Introducing India's own cryptocurrency

Why in news?

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The government is considering the possibility of introducing India's own cryptocurrency, code-named “Lakshmi”.

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What is the need?

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- Crypto-currency is a digital currency that allows transacting parties to remain anonymous while confirming the transaction is valid.
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- The provision of anonymity is widely misused especially in making cross-border transactions.
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- They are widely used as a means for money-laundering, terror funding and drug trafficking, and other illegal activities.
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- The increasing share and presence of bitcoins due to speculative trading for return on investments is getting to be a cause of concern.
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How can legalising help address this?

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- India's attempt to legalise and introduce its own cryptocurrency would give it the status of a fiat currency.
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- This formal government authorization could prove to be an alternative to popular non-fiat cryptocurrencies such as bitcoin and ethereum.
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- “Lakshmi” would adopt a variation of the blockchain technology employed by bitcoin.

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- The technology would help verify every trade and rule out the possibility of dual transactions employing the same coin.
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- Also, the new currency would be subject to the same capital account controls as the rupee, in terms of cross-border transactions.
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- The money supply at every instant is known and cannot be manipulated, unlike with normal fiat currencies.
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- Besides, users would have to submit to the usual know-your-customer norms.
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What are the challenges?

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- The introduction of such a new cryptocurrency, would make it a legal tender alongside the rupee.
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- This requires legislative action of making amendments to the Currency Act.
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- Pegging it to rupee would have an impact on the rupee exchange rate along with the risk of fluctuations.
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What is the way forward?

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- India can consider legalising and regulating the existing popular bitcoin instead of introducing a new crypto-currency.
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- Ex: Japan has recognised bitcoin as a legal currency, with anti-money laundering rules and capital requirements.
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- Also, India can use GST as a tool to curb the frenzy over bitcoins by taxing their supply.
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- Capital requirements, levy of GST on supply of bitcoins and income tax on the profits made are certain to reduce the speculative effect.
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- It is for the RBI, CBDT and GST Council to discuss and formulate and roll out a policy to deal with bitcoins effectively.
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Source: BusinessLine

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