

Stablecoins

Prelims: Current events of national and international importance | Economy

Why in news?

During the inaugural address at the Kautilya Economic Conclave, the Union Finance Minister stated that countries need to prepare for stablecoins.

- **Stablecoins** - Form of cryptocurrency that attempt to **maintain stable prices** as they are pegged to an underlying asset, such as a basket of currencies or precious metals or another financial instrument.

A cryptocurrency is a digital currency that is secured by cryptography, operating on a blockchain and makes it nearly impossible to counterfeit.

- **Primary goal** - They are designed to **bridge the gap** between the unpredictability of popular cryptocurrencies like Bitcoin (BTC) and the stability required for everyday financial transactions.
- **Aim** - To tackle the price fluctuations by tying the value of cryptocurrencies to more stable assets, usually fiat currencies.
- **Types of stablecoin** - Fiat-collateralized, commodity-backed, crypto-collateralized, and algorithmic.
- **Third party Audit** - Stablecoins involve third-party auditors for verification of reserves, which introduces risk in a system aiming to minimize third-party reliance.
- **Benefits** - Stablecoins are designed for everyday use, enable easy value transfer, support financial services, and maintain stability through collateral reserves or algorithmic supply control.
- **Current Status of Cryptocurrency in India** -
 - **Legal Status** - Cryptocurrencies and other Virtual Digital Assets (VDA) are **not recognized as legal tender** in India.
 - This means they cannot be used as official currency for payments, but buying, selling, and holding these assets is legal.

- **Taxation** - A **30% tax** is levied on the income generated from the transfer of any virtual digital asset (cryptocurrency).
- An **18%** Goods and Services Tax (GST) is applied to the services provided by crypto platforms.
- **Regulation** - There is no overarching regulatory framework governing cryptocurrencies.
- Despite recent taxation measures, India's cryptocurrency market remains largely unregulated.

To know more about Virtual Digital Asset (VDA) Regulations in India, Click [here](#)

References

1. [The Hindu | Nations must prepare to deal with stablecoins](#)
2. [Investopedia | Stablecoins](#)

