

## The buzz around cryptocurrencies and the way forward

There has been a lot of buzz around cryptocurrency in recent days as the number of investors in India is rising, while government and Reserve Bank of India are in the process of laying out legal framework for treating cryptocurrencies. Cryptocurrencies are decentralised currencies, which obviates the need for an intermediary financial institution, such as a bank which is needed in case of a conventional currency to settle transactions. There are several cryptocurrencies catching the fancy of naïve investors, who look for alternative asset classes to generate inflation-beating returns. According to broker discovery and comparison platform BrokerChooser, India has the highest number of cryptocurrency owners, with 100 million Indians investing in it, followed with a wide margin by USA (27 million), Russia (17 million) and Nigeria (13 million). While there is no way we could authenticate this number, anecdotal evidence suggests that the interest towards cryptocurrency has grown considerably in India ever since the Supreme Court, in March 2020, lifted the ban on such coins imposed by Reserve Bank of India in 2018.

Rumours are going on as to whether the government will ban cryptocurrency as an asset class or allow trading and investing in it by introducing tax on such investment and on the capital gains arising from such investment. There are media reports which hints that the government may allow investment in some cryptocurrencies, while banning others. Some reports suggest that Indian government may take a progressive approach by allowing trading in cryptocurrencies with checks and balances based on best practices in foreign countries. The government is planning to introduce the much awaited cryptocurrency bill in the winter session of the Parliament, which will commence on November 29, 2021. While there are many cryptocurrencies in the market, the proposed bill will allow trading and investment in those cryptos, which are approved by the government.

Amidst all these talks, the value of bitcoin, which is the world's largest cryptocurrency, has more than doubled to USD 60,000 recently.

<b>Key Concerns</b>
Unregulated Cryptocurrency may facilitate money laundering and terror financing
Widespread use of cryptocurrency as a payment method may reduce control of Central Bank on money supply and it may hurt the effectiveness of monetary policy
The sharp volatility in the market price of these coins give rise to concerns about protection of the investment value of naïve investors
Reserve Bank of India is also concerned about financial stability when financial institutions are allowed to invest in cryptocurrencies as the price of cryptocurrency is volatile.

<b>What should citizens keep in mind while investing in cryptocurrencies?</b>
There are no <b>“Issuers”</b> in case of a private cryptocurrency, as against a conventional currency such as Rupee, dollar, yen, yuan etc. which are issued by the respective country’s Central Bank. As such, the intrinsic value of private cryptocurrency is <b>“Nil”</b> .
There are more than 5,000 private cryptocurrencies being traded on various exchanges in India. These exchanges want the government to allow trading and investment in cryptocurrencies as a digital asset with reasonable regulations.
Government of India has not defined the legal status of cryptocurrencies. As of now, there is no clarity on whether cryptocurrency can be a legal tender or whether it can be used as an asset or commodity for the purpose of investment.
India’s Prime Minister, while addressing a high level meeting on cryptocurrency on November 13, 2021, raised concern about the unregulated cryptocurrency market and its impact on moneylaundering and terror financing
So far, the government has not made its stance clear as to whether it will recognize private cryptocurrencies as a medium of exchange or as a store of value. If private cryptocurrencies are recognized as medium of exchange, it can be used for payment and settlement, including for paying taxes. On the other hand, if it is recognized as a digital asset with a store of value, then individuals can invest in these currencies just as they invest in gold, stocks and other assets.

### Way ahead

As mentioned earlier, Government of India will soon introduce a bill to define and allow regulated trading in cryptocurrencies in the country. The Cryptocurrency and Regulation of Official Digital Currency Bill, 2021, which was prepared based on the recommendation of SC Garg Committee, will include definition, taxation and rules governing investment and trading of cryptocurrencies. Meanwhile, Reserve Bank of India is working to introduce its own digital currency after taking into consideration its pros and cons. A High Level Inter-Ministerial Committee of the Ministry of Finance, Government of India (GoI) recommended the introduction of a digital currency by RBI, on the lines of similar move by other countries’ central banks. A digital currency introduced by RBI will have a stable value, as it is guaranteed by government, as compared to a private digital currency (such as bitcoin, etherium etc.) whose values are highly volatile due to changing investors’ perception and sentiments.

If a central bank issues digital currency, it can promote swift payment and settlement for international trade by obviating the need for intermediaries. For example, if the US Central Bank issues digital dollar, it will enable a more real-time and cost-effective payment system as an Indian importer can make payment to her American seller on a real time basis in digital Dollars, without the need of an intermediary. Such a transaction would obviate make time zone difference irrelevant in cross-border currency settlement.



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## Notifications

### PIB

India records 15% growth in export of agro-processing products

<https://pib.gov.in/PressReleasePage.aspx?PRID=1773166>

Minister launches Special Credit Linked Capital Subsidy Scheme (SCLCSS) for services sector

<https://pib.gov.in/PressReleasePage.aspx?PRID=1773187>

India aims USD 10 billion leather exports by 2025

<https://pib.gov.in/PressReleasePage.aspx?PRID=1772687>

### DGFT

De-activation of IECs not updated at DGFT

<https://content.dgft.gov.in/Website/dgftprod/cbc08c2d-adc8-4209-9f5a-877bad958872/Trade%20Notice%2025%20-%20De-Activation%20of%20IECs.pdf>

Extension of Date for Mandatory electronic filing of Non-Preferential Certificate of Origin

<https://content.dgft.gov.in/Website/dgftprod/e8d6f85a-9fe0-47bb-a189-772e706a22b5/Trade%20Notice%2024%20-%20eCoO%20Extension%20till%20Jan2022.pdf>

SOP for random checking of metal scrap imports

<https://content.dgft.gov.in/Website/dgftprod/b9ad44af-6b13-4b65-8cc8-2075a6227d2c/PN%2037%20E.pdf>

### CBIC

Exchange Rate Notification

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-nt2021/csnt92-2021.pdf;jsessionid=944070AF86C1B063C0EA29E827D25A5E>

Fixation of Tariff Value

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-nt2021/csnt91-2021.pdf;jsessionid=803FB2BE637281B82DD720B5D98909FF>

## RBI

Report of the Working Group on digital lending

[https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=52589](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=52589)

Introduction of Internal Ombudsman mechanism for select NBFCs

[https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=52563](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=52563)