

## Impact of Digital Currency on Indian Economics: An Overview



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### **Abstract**

*The emergence of digital currency in India presents both opportunities and challenges for the economy. Digital currency has the potential to increase financial inclusion, reduce corruption, and improve cross-border transactions, but also poses significant regulatory challenges and could potentially disrupt the traditional banking sector. To successfully integrate digital currency into the Indian economy, the government needs to evaluate its impact and develop appropriate regulations. It will require a coordinated effort between the government, the financial sector, and other stakeholders to ensure a smooth and sustainable transition to a digital financial system.*

### **Introduction**

Digital currency, also known as cryptocurrency, has been gaining popularity worldwide in recent years. Its potential to impact the global economy is enormous, and India is no exception. In the present scenario, the adoption of digital currency has been increasing in India, and it has the potential to revolutionize the country's financial system. However, there are also concerns about the impact of digital currency on the Indian economy. This essay will explore the potential impact of digital currency on Indian economics, including its disruptive technology, potential for increased financial inclusion, reduced transaction costs, regulatory challenges, and volatility. Understanding these factors is essential to evaluate the potential benefits and risks of digital currency adoption in India.

Digital currency, also known as cryptocurrency, has the potential to impact Indian economics in several ways. Here are some of the potential impacts:

- **Disruptive**

Cryptocurrencies are built on blockchain technology, which is a decentralized ledger system that is transparent and secure. This technology has the potential to disrupt traditional financial institutions and systems, making them less relevant in the future.

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- **Increased financial inclusion:** Digital currencies have the potential to bring more people into the financial system, particularly in developing countries like India where many people are unbanked. Digital currencies can provide a cheaper and more accessible alternative to traditional banking services.
- **Reduced transaction costs:** Digital currencies can reduce transaction costs, particularly for cross-border transactions. This could be beneficial for Indian businesses that need to make payments to suppliers or customers in other countries.
- **Regulatory challenges:** Digital currencies are not yet regulated in India, and this could lead to challenges in terms of money laundering, terrorism financing, and tax evasion. The Indian government is currently considering various regulatory options to address these concerns.
- **Volatility:** Digital currencies are known for their high volatility, which could make them a risky investment. The Indian government has warned investors about the risks of investing in digital currencies and has not yet recognized them as legal tender.

In conclusion, digital currency has the potential to impact Indian economics in various ways, from increasing financial inclusion to disrupting traditional financial institutions. However, regulatory challenges and volatility remain significant concerns that need to be addressed before digital currencies can become mainstream in India.

## Reason for Issue Indian Digital Currency

The Indian government has been exploring the possibility of issuing its own digital currency, commonly referred to as a Central Bank Digital Currency (CBDC). The reasons for this move can be attributed to several factors:

- **Promoting financial inclusion:** India has a large unbanked population, and a digital currency could provide an opportunity for more people to access financial services.
- **Reducing the cost of printing and distributing physical currency:** Digital currency can reduce the costs associated with the printing and distribution of physical currency, which can be significant in a country as large as India.
- **Countering the growth of cryptocurrencies:** The Indian government has been cautious about cryptocurrencies, which are decentralized and not under the control of any central authority. The issuance of a CBDC can provide a secure and regulated alternative to cryptocurrencies.
- **Improving transparency and reducing corruption:** A digital currency can help reduce corruption by promoting transparency in financial transactions, making it more difficult for illegal activities such as money laundering and tax evasion to occur.
- **Enhancing monetary policy:** The issuance of a CBDC can help the central bank better manage the money supply, which can have an impact on inflation and interest rates.
- In summary, the Indian government's decision to explore the possibility of issuing a digital currency is driven by the desire to promote financial inclusion,

reduce costs, counter the growth of cryptocurrencies, improve transparency, and enhance monetary policy.

## Digital Currency Functional Design Possibilities

Digital currency, also known as cryptocurrency, is designed to function as a decentralized, secure, and transparent payment system. Here are some possible functional design possibilities of digital currency:

- **Decentralized:** Digital currencies are designed to be decentralized, meaning they are not controlled by a central authority like a government or financial institution. This allows for peer-to-peer transactions without the need for intermediaries.
- **Secure:** Digital currencies use cryptography to secure transactions and prevent fraud. The blockchain technology used to record transactions is tamper-proof, making it difficult to hack or manipulate.
- **Fast and cheap transactions:** Digital currency transactions can be processed quickly and cheaply, making them an attractive alternative to traditional payment methods. This is particularly useful for cross-border transactions, which can be slow and expensive with traditional methods.
- **Anonymity:** Digital currencies can provide users with a degree of anonymity, as transactions are not tied to personal information. This can be beneficial for privacy and security purposes.
- **Programmable money:** Digital currencies can be designed to have programmable money features, allowing for more complex transactions such as smart contracts.
- **Transparency:** Digital currencies use a transparent ledger system, which allows for greater accountability and transparency in financial transactions.

In conclusion, digital currencies are designed to be decentralized, secure, and transparent payment systems that can offer fast and cheap

transactions, anonymity, programmable money, and transparency. These design possibilities make digital currency an attractive alternative to traditional payment methods and have the potential to revolutionize the financial system.

## Technical and Organizational approach to Digital Services

The technical and organizational approach to digital services involves the development and implementation of digital technologies and systems to deliver digital services to users. This approach requires a combination of technical expertise, organizational structures, and processes to ensure the efficient and effective delivery of digital services. Here are some key components of the technical and organizational approach to digital services:

- **Digital Infrastructure:** This involves the development of digital platforms, networks, and systems that enable the delivery of digital services. It includes the hardware, software, and communication technologies that underpin digital services.
- **User Experience:** The design of digital services should prioritize the user experience. This includes the design of user interfaces, user-centered content, and accessibility features that make it easy for users to access and use digital services.
- **Data Management:** Digital services rely on the management of large amounts of data. Effective data management involves the collection, storage, processing, and analysis of data to provide insights that can inform the design and delivery of digital services.
- **Security and Privacy:** Digital services must be designed with security and privacy in mind. This includes the use of secure technologies, robust authentication processes, and data encryption to protect users' personal and sensitive information.
- **Organizational Structure and Culture:** To effectively deliver digital services, organizations must adopt a digital mindset and culture. This includes

the development of digital skills and capabilities among staff, the creation of cross-functional teams to drive digital innovation, and the alignment of digital strategies with organizational goals.

- **Partnerships and Collaborations:** To deliver digital services successfully, organizations need to build partnerships and collaborations with other organizations, including government agencies, private sector organizations, and civil society groups.

The technical and organizational approach to digital services involves the development and implementation of digital infrastructure, user-centered design, effective data management, security and privacy, organizational structure and culture, and partnerships and collaborations. This approach is essential to deliver digital services that are efficient, effective, and meet the needs of users.

## Benefits for the Startups in India

There are several benefits for startups in India in the context of the country's digital economy. Here are some of the key advantages:

- **Low cost of operations:** Digital technologies have reduced the cost of starting and operating a business in India. This has led to a boom in startup activity, with many entrepreneurs launching innovative digital businesses at a low cost.
- **Access to a large market:** India has a large and growing digital market, with millions of users accessing the internet and mobile devices. This provides startups with a vast potential customer base to tap into.
- **Government support:** The Indian government has launched several initiatives to support startups, including the Startup India scheme, which provides funding, mentorship, and other support to entrepreneurs.
- **Innovation ecosystem:** India has a thriving innovation ecosystem, with many incubators, accelerators, and co-working spaces that provide startups

with the infrastructure, resources, and support they need to grow.

- **Digital infrastructure:** India has made significant investments in digital infrastructure, including the rollout of high-speed internet and mobile networks, which has enabled startups to develop and deliver digital products and services more easily.
- **Skilled workforce:** India has a large pool of skilled workers, including software developers, engineers, and designers, who can help startups develop and launch their digital products and services.

In conclusion, startups in India can benefit from the country's digital economy through access to a large market, government support, a thriving innovation ecosystem, digital infrastructure, and a skilled workforce. These advantages make India an attractive destination for startups looking to launch and grow innovative digital businesses.

## Impact of the Digital Currency on Indian Economy

The impact of digital currency on the Indian economy is complex and multifaceted. Here are some potential effects of digital currency on the Indian economy:

- **Increased financial inclusion:** Digital currency can help to increase financial inclusion in India by providing access to financial services for underserved and unbanked populations. This can promote economic growth and reduce poverty.
- **Reduction in corruption:** Digital currency can potentially reduce corruption in India by increasing transparency in financial transactions and reducing the need for cash-based transactions.
- **Improving cross-border transactions:** Digital currency can make cross-border transactions more efficient and cost-effective, which can improve trade and commerce between India and other countries.
- **Impact on the traditional banking sector:** Digital currency could

potentially disrupt the traditional banking sector in India, which may have both positive and negative effects. For example, it could provide greater competition and innovation in financial services, but could also lead to job losses and financial instability.

- **Regulatory challenges:** Digital currency poses significant regulatory challenges for the Indian government, which may struggle to balance the need for innovation and economic growth with the need to protect consumers and maintain financial stability.
- **Risk of speculation and volatility:** Digital currencies are known for their volatility and the risk of speculation, which could lead to economic instability if digital currencies become widely adopted in India.

In conclusion, the impact of digital currency on the Indian economy is complex and multifaceted. While digital currency has the potential to improve financial inclusion, reduce corruption, and improve cross-border transactions, it also poses significant regulatory challenges and could disrupt the traditional banking sector. Therefore, it is essential for the Indian government to carefully evaluate the potential benefits and risks of digital currency before implementing any significant changes to the financial system.

## Conclusion

In conclusion, the emergence of digital currency in India presents both opportunities and challenges for the economy. Digital currency has the potential to increase financial inclusion, reduce corruption, and improve cross-border transactions. However, it also poses significant regulatory challenges and could potentially disrupt the traditional banking sector. To realize the benefits of digital currency while mitigating its risks, the Indian government needs to carefully evaluate the impact of digital currency on the economy and develop appropriate regulations to ensure its safe and effective adoption. Ultimately, the successful integration of digital currency into the Indian economy will depend on a coordinated effort between the government, the financial sector, and other stakeholders to ensure a smooth

and sustainable transition to a digital financial system.

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