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ANALYSING THE CRYPTOCURRENCY ON INDIAN ECONOMY

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Abstract

A number of the most recent advances in the fields of digital currency, cryptocurrency is a development that has the capacity to simplify the method of making financial transactions abroad. It has been gaining popularity in the global marketplace owing to the reality that it was founded on the blockchain technology, which excludes the likelihood of any central authority intervening in transactions which relies on data maintained on a computer. Cryptocurrency, when compared to traditional financial institutions, possesses a decentralized management structure. Whenever bitcoin first became available to the around the globe market, it made it easier than ever to carry out business across various areas of the entire globe. Additionally, there have already been plenty of countries which have begun to use cryptocurrency as a medium of commerce, and India encompasses the second-greatest adoption rate of cryptocurrencies internationally. Although that, the Reserve Bank of India continues to make it abundantly clear that transactions involving cryptocurrencies are strictly forbidden by law. nevertheless, as the outcome of a ruling made by the Supreme Court of India, bitcoin will now only be treated as an asset, akin to gold; nevertheless, according to Indian law, it has not yet been deemed as an instrument of exchange. The objective of this study is to examine the concept of cryptocurrency in addition to the legality of cryptocurrency in India along with other countries throughout the globe. In furtherance of the above, the study addresses the lawfulness of cryptocurrencies and the regulatory framework that governs cryptocurrencies.

Keywords: Cryptocurrency, Legality of Cryptocurrency, Cryptocurrency as a medium of commerce, Block Chain Technology.

❖ Introduction:

In general, the expression "currency" refers to the money of a specific country. Currency is a medium which enables both the exchange of goods and the maintenance of a standard of living. A digital version of currency has been created as an outcome of globalization. A currency that is digital is a form of monetary value that can be made available in an electronic form. Cryptocurrency is a prime instance of a digital currency the fact that is currently available on the market.

The term "cryptocurrency" refers to an instrument of exchange that operates on internet access and makes use of

cryptographic procedures in order to carry out financial transactions. Considering the purpose of establishing transparency, decentralization, and the capacity to be tampered with as well, blockchain technology has been utilized in the cryptocurrency market. As an outcome of the lack of interference from various financial institutions, it renders it easier to carry out transactions from one location on the entire globe to a different one, and it additionally minimizes the costs associated with these kinds of transactions.

In recent years, bitcoin has grown increasingly popular across worldwide markets due to the simple fact it provides allows a

flexible method of transaction. Since an outcome of the swift development of technological advances, cryptocurrency has grown ever more convenient for investors who lay high importance on the generation of money and the safeguarding of their personal confidentiality. India is yet to embrace cryptocurrency as an instrument of exchange; however, it can be valued as an asset alone. This stands contrary to the scenario in several of other nations, where lawmakers have authorized cryptocurrency as a legal currency intended for facilitating business transactions.

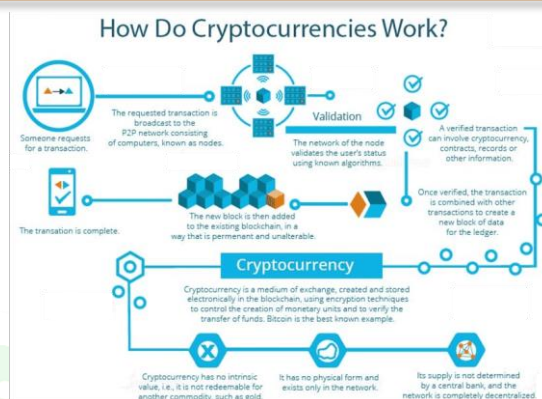
The Indian judicial system had no way to handle the offence while there had been no statutory provision coping to cryptocurrency. This happens regardless of the reality that India is one of the trade markets for cryptocurrencies that continues to grow at the fastest pace in the world.

❖ Terminology Used:

Cryptocurrency: Cryptocurrencies are a kind of digital currency which is based on the technology commonly referred to as blockchain. Blockchain innovation enables cryptocurrencies a decentralised system that can be extremely hard to hack or manipulate. This attribute renders it an extremely protected version of digital cash. A number of factors, including the fact that cryptocurrency doesn't have any oversight by any conventional financial institution, it is not vulnerable to the interference from any government.

Cryptography: Through the utilisation of algorithms, cryptography is a technique that could be utilised to safeguard both information and communication.

Blockchain: Blockchain is an approach of recording information that comprises an accumulation of linked blocks from the latest generation of the genesis blocks. This technique is extraordinarily difficult to modify, hack, or manipulate.



❖ Advantages of Cryptocurrency:

- ❖ **Security:** The fact that it is based on the blockchain technology ensures that the identities of the parties involved in the transaction are protected.
- ❖ **Low transaction cost:** The fees and costs for transactions are extremely minimal.
- ❖ **No Interference:** When it comes to transactions, the traditional banking institutions are unable to accommodate bitcoin transactions.
- ❖ **Lower entry barriers:** There are no hurdles to entry, as contrast to traditional banking systems.
- ❖ **Universal recognition:** On the international market, cryptocurrency is currently a trend, and it is accepted by a large number of countries all over the world.

❖ Disadvantage of Cryptocurrency:

- ❖ **Volatile:** One of the most significant drawbacks of the cryptocurrency is that it is characterised by its high degree of volatility.
- ❖ **Pseudonymous:** Due to the fact that bitcoin transactions are pseudonymous, there is a possibility that illegal conduct could occur.
- ❖ **Fraudulent Activity:** The absence of any financial transaction in bitcoin makes it more susceptible to fraudulent activities.

This is because cryptocurrency does not include any financial transactions.

❖ **Regulatory Challenges:** Users and businesses operating in the cryptocurrency area face difficulties as a result of the absence of statutory laws to govern the bitcoin industry.

❖ **Impact on traditional Banking:** Cryptocurrency has the potential to challenge the conventional banking system, which will have repercussions for the economy.

❖ **The legality of bitcoin in different parts of the world:**

In the vicinity of 2009, a software programme believed to be functioning under the alias Satoshi Nakamoto was the initial person to use cryptocurrency. Nakamoto's real identity has never been established beyond a reasonable doubt. After an extended period had elapsed as an outcome of the rise of globalisation the digitalization of currency emerged as a novel phenomenon and gained the appeal all over the world.

There are a variety of various regions that have varied legal statuses for the cryptocurrency. Either expressly or implicitly, some regions have either permitted or prohibited the use of it in commercial transactions. Despite the fact that there is a risk associated with the use of cryptocurrencies, there are a number of countries that have welcomed cryptocurrency with open arms. Despite the fact that India finished in sixth place on the global DeFi Adoption Index and in second place on the Cryptocurrency Adoption Index, the country is still not recognised as a method of exchange. Vietnam was the country that ranked second on the latter index.

When compared to Pakistan and Vietnam, India experienced the greatest growth in terms of the value of the bitcoin that was received. And when it comes to currencies, Ethereum and with make up the largest share in India when compared to Pakistan and Vietnam.

Furthermore, pursuant to the cryptocurrency technology market, it had been predicted that the value of the cryptocurrency would reach \$241 million by the end of 2030.

Despite the fact that an increasing number of nations have adopted bitcoin, however are quite a few risk concerns which should be brought into consideration whilst dealing with cryptocurrencies as legal tender on account of the fact that they might be used for financing terrorist activities or any fraudulent activity.



❖ **Reserve Bank of India's Count on Cryptocurrency:**

From 2013 to 2018, over the course of roughly five years, a cautionary note was issued to all stakeholders, both domestically and internationally, on the risk factors that have been connected to cryptocurrencies.

Whenever the Reserve Bank of India released their Financial Stability Report in June 2013, it happened to be probably the first time that authorities took effective note of the threats that modern technology brings to businesses in an environment where things are constantly evolving. According to the aforesaid paper, the changes that pose obstacles in the form of regulatory, legal, and operational hazards, as well as schemes involving digital currencies, were discussed. The Reserve Bank of India issued a press statement on December 24, 2013, warning users, holders, and traders of virtual currencies of the potential financial, operational, legal, and consumer protection and security related risk that these individuals are exposing themselves to. The press release was issued in response to the fact that virtual currencies are

growing increasingly popular. rBitco.in and buysellbitco.in were the two Bitcoin trading companies that were discovered by the Enforcement directorate in Ahmedabad on December 27. This was the first time that the Enforcement agency ever carried out a raid in India.

During the years 2015 and 2016, the Reserve Bank of India published several volumes of Financial Reports that discussed the difficulties that were triggered by technological advancements such as programmes involving digital currencies. An Inter-Disciplinary Committee was established by the Government of India in the year 2017, and it was comprised of the Special Secretary for Economic Affairs. The committee was assigned with the following tasks:

- i. Analysing the current state of digital currency in India as well as around the globe;
- ii. Examining the regulatory and legal frameworks that have been established presently in place around the world; and
- iii. Suggest recommendations with regard to methods to conduct procedures using virtual currencies.

Some recommendations were made, and they are as follows, in accordance with the report that is brought forward:

- i. When it comes to cryptocurrency, whether it be coins or currencies, the government should make it extremely clear through advertisements that it does not encourage the use either.
- ii. The general public ought to be cautioned from indulging in any transactions relating the purchase or sale of these currencies.
- iii. It was recommended to customers that they sell those currencies to any destination beneath the jurisdiction where it is not forbidden by the law.

- iv. It is highly encouraged that all consumer protection and agencies take action against those individuals who continues to engage in commercial activity despite the warning.

The year 2017 saw the establishment of a committee with the aim of taking specific action against any trade or transaction that was associated with virtual currency. Following this, the Reserve Bank of India (RBI) published a circular in 2018 on the prohibition of cryptocurrency, and an inter-ministerial committee recommended a draft of a bill that would prohibit cryptocurrency, as well as the Regulation of official Digital Currency Bill, 2019.

To this Impugned order, a writ petition filed **INTERNET AND MOBILE ASSOCIATION OF INDIA V RESERVE OF INDIA, SC/0264/2020** the following points:

- i. Due to the fact that virtual currency is not a legally marketable commodity and does not fall under the purview of banking regulation, the Reserve Bank of India does not possess the authority to impose restrictions on the activity of trading in digital currencies through Cryptocurrency.
- ii. In order to implement the authority granted to it by section 45 L of the RBI Act of 1934, the Reserve Bank of India does not possess the authority to prohibit the use of cryptocurrency in the name of protecting the populace's welfare.
- iii. Notwithstanding the exception of the Reserve Bank of India, all of the stakeholders, including the Government of Economic Affairs and the Securities and Exchange Board of India, have given the cryptocurrency a positive signal.
- iv. As a result of the fact that other developing and developed nations, as well as national and global bodies, have examined cryptocurrencies and found nothing malicious, it is not reasonable to prohibit cryptocurrency in India.
- v. Whereas the Reserve Bank of India acknowledges the legitimacy of blockchain

technology, it refuses to acknowledge cryptocurrency.

Findings of the Supreme Court:

When it comes to making decisions that are beneficial to the development of the economy, the Reserve Bank of India possesses a wide range of authority to wield. It is possible to apply these powers in the form of preventative as well as therapeutic methods; nonetheless, the powers should not be exercised in an excessive manner. In order for the Reserve Bank of India (RBI) to prohibit cryptocurrencies, it must first demonstrate that the regulated firms have incurred some kind of loss. Because of this, the Supreme Court has made the decision to disregard the circular on the grounds that it is not proportional.

❖ Lack of regulation to deal with the Cryptocurrency:

Due to the fact that there are no rules or educational materials that are accessible to the general public addressing the various aspects of bitcoin, the general public is not equipped with a clear understanding of the concept of cryptocurrency. Although there is no prohibition against cryptocurrencies, it is not acknowledged as a legitimate form of currency.

The Cryptocurrency bill 2021 is a legislative proposal that seeks to regulate the rapidly expanding cryptocurrency market in India. Because the unregulated cryptocurrency market is both unfriendly and risky for business owners and investors, the implementation of the law would be a significant step towards accomplishing the goal of coming up with a solution to the issues that have been linked to cryptocurrencies. Besides from that, the declaration by the government in the Union budget 2022 that gains from virtual digital assets or cryptocurrencies will be subject to a tax of thirty percent and a tax deduction of one percent is an important first step towards acknowledging the status of the cryptocurrency.

❖ Conclusion

The use of digital currency has been introduced in the world trade sphere as an outcome of globalisation with the objective to boost the convenience of carrying out business. Blockchain technology is the backbone of cryptocurrency, which is one of the various forms of virtual currency that continues to gain popularity in business environments around the world. Despite the fact that it has yet to be deemed to be a legal currency, an enormous number of nations throughout the world have adopted it as a medium of transaction. In this particular case, the government of India did not express any opinion regarding the legality of cryptocurrency, and for the most part, the Reserve Bank of India (RBI) has forbidden its use. However, sometime later, pursuant to an order from the Supreme Court, the prohibition was withdrawn; however, the state has not yet implemented any regulations dealing with cryptocurrency. Despite the fact that the government has taken a step ahead by imposing a tax on cryptocurrencies, there is still a need for a piece of legislation to regulate the cryptocurrency market and provide consumers with adequate protection from fraudulent activities.

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