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

