A STUDY ON IMPACT OF CRYPTOCURRENCY ON INVESTORS AND INDIAN ECONOMY

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ABSTRACT

India happens to be at a sweet spot of driving growth and innovation by landing a robust Digital Currency Bill this year. In spite of the several rumors on a potential ban on crypto in India, there are multiple use cases that could be considered by the policymakers who understand the true potential of leveraging crypto and its impact on our economy.

Keeping in mind that our nation’s success in the past three decades has come from ITeS-based solutions, if India is aiming to reach a $5 trillion economy, we cannot ignore the $1.7 trillion market that exists for cryptocurrencies. A forward-looking crypto policy can have a significant impact on improving our overall financial infrastructure, help safeguard national security, deter financial frauds, strengthen our monetary policy, attract international capital, create more job opportunities, and retain our tech talent to accelerate technological development, thereby driving the nation towards becoming a global powerhouse.

Despite the Reserve Bank of India (RBI) being wary of cryptocurrencies, Indians are making a beeline to invest in the digital coins, touted as the most important asset class of the 21st century.

Keywords: Cryptocurrency, blockchain, impact on Indian economy, investors

INTRODUCTION

IMPACT ON ECONOMY

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 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.

Though government is taking a cautious approach on cryptocurrencies, it is bullish on the use of blockchain. Crypto currency industry believes that blockchain and crypto currencies 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. Meanwhile 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’.

Impact of Union Budget 2022-23 on Crypto currency in India

- The government of India has clearly mentioned in union budget 2022-23 that-the transfer of any virtual currency/cryptocurrency asset will be subject to 30% tax deduction.
- No loss in the transaction will be permitted to be carried forward.
- Gifts in the form of virtual assets/cryptocurrencies will be taxed in the hands of the receiver.
- A Central Bank Digital Currency (CBDC) by utilizing the concept of Blockchain will be issued by RBI by the year 2023.
- A tax of 1% will be deducted at source for the payments made on the transfer of digital assets.
- India saw an unprecedented growth in the number of crypto investors as Bitcoin skyrocketed to an all-time high of about $67,000 last September before falling.
- From April 1, a flat 30% tax will be applicable on profits from the transfer of crypto assets, irrespective of the holding period. At that tax rate, crypto gains are treated the same way winnings from gambling, lottery or horse-racing
- Not just this, to track the money trail, a 1% TDS on payments made for transferring digital assets will be levied above a specified monetary threshold from July 1.
- Importantly, losses cannot be set off against any other income.
Impact on investors:
This clear cut announcement of Indian government may recognize cryptocurrencies as a legitimate asset and the corresponding trading as a legal activity. The clarity on tax slab clarifies doubts and may increase the industry size.

- **Bad for investors**: No carry forward losses will be a setback for investors as cryptocurrencies are highly volatile. This fear will always discourage investors (specifically retail investors) from trading in cryptocurrencies. The high tax slab will cut down the net profit of investors and with effect from 1st April 2023, the 115BBH provisions on income generated from virtual currencies will be in force.

- **Dilemma**: Imposing tax on cryptocurrencies does not completely and explicitly declare cryptocurrencies legal because income tax in India is subject to assets not on the method/manner of acquiring those assets.

- **Future**: From previous history and recent tax declarations, it can be said that it is very unlikely that government of India will introduce a fresh bill to declare cryptocurrencies illegal.

REVIEW OF LITERATURE

Kurihara & Fukushima, 2017, explained that it is not digital cash, which was prevailed all over the world. Unlike like central bank and government issued currency, crypto currencies are inflated at will. The supply of these types of currencies are limited to a certain volume which cannot be changed.

Vora (2015) explained that crypto currencies are a welcome development, they will offer competition to the existing modalities of money and government regulations, they will provide alternate means to economic agents for their transactions, and their innovative existence should be encouraged so that it can help to a great extent to the developing countries to come forward and boost their economy.


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.

Hileman, Rauchs(2017), it is stated that digital assets, as well as various advanced financial technology platforms, mechanisms, including technologies, are redefining financial exchange ideal models and building new capital.

Hofmann, Strewes, &Bosia, 2018, in their study stated that plenty of articles have been reported on the anticipated future and functions of cryptocurrencies in the financial sector. The rising popularity of cryptocurrencies in recent decades has sparked considerable curiosity as well as expectation about its implications for financial inclusion including various development in financial sector (Lee et al., 2018).

NEED OF THE STUDY

This study will help us to gain knowledge about cryptocurrencies and its impact and will help us understand various topics such as-
Will India have any positive financial leverage by the usage of Bitcoin?
Should India say yes to Bitcoin?
The crafting of this study is to make us have better understanding towards- Bitcoin, Lakshmi Coin and Cryptocurrency
This study provides an opportunity to develop analytical skills, technical skills and give exposure towards digital currency revolution
To give the overview of the cryptocurrency market in India.

OBJECTIVES OF THE STUDY
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.
3. To understand the significance of cryptocurrencies according to the perception of investors.
4. To analyse the perception of investors towards cryptocurrencies.

RESEARCH METHODOLOGY

Data Collection & Techniques
Primary data
The research method used was survey through questionnaire. A sample size of 50 people was taken.
Secondary data
For this study both qualitative and quantitative methods were used for secondary data collection like government publication, websites, Journal articles and research papers.

HYPOTHESIS

H1: There is positive impact of cryptocurrency on Indian economy.
H0: There is no positive impact of cryptocurrency on Indian economy.
H1: Cryptocurrencies have significantly impacted the investment decisions of investors.
H0: Cryptocurrencies have least impact on investment decisions of investors.

DATA ANALYSIS AND INTERPRETATIONS

The research method used was survey through questionnaire. A sample size of 50 people was taken.
These are the questions asked in the survey questionnaire and the results are as follows-
Almost 95% of the people in the sample were between the age of 15-30 years.
This states that most of the people were from the young generation.
As most of the people from the sample were learning student’s majority of them did not own any type of cryptocurrency, yet there are some who did own cryptocurrency.
As most of the people from the sample were learning student’s majority of them did not own any type of cryptocurrency, yet there are some who did own cryptocurrency.
Majority of the people from the sample are aware about the concept of cryptocurrency and have good knowledge about it as most of them are learning students and people of the current generation.
Most of the people are somewhat likely to invest in cryptocurrency this year and considering the decision of buying cryptocurrency.
the introduction of cryptocurrency have impacted differently on different people regarding their investment decisions.

the extreme volatile nature of cryptocurrency have affected the decision of investment in cryptocurrency of most of the people.

on knowing about the low cost investment requirements of cryptocurrency have increased the interest in investment in cryptocurrency of majority of the people.

majority of the people believe that cryptocurrency is riskier to invest in than stock market.

the profitability comparison of cryptocurrency does not seem to give concrete biased results, rather both of them are considered profitable according to the survey results.

the intangibility of cryptocurrency did not affect strongly to majority of the people and had mixed results.

most of the people are unsure about their interest in cryptocurrency even if it gets in tangible form and some of them are definite about their increment in interest due to cryptocurrency’s tangibility.

freedom in investment and less government regulations attracts people to invest in cryptocurrency and increase their interest.

there is no concrete or strong opinion about government regulation on cryptocurrency impact on people of the sample.

on a scale from 1-5 where 1 being most negatively impacted and 5 being the most positively impacted, the results are mostly neutral and indicate, cryptocurrency have not drastically impacted the economy of India.

80% of the people believe that in the next five years cryptocurrency will be worth significantly more than it is today.

FINDINGS

As per the recent data, Indians have invested 15 crores in crypto. One can only imagine the sheer impact they have on the Indian economy. Or not.

1. Potential impossible to ignore

Even in the fledgling state, India’s crypto ecosystem had over 300 crypto companies and 60 lakh investors, investing millions of dollars in them. This only when 2% of the Indian population are crypto users! With policy-backing, it can revolutionize the Indian economy.

2. Contributes to employment growth

Blockchain technology (as a result cryptocurrency) enables transactions between unknown entities as well as transactions between known parties. As a relatively new and booming industry, this is a niche skill set already high in demand. Helping out the entrepreneurs and all.

3. Join hands with IT sector

India boasts of a strong and resilient IT base. The possibilities of collaborating are endless to fortify the blockchain network here, which will give rise to overseas cash influx. Now that Artificial Intelligence (AI) and the Internet of Things (IoT) are out of their embryonic stage, who knows the ways in which they will converge with blockchain? Now that would be a fertile ground for future tech giants.

4. Zero dependency on middlemen

A decentralized system comes with a myriad of benefits like eliminating middlemen. Digital transparency promises minimal corruption and instant and traceable service delivery. If only government would lend a leg up in terms of new legislation and policies.
SUMMARY
RBI’s dire warnings against digital money used for money laundering and terrorist funding. However, as a global phenomenon, it seems to be the way forward and even Supreme Court seems to agree. Data security is a concern though not impossible to address. The rising graph of investors attests to that.

CONCLUSION
Crypto-currency is such an invention which has become a global phenomenon. Earlier RBI warned the Indians from using cryptocurrency 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.

Crypto currencies could provide a significant benefit by overcoming the lack of social trust and by increasing the access to financial services (Nakamoto, 2008) as they can be considered as a medium to support the growth process in developing countries by increasing financial inclusion, providing a better traceability of funds and to help people to escape poverty.

It can be concluded from the above discussion that the journey of cryptocurrency is not too long in India but it has seen many ups and downs in this short span. The banning of cryptocurrencies bill in 2019 and Supreme Court verdict in 2020 are the key issues. Cryptocurrencies have a high potential and recently after union budget of 2022-23 (presented in 1st February 2022), Indians have once again started talking about it. It will be very interesting to see that after 30% tax impositions, how investors react about cryptocurrencies in India. The launch and features of RBI’s-future digital currency will also be very important. After the union budget 2022-23, investors are started saying that India is following China by giving sole authority to RBI to launch and promote digital currencies. If government of India will present fresh bill on cryptocurrency, it will be very interesting to see the nature and regulations of it. Apart from all the facts and predictions, one thing is clear that cryptocurrencies (and hence Blockchain) will be the matter of discussion for upcoming years and this article may be useful as a reference for further research and studies in the said regard.

REFERENCES
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