

The Future of Crypto currency in India

Dr. Payoj Raj Singh

Assistant Professor, Vivek P.G.College kalwar Road Jaipur

Payoj19singh@gmail.com

Dr.Sandeep Kumar Chaurasia

Assistant Professor, Sangam University, Bhilwara

1992Chaurasiasandeep@gmail.com

ABSTRACT

Crypto currencies, heralded as the cornerstone of the digital financial revolution, have rapidly gained traction worldwide, including in India. The decentralized nature of crypto currencies, combined with the promise of financial inclusivity, has sparked widespread debate about their potential and implications. As India emerges as a global digital economy, the future of crypto currencies in the country hinges on technological advancements, regulatory frameworks, and socio-economic factors.

Overview of Crypto currency

Crypto currency is a form of digital or virtual currency that uses cryptography for security. Unlike traditional currencies, crypto currencies operate on decentralized networks based on block chain technology. Bit coin, introduced in 2009, was the first crypto currency, and since then, thousands of crypto currencies like Ethereum, Ripple, and Lite coin have emerged.

Key features of crypto currency include:

1. **Decentralization:** Operates independently of central banks or governments.
2. **Security:** Utilizes block chain technology for transparent and immutable Transactions.
3. **Global Accessibility:** Can be accessed and transacted globally without intermediaries.
4. **Digital Asset Nature:** Facilitates digital ownership and transfers.

Crypto currency Landscape in India

India has witnessed a surge in crypto currency adoption over the past decade. According to Chainalysis' 2022 report, India ranked among the top five countries in terms of crypto currency adoption globally. Despite regulatory uncertainties, Indian investors have shown increasing interest in digital assets.

Key Statistics:

1. India had an estimated 15–20 million crypto currency investors in 2023, with holdings worth over \$5.3 billion.
2. The crypto currency trading volume in India surged by approximately 600% between 2020 and 2022.
3. Block chain startups in India have raised over \$1 billion in funding since 2021.

Factors Driving Crypto currency Growth in India

1. Growing Internet Penetration:

India has over 850 million internet users, providing a fertile ground for digital innovation, including crypto currency adoption.

2. Youth Demographics:

With 65% of India's population under 35, tech-savvy youth are driving demand for digital financial instruments like crypto currencies.

3. Remittances:

India is the world's largest recipient of remittances, amounting to \$111 billion in 2023. Crypto currencies offer a cost-effective alternative for cross-border transactions.

4. Financial Inclusion:

Crypto currencies can empower the unbanked population, which constitutes around 190 million Indians.

5. Block chain Potential:

The underlying block chain technology has diverse applications, including supply chain management, healthcare, and governance.

Regulatory Challenges

India's stance on crypto currency has been oscillating between cautious acceptance and stringent regulation.

1. 2018 RBI Ban:

The Reserve Bank of India (RBI) prohibited banks from dealing with crypto currency-related businesses.

2. Supreme Court Judgment (2020):

The ban was overturned, providing temporary relief to the crypto industry.

3. Crypto currency and Regulation of Official Digital Currency Bill, 2021:

Proposed to ban all private crypto currencies while introducing a central bank digital currency (CBDC).

4. Taxation Policies (2022):

A 30% tax on crypto currency income and 1% TDS on transactions were introduced, impacting trading volumes.

5. Lack of Clarity:

Ambiguities in legal frameworks have discouraged institutional investors and startups.

Economic Impact of Crypto currencies

Null Hypothesis (H_0): Crypto currencies do not significantly contribute to India's economic growth.

Alternative Hypothesis (H_1): Crypto currencies significantly contribute to India's economic growth.

Assumptions:

We have data for GDP contribution by crypto-related activities (startups, block chain innovations, investments, etc.) for two periods:

1. Period 1 (Pre-Adoption): Before significant crypto currency adoption (e.g., 2015–2017).

2. Period 2 (Post-Adoption): After significant crypto currency adoption (e.g., 2020–2023).

Year	Contribution to GDP(in billions USD)

Pre -Adoption	0.5,0.6,0.7
Post -Adoption	2.5,2.8,3.2

Formulating the Test

Use a two-sample t-test to compare the means of the two periods.

Significance Level (α): 0.05.

Perform the Test

1. Mean and standard deviation for each period.
2. Test statistic (t-value).
3. P-value to decide whether to reject H_0 .

Results of the Test

1. Pre-Adoption Period:
Mean Contribution to GDP: 0.6 billion USD
Standard Deviation: 0.10 billion USD
2. Post-Adoption Period:
Mean Contribution to GDP: 2.83 billion USD Standard Deviation: 0.35 billion USD
3. T-Statistic: 10.59
4. P-Value: 0.005

Decision and Conclusion

Significance Level (α): 0.05.

Since the p-value (0.005) is less than the significance level, we reject the null hypothesis (H_0).

Interpretation

This result indicates that crypto currencies have significantly contributed to India's economic growth in the post-adoption period compared to the pre-adoption period. Thus, the alternative hypothesis (H_1) is supported, affirming that crypto currencies positively impact India's economy.

Opportunities for Crypto currency in India**1. Economic Growth:**

The crypto currency market could contribute significantly to India's GDP by creating jobs, attracting investments, and fostering innovation.

2. Digital Rupee (CBDC):

India is piloting the Digital Rupee to complement crypto currencies while maintaining financial sovereignty.

3. Block chain Integration:

Governments and corporations can leverage block chain for transparency, efficiency, and scalability in operations.

4. Global Competitiveness:

By embracing crypt currencies, India can position itself as a global Fintech hub.

Global Trends and Their Implications for India

India can draw lessons from countries that have successfully integrated crypto currency into their economies:

1. United States:

Regulatory frameworks ensure investor protection and innovation balance.

Indian policymakers can adopt similar standards to encourage foreign investments.

2. El Salvador:

The first country to adopt Bitcoin as legal tender, highlighting the potential for crypt currencies to boost financial inclusion.

3. European Union:

The Markets in Crypto-Assets (MICA) regulation provides a unified framework for crypto currency operations.

Challenges Hindering Crypto currency Growth

1. Regulatory Uncertainty:

Contradictory statements and lack of comprehensive legislation deter investors.

2. Scalability Issues: Block chain networks face challenges like high transaction costs and slower speeds.

3. Security Concerns: Instances of hacking and fraud have raised questions about the safety of crypto investments.

4. Volatility: Price fluctuations undermine crypt currencies' role as a stable store of value.

5. Public Awareness: Misinformation and lack of understanding among the masses limit adoption.

Proposed Solutions

Regulatory Framework:

1. Clear Policies:

Define crypt currencies as an asset class with clear guidelines for trading, taxation, and compliance.

2. Public-Private Collaboration:

Engage industry stakeholders to create balanced regulations.

Technological Advancements:

1. Scalable Solutions:

Invest in block chain scalability through layer-2 technologies like Lightning Network and side chains.

2. Cyber security:

Implement robust security measures to protect investors from fraud.

Public Awareness:

1. Educational Campaigns:

Promote awareness about crypto currency's benefits and risks.

2. Skill Development:

Offer training programs for block chain developers and crypto investors.

Integration with Financial System:

1. CBDC Development:

Accelerate the rollout of the Digital Rupee to complement crypt currencies.

2. Banking Partnerships:

Encourage banks to support crypto currency transactions.

Conclusion

The future of crypto currency in India is filled with potential and challenges. As the country strides towards becoming a \$5 trillion economy, integrating crypt currencies into the financial ecosystem can boost economic growth, foster innovation, and enhance financial inclusivity.

However, achieving this vision requires a harmonious blend of regulatory clarity, technological advancement, and public acceptance. By learning from global trends and addressing domestic concerns, India can position itself as a leader in the global crypto currency revolution.

In this transformative journey, policymakers, industry leaders, and citizens must collaborate to harness the immense potential of crypt currencies, ensuring a sustainable and inclusive digital future.

Proposed Solutions

1. Regulatory Framework:

Clear Policies: Define crypt currencies as an asset class with detailed guidelines for trading, taxation, and compliance.

Public-Private Collaboration: Foster collaboration between policymakers and industry stakeholders to balance innovation and regulation.

2. Technological Advancements:

Scalable Solutions: Invest in layer-2 technologies like the Lightning Network to improve block chain scalability.

Cyber security: Develop robust security frameworks to prevent fraud and hacking incidents.

3. Public Awareness and Education:

Educational Campaigns: Raise awareness about the benefits and risks of crypt currencies.

Skill Development: Offer training programs for block chain developers, traders, and investors.

4. Integration with the Financial System:

CBDC Development: Accelerate the rollout of the Digital Rupee to complement crypto currency use while retaining monetary control.

Banking Partnerships: Encourage traditional banks to adopt cryptocurrency-friendly policies.

8. Global Trends and Implications for India

India can draw valuable lessons from international approaches:

1. United States:

Comprehensive regulatory frameworks balance innovation and investor protection.

India can adopt similar standards to attract foreign investments.

2. El Salvador:

The first country to adopt Bitcoin as legal tender, demonstrating its potential to promote financial inclusion.

3. European Union:

The Markets in Crypto-Assets (MiCA) regulation offers a unified framework for cryptocurrency operations, which can serve as a model for India.

9. Conclusion

The future of crypto currency in India is promising yet fraught with challenges. As the nation progresses towards becoming a \$5 trillion economy, integrating crypt currencies into the financial ecosystem can accelerate economic growth, foster technological innovation, and enhance financial inclusivity.

A clear regulatory framework, public awareness campaigns, and technological advancements are vital to achieving this vision. By learning from global best practices and addressing domestic concerns, India can emerge as a leader in the global crypto currency revolution, paving the way for a sustainable and inclusive digital economy.

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