IMPACT OF CRYPTO-CURRENCY ON INVESTORS AND THE INDIAN ECONOMY- AN EMPIRICAL STUDY

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ABSTRACT

India is witnessing a remarkable digital and financial transformation fueled by a surge in internet users and initiatives promoting financial inclusion and digitalization. With approximately 190 million unbanked individuals in India, the country ranks second globally in terms of people lacking access to banking services. However, the landscape is rapidly changing. An ICUBE report by IAMAI and Kantar (2021) projects that active internet users in India, which stood at about 622 million in 2020, are expected to rise by 45% to around 900 million by 2025 (IAMAI and Kantar, 2021). This digital evolution makes the population increasingly receptive to cryptocurrencies, enhancing financial inclusion. Cryptocurrencies offer an alternative to traditional banking and investment avenues, which have underserved a significant portion of the Indian populace. They enable more affordable and accessible transactions, introducing consumers to new asset classes for investment growth. The increased internet penetration, particularly in rural areas, and the population's growing interest in digital assets are pivotal in this shift. Recent studies show a significant uptick in cryptocurrency investments and ownership among Indian urban residents, signaling a move towards a more diversified and digital financial ecosystem.

Keywords: Cryptocurrencies, Financial Inclusion, Digitalization, India, Internet Users, and Digital Assets

Introduction

The fight is finally over. For nearly two years, Indian courts have fought to overturn the country's cryptocurrency ban. Notably, the Supreme Court of India lifted the ban on cryptocurrency, including Bitcoins, on March 4, 2020. The RBI's April 2018 circular has been declared unconstitutional. The proposed ban by the RBI has served as a rallying point for multiple stakeholders in the crypto industry to band together and advocate for more robust regulation rather than rejecting cryptocurrency for all of its potential**.** The country is experiencing extreme joy and hope for the future due to the wise choice. Thanks to lifting the ban, India now has the chance to capitalize on its enormous unbanked population, which consists of over 300 million people. As our international counterparts in India embrace blockchain technology, we ran the risk of forfeiting cryptocurrency's potential.

With a billion people living there, the nation is a sleeping giant. Thanks to a favorable ruling by the Supreme Court, India can alter the course of the world economy. The removal of the cryptocurrency ban by the Indian Supreme Court, according to Pundi X CEO Zac Cheah, "just confirms the reality that cryptography and blockchain are emerging innovations." The second-largest blockchain wallet user base of Pundi X is India. Encouraging cryptocurrency transfers will grow our clientele and attract more and more people to digital payments.

Since they can be seen as a tool to support the growth process in developing nations by increasing financial inclusion, improving fund traceability, and assisting people in escaping poverty, cryptocurrencies could be very beneficial in overcoming the lack of social trust and expanding access to financial services (Nakamoto, 2008). (Ammous, 2015).

Understanding the general benefits and drawbacks that users of cryptocurrencies experience in comparison to central bank-issued fiat currencies, such as the US dollar or the Euro, as well as how they arise from the underlying technology, is essential to providing a thorough overview of the opportunities presented by these currencies in developing nations. This paper uses the example of two cryptocurrency currencies for this purpose. Blockchain technology is the fundamental technology that powers the majority of cryptocurrency. Hold on to your composure if the massive cryptocurrency has you anxious, especially if you are an Ethereum or Bitcoin investor. Despite the chaos the crypto asset class saw last week, there is a bright side. The use of Bitcoin and other cryptocurrencies is growing in India. Reports state that there are currently over one crore cryptocurrency investors in the

nation, and that number is reportedly increasing daily due to the presence of numerous domestic cryptocurrency exchanges. Indians are flocking to invest in cryptocurrencies, hailed as the most significant asset class of the twenty-first century, even though the Reserve Bank of India (RBI) is suspicious of them.

Review of Literature

- In 2015, Angel and McCabe explored the global challenges and risks associated with Bitcoin, highlighting the issues facing cryptocurrencies.
- Bohme and colleagues (2015) examined the legal status of Bitcoin across different countries, noting the growing interest from investors in cryptocurrencies due to their ease of transaction and potential future impact on the global economy.
- Luther (2015) applied the Down and Greenway Model (1993) to explain the slow adoption of cryptocurrencies as an alternative payment method.
- Ivashchenko (2016) analyzed the advantages and disadvantages of cryptocurrencies, comparing them to fiat money based on market capitalization and noting their increasing use among small and medium-sized enterprises.
- Parashar (2018) and others have researched the influence of cryptocurrencies on the Indian economy, addressing the lack of regulatory oversight and the Reserve Bank of India's 2019 bill to ban cryptocurrency trading in India.
- V Anil Kumar and P Swathy (2019) focused on the growth and challenges of cryptocurrency in India, particularly Bitcoin, and the legal framework for trading cryptocurrencies in India.
- Manjunath (2021) investigated the Indian cryptocurrency market, exploring the legal landscape of cryptocurrency trading and the relationship between Bitcoin and gold volatility in India, concluding that there is no significant correlation.
- Sahu (2022) delved into the history and future potential of cryptocurrencies in India and the government's regulatory efforts, referencing a 2017 RBI circular on the risks of cryptocurrency trading.
- Brenig & Müller (2015) examined cryptocurrencies' potential for money laundering, noting the increasing academic and

professional interest due to concerns over such illegal activities.

- Huckle et al. (2017) proposed using blockchain technology for currency conversion post-travel and discussed the Indian government's decision not to use demonetization for cryptocurrency conversion.
- Mallick & Mallick (2021) analyzed the relationship between significant cryptocurrencies and the Indian Currency's foreign exchange rates from December 17, 2019, to June 17, 2021, finding a rapid increase in cryptocurrency trading in India.
- Kurihara and Fukushima discussed Bitcoin's flexibility compared to government-issued currencies, noting that Bitcoin's fixed supply contrasts with the variable nature of traditional money.
- A survey involving 2,042 Indian adults aged 18-60, including both current cryptocurrency investors and those interested in investing, was conducted between October 2021 and June 2022 to gauge the development of India's blockchain and crypto space.
- Wonglimpiyarat highlighted the legal challenges of non-regulated tender and the necessity for government legislation to enhance the acceptability of this new currency form, emphasizing the difficulty of transitioning from a cash-based society to one relying on Bitcoin (BTC) in developing countries.

Methodology

This study's secondary data was gathered from various trustworthy online sources, including high-impact journals, research papers, news articles, and other trustworthy platforms to meet the research objectives.

Research Gap

Given the above research, little is known about cryptocurrencies' advantages, potential, and prospects in the Indian economy. Thus, the purpose of this study is to close this gap**.**

Objectives of the Study

- To find out how cryptocurrencies affect the Indian economy
- To research the state of cryptocurrencies today and their potential in India.
- To comprehend investors' perceptions of the significance of cryptocurrencies.
- To examine investors' attitudes regarding cryptocurrencies.

PROBLEMS OF DIGITAL CURRENCIES

Every type of digital currency has some security and economic risks. We examined multiple research studies and digital currency platforms to examine the difficulties and issues associated with this virtual phenomenon. We also observed multiple forums for the sale of digital currency. The following are essential problems and effects of digital currencies**:**

Security risks: If hackers and malicious users know how to hack into the system and create something, they can create anything they want from digital currencies. This lets you alter your account balance to generate fake or stolen cryptocurrency. For instance, it is against World of Warcraft (WoW) game policies to sell virtual goods or in-game money. Many players visit websites that sell World of Warcraft gold to cover their virtual expenses and purchase virtual currency. Many websites that sell WoW gold are untrustworthy and prone to hacking, and many users have complained about having to pay real money for free or phony virtual currency.

Value fluctuations for digital currencies: Chow and Guo's study found that when virtual communities lose their appeal, the value of digital currencies also declines. For instance, a user holding 1,000 virtual currency units can purchase a hundred distinct items. Customers can only purchase ten items in increments of 1000 if the virtual currency provider decreases. This is because fewer products and services, particularly in closed virtual communities, reflect the decline.

Money Laundering: One of the most likely elevated risks associated with venture capital (VC) is money laundering, particularly on platforms where users can convert virtual currency into real money. In 2008, authorities in South Korea detained 14 individuals in a real-life incident for allegedly using $38 million obtained from the sale of virtual currencies for money laundering. The group paid Chinese paper companies $38 million in gold farming proceeds from South Korea for their purchases.

Risks Associated with Unknown Identity: Since most cryptocurrency platforms, including social games and social networks, do not require authentication when creating accounts, it is impossible to keep a close eye on financial transactions. Users and gamers can make numerous anonymous accounts and use them for shady transactions. It is impossible to track down who created or paid for virtual money. Thus, if money laundering is suspected, the transaction becomes untraceable. Moreover, the absence of identity permits offenders to use virtual currencies to fund their crimes.

The dark market for digital currencies: Some social games, like World of Warcraft and Second Life, have developed enough financial systems to support a dark market for buying and selling digital currencies. The underground market for exchanging virtual currencies for real money is flourishing due to the growing acceptance of virtual currencies in online environments. Several scams were brought up and discussed by users in several social gaming forums.

Conclusion

An example of an invention that has gained international traction is cryptocurrency. The RBI had previously forewarned Indians against using cryptocurrency since it is thought to be linked to money laundering and the funding of terrorism. However, cryptocurrency is a cutting-edge technology and a helpful tool that we should anticipate. The Indian government has not responded to any regulations, but the number of cryptocurrency investors has proliferated over the past few years. The Indian government needs to act responsibly to control this kind of currency because the number of users is rising quickly. There is hope for cryptocurrency in India, and the future appears bright.

Cryptocurrencies can be seen as a means to support the growth process in developing nations by increasing financial inclusion, offering better fund traceability, and assisting people in escaping poverty. As such, they could be very beneficial in overcoming social trust issues and expanding access to financial services (Nakamoto, 2008).

Since cryptocurrencies can potentially bring about a technological revolution in India, the government should take a position in this area. Additionally, the taxes on cryptocurrency gains total enormous amounts of direct.

The I-T sector's tax revenue has the potential to propel the economy's overall growth. Native. The government should be eager to regulate it instead of prohibiting it. Must be undertaken., It is more dependable, safe, and transparent. People should invest more in cryptocurrency by becoming more knowledgeable about its operation, especially in India, which has the second-largest population.

Increased investment in cryptocurrency is recommended, particularly in India, which has the second-largest population. The future of cryptocurrencies is bright; they should be regulated and should promote e-business and e-investment. Many legal and financial considerations are made regarding cryptocurrencies to create a more user-friendly and secure system**.**

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