

## 3. ECONOMY

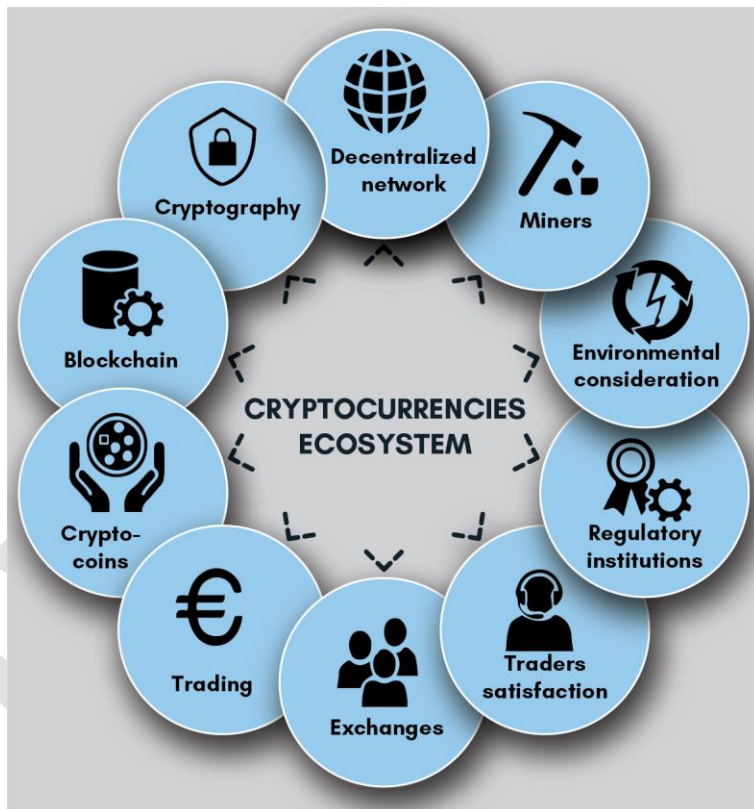
### 3.1. CRYPTOCURRENCY AND ECONOMIC SOVEREIGNTY

#### Why in News?

Recently, RBI officials told the **Parliamentary Standing Committee on Finance** that **cryptocurrencies** could lead to **dollarization of the economy** and would be **against India's sovereign interest**.

#### About Cryptocurrencies

- Cryptocurrencies, promoted as **decentralized international virtual currency**, are the digital currencies issued by a software protocol rather than central banks. E.g.
  - **Bitcoin**, launched in **2009** as a **peer-to-peer payment system**.
- In last few years, cryptocurrencies have gained potential to be a **medium of exchange** for domestic and cross border transactions leading to development of a cryptocurrency ecosystem. These are also facilitated by-
  - The growing **popularity of cryptocurrencies** across the world as investments,
  - **Multiple electronic exchanges** for exchange and conversion of cryptocurrencies into real currency.
- Some nations allow their use as **legal tender** or have made it their **official currency**. E.g. Bitcoin is the **official currency** of El Salvador and the Central African Republic.
  - Some nations have **classified them as illegal** as well, like China.



#### Cryptocurrencies in India

- In India, they are identified as **Virtual Digital Asset (VDA)**. Under **Section 2 (47A) of the Income Tax Act (1961)**, VDAs are defined as-
  - **any information or code or number or token** (not being Indian currency or foreign currency), **generated through cryptographic means** or otherwise, by whatever name called, providing a digital representation of value exchanged with or without consideration, **with the promise or representation of having inherent value**, or functions as a store of value or a unit of account including its use in any financial transaction or investment, but not limited to investment scheme; and can be transferred, stored or traded electronically;
  - a non-fungible token or any other token of similar nature, by whatever name called;
  - any other digital asset, as the Central Government may, by notification in the Official Gazette specify
- Though there is **no official data on size of Indian crypto market**, it is estimated that India has **15-20 million crypto investors**, with total crypto holdings of around **USD 5.34 billion**.

#### Economic Sovereignty: Threats from Cryptocurrencies

Traditionally, **State (Central Banks)** enjoy a **monopoly** over currency in a nation, as currency requires **trust among people** to be accepted as a **medium of exchange**, i.e., trust a person paying it; trust in the person issuing it and trust in the bank which is honoring it.