



ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 8.4
IJAR 2023; 9(4): 111-113
www.allresearchjournal.com
Received: 25-01-2023
Accepted: 28-02-2023

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An analytical study on the cryptocurrency market of India

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Abstract

Cryptocurrency is an innovative concept of decentralized virtual currency. It has turned out to be a new avenue of investment instrument in India similar to gold. Even though the government hasn't formulated any regulatory body or legislation with regards to cryptocurrency trading and transaction in India, the government restricts the buy and sell of cryptocurrencies like bitcoin, litcoin, etc. Cryptocurrencies raises various limitations on its existence in Indian markets. Virtual money is not fully controlled and regulated hence most of the countries have not admitted this currency in their economic activities. This paper investigates about cryptocurrency present legality as well as future government moves impact on these currencies. The paper also analyses investment risks in both Bitcoin and Gold countries have responded in terms of regulations & legislations towards crypto currencies to develop a clear picture of its impact on various laws in India in order to regulate it".

Keywords: Cryptocurrency, trading, gold, bitcoin, investment risks

1. Introduction

Today's economies are all money economies, because all economies have accepted certain currencies (money) as medium of exchange. The money supply causes inflation as well as deflation in economies by its excess supply and contraction in money supply, hence currencies of different countries regulated by government in order to combat inflation or deflation situations. Now a day's many countries in the world have focusing towards digital currency and transactions. Even some one doesn't want to regulate their currencies and transactions. this brought greater innovation in new currency that is crypto currency, One of the most advanced, ambiguities, regulation free currency. In this article I made an attempt to study regarding crypto currency and its development and transactions in India.

2. Research 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 status of cryptocurrency in India and the future it holds

3. Statement of the problem

World has transforming in to cash less transactions through innovating and making transactions by digital money. One of the tremendous innovation in money that is crypto currency it is digital money, not regulated by any authority and central bank, universal currency, at the same time there are some problems associated with this new currency hence many countries step back from its implementation among those India is one of the country prohibited using and mining Bitcoins. But as per the order of supreme court now trading through Bitcoin is no more illegal in India from That's why it is an important need to understand about Bitcoin trading in India, how its operates, how it was evolved in India, players who are involving in this transactions.

4. Research methodology

Researcher has been selected analytical research methodology for this study. To satisfy the objectives of the research, researcher used secondary data from various publications by financial websites, government of India, journals, news papers, books and magazines etc...

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5. 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.

6. Present & 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 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. 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’.

7. 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.

Wazir X : 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

8. 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

9. 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.
- Legalisation of cryptocurrency can take the Indians and India as a nation at a platform which promises progressive growth.

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