

The monetary policy of India must prepare and anticipate for the challenges posed by the crypto currencies. Evaluate.

Crypto currencies is a medium of exchange, created and stored in the blockchain, using the encrypted technique to have the control over the flow of funds, creation of monetary units.

Eg:- Bitcoin is the best Example of crypto currency

There is a widespread speculation that the rise in crypto will have major implication on monetary policy which is the set of rules undertaken by the nation's central bank to control the overall money supply and achieve ~~eco~~ sustainable economic growth.

Significance of cryptocurrency

- It has the potential to spur financial innovation
- The widespread use can lead to faster & cheaper transactions.
- Can Augment financial inclusion.
- It saves a substantial amount of money & time by reducing the intermediaries like, Banks, Credit Card etc.

→ As block chain run on peer-peer checks, it keep a control over the corruption, by tracking the flow of funds & transactions.

Concerns of crypto

→ It doesn't have a sovereign authority & a legal framework to protect the consumer.

→ Highly volatile

→ The user loses cryptocurrency if they lose their private key & these keys are in the hands of private service providers which may lead to hacking & malware.

→ It is prone to criminal activity & money laundering as it provide more anonymity to the user.

→ validating transaction is energy intensive.

Implication of crypto over monetary policy

→ widespread use of crypto as medium of exchange will make the monetary policy ineffective as it cannot set interest rate & inject liquidity in private owned currency.

- Due to inelasticity & demand shocks, Crypto can be an inappropriate medium of exchange.
- For this purpose stablecoin is introduced but there is a possibility that stable coins will divide apart from the fiat currency & set their own monetary policy if the use of stable coin increases.
- IMF suggest that crypto can be used only ~~as for~~ ^{for} niche purposes which later has to be converted to the fiat currency.
- Ultimately the fate of indian economy will be in the hands of ~~private~~ private firms and the immediate steps for external shocks is not possible.

Way forward

- Regulations need to protect customers
- It has to be transparent, coherent, vision centric
- A legal & regulatory framework should define crypto in the national law & the regulatory body should be formed
- Instead of completely banning crypto, the government should regulate the trading of crypto by including stringent KYC norms etc.