



E-ISSN: 2706-8927
P-ISSN: 2706-8919
www.allstudyjournal.com
IJAAS 2023; 5(6): 43-45
Received: 23-04-2023
Accepted: 29-05-2023

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An empirical study on the evolution & future of cryptocurrency market in India

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DOI: <https://doi.org/10.33545/27068919.2023.v5.i6a.1121>

Abstract

One novel idea behind decentralized virtual money is cryptocurrency. It has emerged as a new investment vehicle in India, comparable to gold. The Indian government limits the purchase and sale of cryptocurrencies like as Bitcoin, Litecoin, etc., notwithstanding the lack of a regulating agency or laws pertaining to cryptocurrency trading and transactions. Cryptocurrencies present a number of challenges to their use in the Indian market. The lack of complete regulation and control over virtual money is the main reason why most nations have yet to accept it as legal tender.

In this paper, we look at the current state of cryptocurrency law and the potential effects of future government actions on this industry. This paper provides a comprehensive overview of the influence of cryptocurrency on several laws in India aimed at regulating it, as well as an analysis of the investment risks associated with Bitcoin and gold.

Keywords: Indian market, virtual money, bitcoin, potential, gold

Introductions

Nowadays, every economy uses some kind of money as a medium of trade, hence all economies may be considered money economies. A country's currency may be subject to government regulation in the event of inflation or deflation since the money supply may lead to either inflation or deflation in an economy. These days, a lot of nations are putting their emphasis on digital money and transactions.

Not everyone is in favour of governing their own money and financial dealings. One of the most sophisticated, ambiguity-free, regulation-free forms of money, crypto, emerged as a result of this invention. I aimed to research cryptocurrency, its history, and its transactions in India for this piece.

Objectives

The objectives of this study are as follows

- To understand the concept of Bitcoin and it's functioning in regular trading
- To study the current trend of cryptocurrency in India and the future it holds

Statement of the problem

Through innovation and the use of digital money, the world is moving away from transactions using currency. Cryptocurrency is a game-changing invention in the world of finance; it's digital money that doesn't need a central bank or other regulatory body to function, and it's universally accepted. However, many nations are wary of adopting crypto due to concerns about security and other issues. Using or mining Bitcoins is illegal in some countries, including India. However, Bitcoin trading is now permitted in India after a ruling by the supreme court. That's why it's crucial to learn about Bitcoin trading in India, including the ins and outs of the industry, its history in the country, and the participants in these transactions.

Study Procedure

Analytical research methodologies have been chosen for this investigation. Secondary data was culled from a wide variety of sources in order to meet the study goals. These included financial websites, the government of India, journals, newspapers, books, magazines, etc.

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History of bitcoin in India

In a bid to fight corruption and terrorism, on November 8, 2016, Prime Minister of India Narendra Modi shocked the nation by demonetizing Rs. 500 and Rs. 1000 currency notes – sparking a new interest in the digital currency and other cashless mechanisms such as internet banking, digital wallets, credit cards etc. The demonetized notes amounted to 86% of India's cash in circulation. India is a country where 87% of transactions are done in cash. Chaos was inevitable. This resulted in long queues at the ATMs and banks for weeks. There was not enough cash with the banks to dispense. People holding cash could deposit their money in the bank accounts or exchange for new Rs. 500 and Rs. 2000 notes before 30 December. People who were hoarding “black money” (unaccounted cash) could not deposit money into their accounts because banks were keeping a close eye on suspicious deposits. What options do these people have? Let go all of their money? Well, some of them did exactly that. Old notes were found floating in the river. While others turned to look for commodities to hedge the risk of an economic slowdown; some bought gold, some bought silver. What did government do to curb this? They started raiding gold jewelers. When gold wasn't working, people were buying silver which significantly increased the demand of silver. With gold and silver being targeted by authorities, these souls saw Bitcoin as a safe haven. Using their connections and by paying up to 30-35% premium they started buying Bitcoins with cash. Bitcoin price started to surge and weekly volume of Bitcoin trading nearly doubled. Not to forget, India is one of the largest remittance markets with a total value of more than \$70 billion. On this a user usually pays up to 15% in bank charges and conversion fees. This is where Bitcoins true potential lies. To understand how Bitcoin may progress in India it will be beneficial to know the role gold plays in Indian society. An American couple's most valuable asset is typically their home, income and education. An Indian couple's possession of gold touches on all these areas. It is fair to compare Bitcoin to gold, as they both are liquid commodities. Bitcoin as a result can be seen in the middle of fiat currency and gold – only lacking the cultural weight that gold has.

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. The Union finance minister in his Union Budget 2018 speech said, “The government does not consider cryptocurrencies legal tender or coin and will take all measures to eliminate use of these crypto-assets in financing illegitimate activities or as part of the payment

system.” However, the government has recognized blockchain and said that a “distributed ledger system or the blockchain technology allows organization of any chain of records or transactions, without the need of intermediaries. The government will explore use of blockchain technology proactively for ushering in digital economy.” Though government is taking a cautious approach on cryptocurrencies, it is bullish on the use of blockchain. Cryptocurrency industry believes that blockchain and cryptocurrencies have to go hand in hand. But unless and until a decentralized system is formed, it is as good as keeping track. If only block chain technology is to be accommodated that just builds up a centralized 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. These favorable and positive signs give hopes to the industry of cryptocurrency. Mean while 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’.

How to buy and sell bitcoin in India

The downward trend in cryptocurrency trading in India is mostly due to increased government regulations. However, this does not stop people from trading. Two ways in which many Indians trade are:

1. Exchanges and
2. P2P methods.

Both these steps follow the KYC norms and usually require documents like Pan Card, Aadhaar card or passports.

Top Bitcoin Exchanges in India Since banking institutions have banned crypto currency trading in India, popular exchanges like Zeb Pay have had to shut down. Nevertheless, the following top exchanges are still currently used in India.

Unocoin: Unocoin was founded in 2013 and is the leading Bitcoin exchange in India. It is backed by investment from the USA and is a regulated company offering low 1% fees which fall to 0.7% with increased trading volumes. It is a relatively easy exchange platform, allowing users to buy crypto currency with any Indian bank account. However, with the banning proposal at hand, things might get challenging for Unocoin.

WazirX: One of India's most trusted exchange platforms, WazirX was founded in 2018. It focuses on exchange-escrowed P2P services to enable customers to continue to withdraw INR. WazirX follows the KYC norms, has a mobile application for both Android and iOS users and also claims to provide multiple hundred transactions per second.

Other methods: Outside of exchanges, P2P trading platforms enable Bitcoin purchases in India, in spite of the bank bans. Two important P2P marketplaces in India are: Paxful is a peer-to-peer marketplace founded in 2015 that allows buyers and sellers to meet online and trade directly Bitcoin with each other. Sellers on Paxful accept over 300 payment methods, including the major Indian payment methods like PayTM, Bheem, Phonepe. As a result, many Indians use Paxful due to ease of access and payment. There is also no fee for the site itself, since the Bitcoin is traded at a premium.

Local Bitcoins supports the most popular payment methods and allows individuals from different countries to purchase Bitcoin for their local currency. Local Bitcoins currently operates in several major Indian cities like Mumbai, Hyderabad, Kolkata, Delhi, Ahmedabad, Chandigarh, Pune, Guwahati and many more. Again, due to the 2019 Supreme Court Proposal, many exchanges and marketplaces are wary of the Indian government's attitude towards cryptocurrency in general. As of September 2019, there are no Bitcoin ATMs in India.

Conclusion

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

Suggestion

- Cryptocurrency can serve as a great tool from the financial point of view.
- As the study reveals that, there are some firms accepting Bitcoin, the investigation has begun about the transparency, business module of those firms and the people who deal with Bitcoin.
- Legalization of cryptocurrency can take the Indians and India as a nation at a platform which promises progressive growth.

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