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Changing Role of Digital Currency and its Legal Status in India: A Glimpse towards the Global Scenario in the Past and Current Period

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The use and role of digital currencies in India have been steadily increasing over the last few years and the recent pandemic has further amplified this trend. It is important to understand that digital currencies are not yet legally recognized as a form of currency in India. Deliberations and reviews regarding the legal status of decentralized digital currencies like Bitcoin in India are ongoing. The Reserve Bank of India (RBI) has repeatedly warned against the use of cryptocurrencies and expressed concern about the dangers associated with them. In a circular, the RBI instructed regulated entities to stop providing services to individuals and companies involved in cryptocurrency activities. The RBI banking regulation was overturned by the Supreme Court of India, which also ruled in favour of the Bitcoin exchange. The decision made it possible for individuals and businesses to conduct 'Bitcoin' transactions in the country. The Indian government is considering enacting legislation to govern the cryptocurrency ecosystem despite the lifting of the ban on banking transactions. Blockchain technology, which powers a number of independent digital currencies, is also of interest to the Indian government. Many government agencies, including NITI Aayog, have initiated initiatives and dialogues to use blockchain technology in areas such as supply chain management and identity verification. It is significant to note that India's legal and regulatory landscape may be altering for cryptocurrencies. In this article, the authors seek to determine the status of virtual currencies in India, as well as their legitimacy and potential for usage in transactions.

Keywords: covid-19, digital currency, digital economy, transactions.

INTRODUCTION

Money is a tangible asset that acts as a standard of payment, a store of value, a measure and a medium of exchange.¹ The COVID-19 outbreak has accelerated the global use of digital currencies, particularly in India. Individuals increasingly turned to digital payments as a safer and more convenient alternative to cash as a result of the virus, efforts to stop the spread of the virus, such as lockdowns and social isolation, are needed. The COVID-19 pandemic has had a major impact globally and India was no exception. The introduction of Decentralized Digital Currencies (DCCs) has resulted in significant growth in how we live and work as a result of the epidemic. DCC was a rather specialized product in India before the epidemic. However, the epidemic has increased his interest in DCC as individuals seek ways to conduct transactions and payments without physically interacting with others. The development of DCC in India has been affected by various reasons. Among other things, the increasing acceptance of e-commerce and online shopping contributes to this. As more and more people shop online, people are looking for easy and secure ways to pay online. DCC helps popularize DCC because it provides an easy and secure way to make online payments. The government's move towards digitalization is another factor that has contributed to the expansion of DCC in India. The use of digital payments is being actively promoted by the Government of India, contributing to a better environment for DCC development. The expansion of DCC in India is likely to continue in the years following COVID-19. The shift to digital payments has been accelerated by the epidemic and this pattern is expected to continue in the years to come. DCC can benefit from this development as it provides an easy and secure way to make online payments. The increasing use of DCC in India could have a significant impact on the Indian economy. DCC will help accelerate economic expansion, improve financial inclusion and enhance the performance of the Indian economy. There are certain risks that also come with it like there can be a situation of cyber fraud as there is no regulating body to look into it and also its value is not static which can swing either way and can result in heavy monetary loss. It is important to be aware of these

¹ Hariharan Narayanan, 'Is the Future a Rule of Digital Currency' (2020) 8(8) International Journal of Research

risks before purchasing DCC. However, DCC has many potential advantages and could grow in importance to the Indian economy over time. These are just a few of the DCC use cases in India. As the use of his DCC in India increases, we are likely to see even more sophisticated and imaginative uses of this technology in the years to come. It is important to be aware of these risks before purchasing DCC. However, DCC has many potential advantages and could grow in importance to the Indian economy over time.

OBJECTIVES OF THE STUDY

The current work is focused on finding out the following objectives:

- Impact on digital currency due to the pandemic.
- To study the posterity of digital currency.
- Legal situation of digital currency in India.

The research article is analytical and descriptive in nature.

METHODOLOGY OF THE STUDY

The current study focuses on the role of digital currency during and post-COVID period in making transactions. Therefore, the work is based on a conceptual analysis of resources and facts available in the electronic media. It has used both primary as well as secondary data to reach the conclusion. Primary data includes statistics and information published by government official websites. Secondary data includes articles, Journals, research papers, news clips, reference books etc.

EXPLANATION OF THE CONCEPT OF THIS TOPIC

COVID-19 Pandemic: A pandemic caused by the new Coronavirus, COVID-19. The virus originated in Wuhan, China. The World Health Organisation (WHO) labeled the illness a

pandemic after it expanded at an alarming rate and severity over the world.² It resulted in numerous deaths and the government's main priority was to limit the virus's spread using different tactics, primarily lockdown. The lockdown harmed the industrial industry, imports and exports, transportation, tourism and finally, the economy.³

Digital Currency: Electronic tokens are called cryptocurrencies or digital currencies. Bitcoin is a type of digital currency that allows online payments between users. Bitcoin's value is determined by how much people are willing to pay in the market. They have no intrinsic or legal value. On the other hand, national currencies gain part of their value by being recognized as legal tender. There are many types of cryptocurrencies, but Bitcoin and Ether are the most popular.⁴

Transactions: A transaction is a trade. It is the transmission of funds using an internet platform or simply cashless payment methods or payment systems.⁵

Digital Economy: The economic activity generated by billions of daily online interactions between people, businesses, devices, data and processes is known as the 'digital economy'. The Internet of Things (IoT) is the backbone of the digital economy and its name derives from hyperconnectivity (the increasing interconnection of people, organizations and machines).⁶

IMPACT ON THE DIGITAL CURRENCY STATUS DUE TO THE PANDEMIC

The outbreak of the new coronavirus infection (COVID-19) has had a major impact on the Bitcoin market. Initially, the cryptocurrency market witnessed a drop in prices during the initial

² Domenico Cucinotta and Maurizio Vanelli, 'WHO Declares COVID-19 a Pandemic' (2020) 91(1) *Acta bio med* <<https://pubmed.ncbi.nlm.nih.gov/32191675/>> accessed 16 August 2023

³ The Organization for Economic Cooperation and Development, *The Territorial Impact of COVID-19: Managing the Crisis and Recovery across Levels of Government* (2020)

⁴ 'Digital Currencies' (*Reserve bank of Australia*) <<https://www.rba.gov.au/education/resources/explainers/pdf/cryptocurrencies.pdf?v=2023-09-26-17-54-41>> accessed 16 August 2023

⁵ Shubhangi Bhatia, 'Digital Payments in India: Definition, Methods, and Benefits' (*Razorpay*, 10 September 2023) <<https://razorpay.com/learn/digital-payments-india-definition-methods-importance/>> accessed 12 September 2023

⁶ 'What is digital economy' (*Deloitte*) <<https://www2.deloitte.com/mt/en/pages/technology/articles/mt-what-is-digital-economy.html>> accessed 16 August 2023

phase of the pandemic due to the overall economic uncertainty and panic selling by investors. However, the market quickly recovered and in 2021 digital currencies such as Bitcoin and Ethereum hit new all-time highs. One factor that contributed to the increase in the value of cryptocurrencies was the massive injection of liquidity into the global financial system by central banks and governments worldwide. This led to concerns about inflation and the devaluation of traditional currencies, which drove investors toward alternative assets like cryptocurrencies. Another aspect that facilitated the development of the digital currencies sector during the epidemic was the steadily increasing acceptance of digital payments and online transactions. As more people began to work from home and shop online, the demand for digital payment options increased and cryptocurrencies emerged as viable options. Furthermore, the pandemic highlighted the potential of blockchain technology and decentralized finance (DeFi) as a more secure and efficient alternative to traditional financial systems.⁷ This led to increased interest in blockchain-based solutions and the growth of DeFi platforms.

The coronavirus has spread from a local to a worldwide epidemic, hurting individuals all over the world and everyone is reacting to it, including investors, physicians and even cryptocurrency. The world has been caught aback by COVID-19. The epidemic spread rapidly, disrupting global economies and creating unforeseen problems that changed the fabric of society. However, as interest in blockchain and cryptocurrencies grows, the pandemic could trigger a transition to a cashless society. Now that the ambiguity surrounding Bitcoin has faded, it is the perfect time for cryptocurrencies to flourish.

In its most recent issue, the Lok Sabha Bulletin (Indian Parliamentary Bulletins) expressed that 'the Cryptocurrency and Regulation of Official Digital Currency Bill, 2021' to be established with the purpose 'to create a participative framework for the creation of the official digital currency to be issued by the 'Reserve Bank of India (RBI)'. The Bill also seeks to prohibit all private

⁷ Dr. Snigdha Sarkar and Dr. Arpita Mitra, 'Future of Blockchain Technology: Perception of New Investors in Bhubaneswar' (2022) 7(3) NUJS Journal of Regulatory Studies <<https://www.nujs.edu/wp-content/uploads/2022/12/vol-7iss-3.pdf>> accessed 16 August 2023

cryptocurrencies in India; nevertheless, it includes specific exclusions to encourage the fundamental technology and applications of cryptocurrency.

Indian investors are showing increasing interest in cryptocurrencies. These currencies have fundamentally disrupted central bank trading systems. Around 6 million dollars has been invested in cryptocurrency by Indians. An estimated 1.5 million people have reportedly invested. Hundreds of new companies are also emerging in the blockchain and cryptocurrency space. Cryptocurrencies are not outlawed in India. Thus, if you want to acquire Bitcoins, for example, you may do so and begin trading in them. Unfortunately, India currently lacks a regulatory framework to control cryptocurrencies.⁸

POSTERITY OF DIGITAL CURRENCY

The Overall Scenario: There are 1564 Digital currencies as of 18th March 2018 available for trading on over 9422 exchanges. With a 24-hour trading volume of \$18,207,953,654 or \$18 billion, the cryptocurrency market capitalization is \$275,797,435,861 or \$275 billion.⁹



Fig 1: Price of the different digital currencies¹⁰

⁸ Dr. Kishor Prakash Bholane, 'Pros and Cons of Cryptocurrency: A Brief Overview' (2021) 6(3) National Journal of Research in Marketing, Finance & HRM

⁹ Sana Moid and Shreyansh Jain, 'The Economics of Digital Currency: World of Cryptocurrency' (2019) 9(1) Adhyayan: A Journal of Management Sciences

<<https://smsjournals.com/index.php/Adhyayan/article/view/2082>> accessed 16 August 2023

¹⁰ Shailak Jani, 'The growth of cryptocurrency in India: Its challenges & potential impacts on legislation' (Researchgate, 2018)

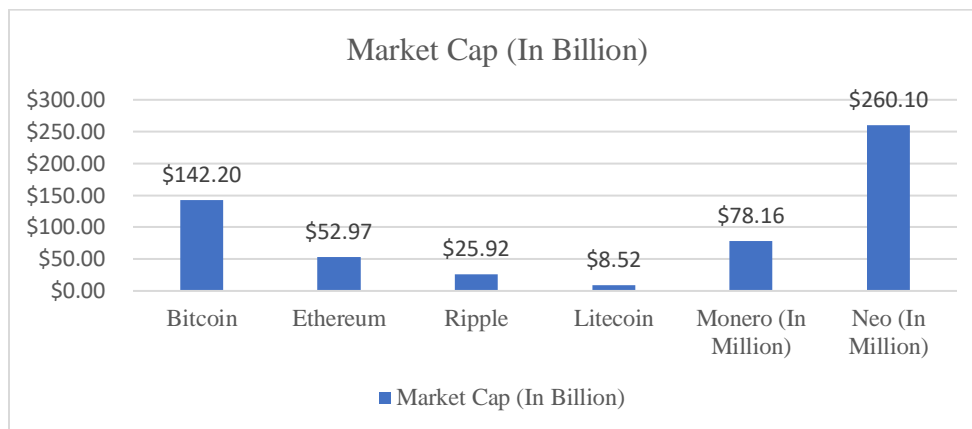


Fig 2: Market Cap of different digital currencies¹¹

With a market capitalization of \$142.2 billion (Rs. 9.25 trillion) and a market share of around 45 percent, Bitcoin has the largest market power among all digital currencies. It is worth \$8254.8, or Rs. 5,35,767 on the market. Other cryptocurrencies, so-called altcoins, include 15,550 other trading currencies in addition to Bitcoin.¹²

Rise of Cryptocurrencies in India: In India, cryptocurrency usage is increasing at a rate that can only be described as stratospheric. The country has grown from a relatively underdeveloped country to one of the most active markets in the cryptocurrency industry in just a few short years. This increase is believed to be due to various causes. One is the growing awareness of cryptocurrencies among the Indian public. This is in part due to the industry's media attention and the increasing use of online learning tools. Another aspect is the increasing adoption of cryptocurrencies by Indian companies. Cryptocurrencies are increasingly accepted as a means of payment by businesses, making it easier for users to use them on a daily basis.¹³

Finally, the Indian government has largely avoided working with cryptocurrencies. This encouraged more individuals to invest in the company, contributing to a better environment for

<https://www.researchgate.net/publication/324770908_The_Growth_of_Cryptocurrency_in_India_Its_Challenges_Potential_Impacts_on_Legislation> accessed 16 August 2023

¹¹ *Ibid*

¹² *Ibid*

¹³ *Ibid*

the industry as a whole. For all these reasons, the Indian cryptocurrency sector is currently worth billions of dollars. And it will continue to grow even more in the years to come.

Below are some of the main reasons behind the emergence of cryptocurrencies in India:

Increase of General Awareness: Increased media attention to the industry and increased availability of online educational materials have increased public understanding of cryptocurrencies in India.

Gradual Increase in the Acceptance by Businesses: Businesses are increasingly accepting cryptocurrencies as a means of payment, making it easier for individuals to use cryptocurrencies in their daily lives. This is especially true for India.

Support from the Government: The Indian government has little involvement in the cryptocurrency industry, creating a more favorable atmosphere for the industry.

After a while, bitcoin exchanges popped up all over the country. Pioneers such as BtcxIndia, Unocoin and Coinsecure have launched digital currency exchange and trading services for the first time in India. More services were added over time such as Zebpay, Koinex and Bitcoin-India. Since its inception by the working class in 2013, the cryptocurrency business in India has grown thanks to the emergence of cryptocurrency exchanges and exchange platforms. In addition to these trading platforms, there are also several over-the-counter (OTC) cryptocurrency companies in the country. The region's potential as a cryptocurrency hub is further underscored by the presence of multiple Bitcoin ATMs in major Indian cities.¹⁴

On 8th November 2016, the Prime Minister of India announced the launch of the Economic Reform Strategy.¹⁵ The Indian subcontinent was shocked when the government decided to phase out more than 86 percent of the country's banknotes. People with large amounts of cash needed new ways to maintain their wealth without exposing themselves to onerous tax obligations and other government regulations. Massive purchases and subsequent sales of

¹⁴ *Ibid*

¹⁵ Bholane (n 8)

cryptocurrency assets have become the norm. This suggests that transferring wealth through the banking sector would have avoided paying inherently high taxes.¹⁶

The demonetization program has provoked a well-thought-out criticism of the country's massive financial situation. Indians realized that fiat currency wasn't really 'real' money because it had no backing, so they started exploring alternative currency models. Many Indians, especially the 40 percent of the internet-accessible population, invest heavily in cryptocurrencies such as Bitcoin. Although the 2016 de-monetization campaign led to a large portion of the population accepting cryptocurrencies, facts quickly became apparent that hindered the development of the domestic market. India accounts for just 2 percent of the global bitcoin market despite its huge population. The modest contribution of such large corporations is due to soaring cryptocurrency prices and an RBI-led government crackdown. In general, the value of cryptocurrencies in India is high. Market value is 5-10 percent higher than the world average. This means that Indians can only play an active role in cryptocurrency trading on overseas cryptocurrency exchanges to a limited extent. Some of the major offshore crypto exchange platforms are inaccessible to Indians due to a lack of large-scale mining capacity and strict government regulations in international currency trading. The Reserve Bank of India (RBI) has repeatedly warned people about the risks associated with cryptocurrencies. The government has not outright banned cryptocurrencies, but neither has it explicitly endorsed them. As for India, the next few months will set the course for the cryptocurrency business.¹⁷

Scenario of Digital Currency in India after the pandemic: The epidemic has had a major impact on the introduction of India's decentralized digital currency (DDC). An increase in internet sales as a result of lockdowns and social distancing measures has allowed DDC to leapfrog. During the confinement period, people turned to digital payments for everything from dining to leisure. Many individuals looking for a more secure and private payment method have been drawn to DDC as it is not under the authority of any government or banking institution. The Central Bank

¹⁶ Vaibhav Shakya et al., 'Blockchain based cryptocurrency scope in India' (Conference: ICICCS 2021-5th International Conference on Intelligent Computing and Control Systems, Madurai, India, 2021)

¹⁷ *Ibid*

or the Reserve Bank of India issued a notice in 2018 banning banks from offering cryptocurrency exchange services, demonstrating the Indian government's cautious stance on DDC. He said the RBI will work on developing a Central Bank Digital Currency (CBDC) in 2022, suggesting the government is also interested in creating its own DDC. The future of DDC in India is uncertain. The RBI said it would monitor the matter and take action if necessary. However, the growing popularity of DDC suggests that it is likely to play a larger role in the Indian economy in the future. The many diseases caused by the pandemic are expected to accelerate the introduction of DDC across the country. However, a key consideration in determining the industry's long-term viability is the government's stance on DDC.¹⁸

LEGAL STATUS OF DIGITAL CURRENCY IN INDIA

India is one of the most effective users of cryptocurrencies. The future of digital currencies is a hotly debated topic. Security issues for cryptocurrencies like Bitcoin have been the subject of several RBI press releases. India also established a commission in 2017 chaired by 'Sri Subhash Chandra Garg' to investigate legal concerns over cryptocurrencies. The commission's report recommended not allowing private cryptocurrencies in India. The RBI issued a statement. In April 2018, commercial associations, credit unions, microfinance banks, clearing banks and NBFCs were banned from trading cryptocurrencies themselves and ordered to stop providing services to organizations trading cryptocurrencies. The Supreme Court received a written application from the Internet and Mobile Association of India (IMAI) on May 15, 2018, to revoke the RBI circular. The Supreme Court ruled that the hit limit so far has been invalidated.¹⁹

The definition of virtual digital assets has been adopted into the 2022 budget by the 2022 bill to begin the regulatory process for all cryptocurrencies and NFTs. Any cryptocurrency and/or NFT may be classified or declassified by governments outside the scope of this definition. This

¹⁸ Adv. Laxmi, 'Cryptocurrencies and related legal issues in India with special reference to Bitcoin' (*Legal Service India*) <<https://www.legalserviceindia.com/legal/article-4720-cryptocurrencies-and-related-legal-issues-in-india-with-special-reference-to-bitcoin.html>> accessed 16 August 2023

¹⁹ 'The legal anatomy of cryptocurrency regulation in India' (*Medianama*, 21 March 2022) <<https://www.medianama.com/2022/03/223-cryptocurrency-regulation-india-legal-anatomy/>> accessed 16 August 2023

austerity clause would prevent the CBDC, also known as the Indian Digital Rupee, proposed by the RBI from being subject to regulation and taxation under Indian legislation. It may have been added to prevent this in 2022.²⁰

AUTHOR'S ANALYSIS

The world of resources has been greatly impacted by technological advances. Digital currencies like Bitcoin are rapidly emerging as legitimate means of payment, offering healthy competition to many currencies accepted by centralized regulators. The current surge in price could be a harbinger of events to come and it's clear that Bitcoin has a very bright future. Cryptocurrencies are also called digital money because points collected on various platforms can be used instead of real money for purchases in any payment system. Decentralized digital currencies are real. Bitcoin will grow and have a big impact in the future, but not all current power and control systems benefit from this new form of money. It is difficult to predict the disputes that will be fought over the control of Bitcoin and the obstacles that will need to be overcome to solidify its presence in everyday life. Experts around the world agree that cryptocurrencies are here to stay. Experts also agree that issuing real money instead of cryptocurrency is the only way to increase its value. We are also talking about the dangers of cryptocurrency trading as there are no laws regulating fraud in this kind of digital currency and cybercrime can be the biggest drawback as everything is done online. Experts and multiple studies claim that if a copy of Bitcoin is made and the wrong transaction is made, the transaction can be risky. We still need a lot of research on this, but if we are successful, we will soon learn how cryptocurrencies are used, what their strengths and weaknesses are and how and why cryptocurrencies can be exchanged for real money can be understood by the market.

CONCLUDING REMARKS

Bitcoin is a futuristic and technologically sophisticated answer to an unpredictable globalized world. This makes it a practical option when sending money across borders. If properly

²⁰ *Ibid*

managed, Bitcoin will help the next generation overcome the challenges posed by various types of financial transactions. Bitcoin is the most important technological development of the last decade. The decentralized process will be secured by blockchain technology. Governments and regulators need to study and understand how cryptocurrencies work. Governments and cryptocurrency groups can work together to build large-scale, secure currency exchanges. Although it seems unlikely that Bitcoin or any other digital currency will be used legally in the near future, blockchain technology still has a long way to go. Pros and cons of using cryptocurrencies for digital investments. Before investing, you should consider the position of the Government of India regarding the legality and regulation of cryptocurrencies. India sees the introduction of cryptocurrencies as an important factor. This is why India has changed the tax laws, the Foreign Exchange Management Act (FEMA) and the bodies like the RBI and the Securities and Exchange Board of India (SEBI) that oversee this, in the same way as other countries. It raises the question of whether the currency can be regulated. The mere issuance of digital rupees does not guarantee that fraud and money laundering will not occur. Whether or not a currency is banned has no bearing on the future of cryptocurrencies. It will also determine the future direction of adopting the digital rupee or regulating the industry. This is necessary to give investors and customers flexible choices.