

POSITIVE TRAITS OF CENTRAL BANK DIGITAL CURRENCY ON INDIAN ECONOMY

Ruchir Saxena, Associate Professor, Poddar Management & Technical Campus, Jaipur
Shashikant Sharma, Assistant Professor, Poddar International College, Jaipur
Pooja Saxena, Assistant Professor (Guest), University of Rajasthan, Jaipur

Abstract:

Cryptocurrency is the new word that is currently echoing in the Indian market. Commoners can invest and trade crypto coins for several new companies that sprang up throughout India. The latest published economic reports are enough to understand. Cryptocurrencies' popularity and India has 10.7 crores, crypto possessors. The people of India, particularly the youths, are responsible for this popularity of crypto. This rapid growth of cryptocurrency has impact the Indian Economy in various ways. An attempt has been made in this paper to explore the same.

Blockchain Technology:

Blockchain technology is a method for developing faith and significance without centralization. In this technology, person-to-person deals are not essential as they play a mediator's role. Recently, India has preferred to go cashless by initiating transactions through cards, paying apps, internet banking, and so on. All these systems help people to shop, pay bills, pay for conveyance, etc. Blockchain technology plays the role of a reliable party to make sure that valid transactions are performed and charges apart from the transacted value. According to the transacted amount, blockchain apps can charge between one to five percent.

Bitcoin and other cryptocurrencies are found to serve as an intermediary. They ensure the authenticity of the transactions and their performance with zero downtime throughout the day, and they save costs and authentic global userbase.

Since 2021, cryptocurrencies have become a powerful resource, making significant steps to attain the position of 'currency.' Presently, over 100 million users access cryptocurrencies worldwide. El Salvador was the first country who authorize the use of Bitcoin. After that, many Central and South American Countries accept this technology.

What is Precisely Meant by Digital Currency?

Digital currency is a currency type that can be accessed virtually. It is also known as digital money, electronic currency, cybercash, and electronic money.

- Digital currencies can be accessed only by using computers, smartphones, tabs, etc.
- Real digital currencies don't need any mediator and are the cheapest way to trade currencies.
- All cryptocurrencies are digital currencies, but not all digital currencies are cryptos.
- Digital currency allows uninterrupted money transfer, and the transaction costs are also minimal.
- Cryptocurrencies can be unstable and can be hacked

Global Market Cap or Investment of Digital Currency:

According to a report of Pitch Book Data, the gross cryptocurrency market cap has reached \$3 trillion

in the previous year. The venture capital funds across the world are behind this growth that invests nearly \$30 billion into cryptocurrency in 2021. The amount is more than the total investments made before. The market cap grows despite China's quitting of digital coins and India's considerations of banning private cryptocurrencies.

Total Cryptocurrency Market Cap

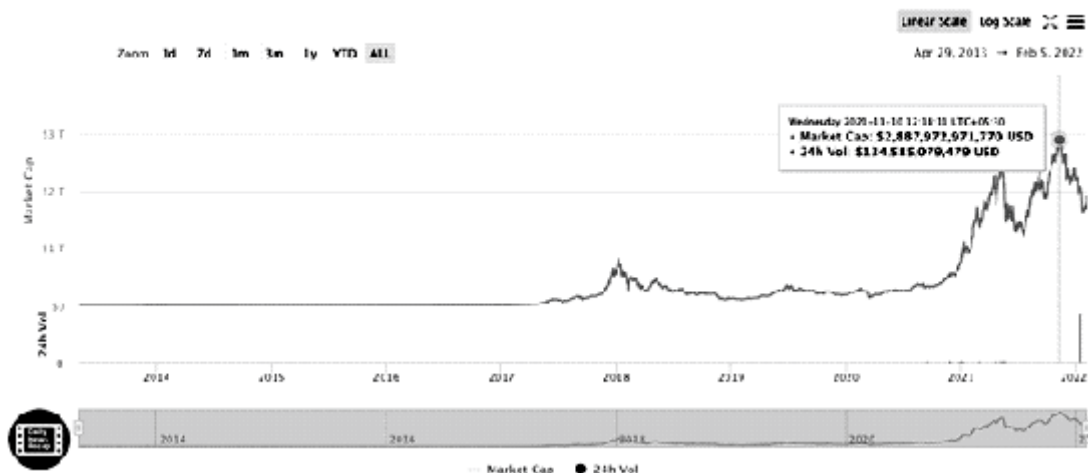


Figure 1: Total Cryptocurrency Market Cap

Source: coinmarketcap.com

Among \$30 billion cryptocurrency investments in 2021, US-based venture capitalists invested approximately \$7.2 billion. Some massive transactions that help cryptocurrencies to reach that height include- crypto derivatives exchange FTX raised \$1-billion fund, \$1-billion secured by Custodian New York group, Forte, the blockchain integration tool provider collected \$725-million, Moonpay raising funding \$555 million, and \$350 million by NFT platform Dapper Labs, and many more.

Cardiff conducted a survey in September explaining that crypto investors put \$263 into coins dedicated accounts. It is more than \$250 they keep for traditional brokerages.

India Market Cap or Investment of Digital Currency:

Along with the world, crypto investments have also risen in India. Although the exact investment amount is not available, according to industry specialists, there are nearly 15 to 20 million crypto investors in India with Rs.400 billion. As per the information published by blockchain data platform Chainalysis India is at 11th position in 154 countries related to cryptocurrency investment.

But Indian government wants to ban private cryptocurrencies and create a law to monitor digital currency. According to some experts, cryptocurrencies rose due to the Covid-19 pandemic when traditional resources like bonds, cash, and equities became unstable.

Benefits of India's Central Bank Digital Currency:

The advancement of technology and more usage of digital money compel the Central bank to launch a CBDC. The reason behind the decision was to form a more substantial monetary authority. The

Central Bank was under pressure to handle the issues that come up due to using cryptocurrencies and enhance the competency of the payment system that has already been there. Interest in CBDC was growing from 2008 with the financial crisis and cryptocurrencies advent along with the use of minimum cash. Various countries have started approving the usage of digital currency.

The cryptocurrency and Regulation of Official Digital Currency Bill, introduced in 2021, will offer legal powers to the RBI to create Central Bank Digital Currency (CBDC). On 25th January, the Reserve Bank of India issued a statement where they declared that it tries to address whether a CBDC is required in India. If any need is located, they might find ways to access this.

There are two CBDC types, and they are- Wholesale CBDC and Retail CBDC.

Wholesale CBDC:

Wholesale CBDC is for the use of financial institutions. It is beneficial for lessening the settlement threats and is available for a whole time while reducing cross-border payment expenses. This CBDC is effective in making the process easy and helping in automation. It is best to use Wholesale CBDC for domestic and cross-border payments.

Retail CBDC:

Retail CBDC is for people, households, and the company's uses. It is a form of fiat currency, and people can access it easily. If retail CBDC is appropriately designed, it can increase the economical integrity more than cash. According to a report published in 2017, it is stated that the RBI spends nearly 21,000 crores per year to manage some money. By carrying on an effective Retail CBDC cash usage cost could be reduced successfully.

Why CBDC should be initiated:

CBDC should be explored for the following reasons:

1. Renovate the Payment System:

In electronic payment areas, there is intense competition among Non-banking Finance corporations (NBFC), Payment service providers, and new electronic money forms in cryptocurrencies. Individuals could easily use them due to minimal barriers in the entrance.

2. Enhance Digital Payments and Reduce Payment Costs:

CBDC effectively increases operation to online payments and nearly at no charge. Incoming economies where the cash usage is minimally related to GDP, digital payments might reduce the pressure of the Central bank in offering money in electronic form.

3. A Measure to Expand Fiscal and Monetary Policy:

CBDC is a measure that will help the Central bank to enhance budgetary stimulus. These should be initiated into the grassroots level of payment practices to increase the integrity of the data at a macro-financial level.

4. Decrease International Currency Dependence:

The dollar is a worldwide famous currency. But CBDC allows local currencies to grow. It could support local currencies to compete, and the deals also become more competent.

Benefits of CBDC:

The Central banks worldwide have already been assessing the positive results that digital currency offers on economic, monetary inclusion, creativity, and technological development; thus, the transactions become more effective.

Let's discuss the advantages of CBDC:

1. Transferring Money Without Involving Third-party:

CBDC ensures the first transfer of money to the recipient because no third-party bank is involved in transactions. So, the transfer is reflected into the beneficiary account as soon as it is transferred.

2. Income Tax Evasion:

From the central bank's perspective, it is impossible to evade income tax without exercising offshore banking and unreported engaged in disguised monetary dealings.

3. A Simple Way to Track Currency:

CBDC would help the Central bank track every unit's currency without facing any difficulty.

4. Cash Replacement:

Digital currencies are suitable substitutes for cash. Therefore, the cost of producing money is decreased.

5. Seigniorage Earning:

The difference between the value of cash and the cost of development and distribution is referred to as the seigniorage earning. While the usage of physical money is reducing, the utilization of digital currency would prevent the fall of seigniorage revenue for the Indian government.

6. Unstability:

CBDC is more stable in nature. CBDC is not volatile as cryptocurrencies because they will connect with gold.

7. Crime management:

CBDC can detect money laundering terror funding-like crimes and can handle them efficiently.

The Necessity of CBDC in India:

Countries like China, the USA, Canada, and Singapore have already started assessing digital currencies. In India, CBDC can be effective in filling the gap between the connections of mobile numbers and bank accounts. Let's see why CBDC is required in India.

- CBDC will support RBI in introducing competent monetary policies. The policy effects will be reflected instantly without any dependence on the commercial banks to engage modification when they think it should be.
- The electronic cash version will help India endorse its currency among its strategic associates and decline the dollar dependency.
- It is effective in identifying tax evasion problems and crimes like money laundering and terror funding. Even by engaging CBDC, keeping a restraint on each section will be easier.
- CBDC will make economic matters such as loan shares more lucrative because they can be

extended like regular items using intelligent contracts.

- RBI can protect investors' investments by observing the transactions throughout the Indian economy. The RBI can efficiently address frauds and scams with the implementation of CBDC.
- CBDC will be the energizer for fintech organizations because they need not rely on banks for associations. It will form an atmosphere of faith and offer economic guidance to those who were dependent on the banks earlier.

Some significant impacts of cryptocurrencies on the Indian Economy:

Hereunder are the five essential effects of cryptocurrencies on the Indian Economy:

1. Enhancing Transparency:

In cryptocurrencies, the source of transactions can be traced back. Moreover, blockchain technology which is the base of cryptocurrency, can be muted. So, transaction records can't be deleted and altered. As a result, corruption is reduced, and data can never be changed.

2. Progress of Employment:

There are nearly 50,000 people associated with cryptocurrency. According to research, this industry has vast recruitment scopes that might reach 800,000 by 2030 in India. There are already highly talented Fintech professionals and IT specialists in India. Moreover, the talent can be hired by paying excessive remuneration. So, the growth of the cryptocurrency industry can make India a significant center and worldwide destination for the cryptocurrency industry. This will assist in developing adequate job vacancies in IT, BFSI, customer care, and many other sectors. Currently, the cryptocurrency sector is improving continuously, which is enhancing the employment rate throughout the country.

3. Charge up the Fintech Industry:

India has a strong IT professional foundation. The integration of finance and technology can create ample opportunities and an influx of overseas cash. Moreover, the central government introducing robust protocols for a traditional electronic currency will attract massive international investors. This will help the Fintech sector of India a comprehensive growth and will take forward the Indian economy forward.

4. Improve Digital Payment Modes:

The transactions through the digital medium are time-saving and also cost less. The transactions are performed between the sender and the recipients. No intermediary involvement is required, so the transactions become instant. And without involving third-party transactions doesn't require any charges to pay to the bank. This lessens the transaction costs, and individuals can save money on every transaction. So, cryptocurrency dealings can improve digital payments reduce the cost & time of every transaction.

5. Accomplish the Mission of Atmanirbhar Bharat:

The Indian government has proposed to form a single, officially-admitted cryptocurrency. As a result, there will be no need to depend on an intermediary, private, and international currencies. Current popular cryptocurrencies are Bitcoin, Ethereum, Dogecoin, and other foreign-based currencies. The formal cryptocurrencies will be entirely created in the nation and will eliminate the requirement of

foreign currencies. Traders, investors, and other people will receive a single cryptocurrency for their needs and support the government to attain the mission of "Atmanirbhar Bharat."

Conclusion:

The cryptocurrency industry can't be neglected as there are many opportunities. The Indian government has also admitted the cryptocurrency opportunities as a payment mode, thus proposing a bill to create and manage cryptocurrency in the nation. In the upcoming time, it can play a significant role in helping the Indian economy to grow. A deep dive into benefits offered by Cryptocurrency provides a strong support in favour of it may prove to be of great importance for Indian economy

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