as an investment asset. But not aware of the purpose of Cryptocurrency that why it is exist actually, what could be role then? The answer would be the volatility of many cryptocurrencies precludes them as an efficient medium of exchange. Besides, a priori there is no ground to believe that people place the same trust in them as they do in legal tender currencies. While there is anecdotal evidence of businesses using bitcoins, there really is no reliable data available; by all indications their use as a currency appears to be negligible.

Impact of private currencies or currency like products on the economy

Historically, private currencies have resulted in instability and therefore have evolved into fiat currencies over centuries. Every private currency will eventually replace the Rupee to some extent. Consequently, the role of the Rupee as a currency will be undermined. If the one or more private currencies being allowed, there would be parallel currency system in the country. Thus, increased acceptance of cryptocurrencies would result in effective 'Dollarization' of our economy. Dollarization leads to undermine the ability of authorities to control money supply or interest rates, as monetary policy would not have any impact on the non-Rupee currencies or payment instruments. Of course after that, India loses not just its currency, a defining feature of its sovereignty, but its policy control of the economy. With loss of traction for monetary policy, the ability to control inflation would be materially weakened.

Impact on global financial integrity standards

cryptocurrencies is bypass established intermediation and control arrangements that ensure integrity of financial transactions, such as Know-Your-Customer regimes, Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) rules etc. They are anonymous and decentralised system that operate purely virtually makes cryptocurrencies which attracts illegal/illegitimate transactions which have been largely filtered out of the formal financial system.

As the crimes by using Cryptocurrency are increasing . . . (Shri T Rabi Sankar, 2022)⁽¹²⁾

Total crimes using cryptocurrencies in 2021 was estimated to be \$14 billion . The amount is not that much but it seems to be increase in coming years .

Conclusion and Suggestions:

Thus , Cryptocurrency is a big discussion nowadays as it make people millionaire and billionaire in just few month's or years . So of course, it is a hot topic in the global financial system . A cryptocurrency that aspires to become part of the mainstream financial system would have to satisfy very divergent criteria.

There is great volatility of cryptocurrencies exchange rates. So it includes high risk of loss . But the gain in its popularity attracts million or billion investor in the world and they are easily portable . As some countries banned it Because of safety and security concerns sets example that it is a risky area as new investor maybe change their mind . So , their boom might decline. Many different cryptocurrencies have gained the required attention. Some nations have started to issue national cryptocurrencies (Hofman, 2014). It may be possible that bitcoins might have a way for cryptocurrencies to flourish. Despite the flaws, bitcoins are still regarded as triumph in the digital currency. It has provided an alternative currency for the less developed countries which can become a way of economic transformation for them . It gives the individuals more choices to manage their finances. Without regard to bitcoins accomplishing the Nobel transformations, the cryptocurrencies are seen to be entering the financial stage and changing the global financial landscape forever . Following are the suggestions:

1. Large companies such as Amazon, should issue digital coins that inspire trust and gain wide acceptance
2. Employees should be trained on cryptocurrency to help their customers.
3. There should be legal guidelines and laws about to prevent unethical uses of digital currency.
4. Banks, financial institutions and government should come forward to work with tech- giants such as google , Microsoft to develop stable and secured transaction system.
5. Encourage the formation of a self-regulatory body to promote and enforce standards among the crypto community.
6. Well-established banks could help secure digital currencies from theft or hacks, putting clients' minds at ease. Bringing cryptocurrency under bank supervision could help diminish criminal activity or the appearance to outsiders that cryptocurrency transactions aren't secure.

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