



RBI Seeks Ban on Cryptocurrency

For Prelims: Cryptocurrency, Bitcoin, Blockchain

For Mains: Cryptocurrency & Related Issues, Government Policies & Interventions

Why in News?

The [Reserve Bank of India \(RBI\)](#) has recommended a ban on [cryptocurrencies](#) citing 'destabilising effects' for the country's monetary and fiscal health.

- China has declared **all cryptocurrency transactions illegal**, effectively imposing a complete ban, whereas [El Salvador has permitted Bitcoin as legal tender](#).

What is the Current Status of Crypto?

- At the moment, there is **no legislature that covers cryptocurrencies in India**. In India, owning cryptocurrencies is still not illegal. In 2020, the [Supreme Court had struck down a ban](#) on trading of crypto currency in India, which was imposed by the Reserve Bank of India (RBI).
- Central bank has been cautioning people against the use of virtual currencies since as far back as 2013.
- In April 2018, the **RBI had prohibited regulated entities from dealing in virtual currencies** or providing services for facilitating any person or entity in dealing with or settling them. The directive was set aside by the Supreme Court in March 2020.
- Subsequently, in May 2021, the **central bank advised its regulated entities to continue to carry out customer due diligence processes** for transactions in such currencies, in line with regulations governing standards for [Know Your Customer \(KYC\)](#), [Anti-Money Laundering](#), [Combating of Financing of Terrorism](#), obligations under Prevention of Money Laundering Act, 2002, etc. and [Foreign Exchange Management Act \(FEMA\)](#) Norms for overseas remittances.
- The [Union Budget 2022-2023](#) also proposed to introduce a [digital currency](#) in the coming financial year.

What are the RBIs Concerns?

- **Not a Fiat Money:**
 - Cryptocurrencies are not a currency because **every modern currency needs to be issued by the central bank** or Government.
- **Speculative and Destabilising:**
 - The value of [fiat currencies](#) is anchored by monetary policy and their status as **legal tender**, however the value of cryptocurrencies **rests solely on the speculation and expectations of high returns** that are not well anchored, so it will have a destabilising effect on the [monetary](#) and [fiscal](#) stability of a country.

What is Cryptocurrency?

- **About:**
 - **Cryptocurrency**, sometimes called crypto-currency or crypto, is any form of currency that exists digitally or virtually and uses cryptography to secure transactions.
 - Cryptocurrencies **don't have a central issuing or regulating authority**, instead use a decentralized system to record transactions and issue new units.
 - It is supported by a **decentralized peer-to-peer network called the [blockchain](#)**.
- **Benefits:**
 - **Fast and Cheap Transactions:** Cryptocurrencies are **way cheaper to use to execute international transactions** because the transactions don't have to be handled by a series of intermediaries before they reach their destinations.
 - **Investment Destination:** There is a limited supply of cryptocurrency – partially like gold. Moreover, the last few years have seen the price of cryptocurrencies rising faster than other financial instruments.
 - Due to this, **cryptocurrencies can become a preferred investment destination**.
 - **Anti-Inflationary Currency:** Due to the high demand for cryptocurrency its prices have largely remained on a growing trajectory. In this scenario, **people tend to hold more cryptocurrency than spending it**.
 - This will cause a deflationary effect on the currency.

What are the Concerns Associated with Cryptocurrency?

- **Bombardment of Advertisement:** The crypto market is seen as a way to earn quick profits. Due to this, there is bombardment of advertising, both online and offline, **to lure people into speculating in this market**.
 - However, there are concerns that these are attempts to **mislead the youth through “over-promising” and “non-transparent advertising”**.
- **Counterproductive Utility:** Unregulated crypto markets can become **avenues for money laundering and terror financing**.
- **Cryptocurrencies are Extremely Volatile:** Bitcoin skyrocketed from USD 40,000 to reach an all-time high of USD 65,000 (between January to April 2021).
 - Then in May 2021, it plunged and throughout June it remained below USD 30,000.
- **Risk to Macroeconomic and Financial Stability:** The extent of investment exposure of Indian retail investors in this unregulated asset class, **poses a risk to Macroeconomic and Financial Stability**.
 - According to a Group of Crypto exchanges, crores of Indians have invested over Rs 6,00,000 crore in crypto assets.
- **Stock Market Issues:** [Securities and Exchange Board of India \(SEBI\)](#) has flagged the issue that it has no control over the **“clearing and settlement”** of crypto currencies, and it cannot offer counterparty guarantee as is being done for stocks.
 - Further, whether cryptocurrency is a currency, commodity, or security has not been defined.

Way Forward

- India is **yet to table the Cryptocurrency and Regulation of Official Digital Currency Bill, 2021**, which will lay down the regulatory framework for the launch of an “official digital currency”.
 - Thus, there is **a need to expedite passing of the bill and design a regulatory framework** to deal with cryptocurrencies.
- Regulation is **needed to prevent serious problems**, to ensure that cryptocurrencies are not misused, and to protect unsuspecting investors from excessive market volatility and possible scams.
- A law to **regulate or ban cryptocurrencies can only be effective once there's some form of international agreement in place**.
 - Cryptocurrencies are by **definition borderless and require international collaboration to prevent regulatory arbitrage**.
- Therefore, any legislation for regulation or for banning can be effective **only after significant international collaboration on evaluation of the risks and benefits and evolution of common taxonomy and standards**.

[Source: TH](#)

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