## THE IMPACT OF DIGITAL CURRENCIES ON ECONOMY OF ANY COUNTRY

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## ABSTRACT

The market for digital currencies is worth about \$2 trillion, and there are over 15,000 different kinds of them. Toward the end of the year 2021, El Salvador became the first country in the world to legalise Bitcoin. Central banks are catching up with private digital currencies. One of the first jurisdictions to formally debut central bank digital currencies will be Nigeria, which will join the Bahamas, Eastern Caribbean States, and Cambodia in October 2021. (CBDCs). Fourteen nations have started pilot programmes, 16 countries are establishing CBDCs, and 41 are undertaking research on the subject, according to the Atlantic Council's CBDC tracker.Furthermore, the digitalization of trade must go hand in hand with advances in payment technology. The benefits of digital currencies will be restricted if we continue to rely heavily on paper papers and do not have legal backing for electronic documents or e-signature. Focus on developing the necessary physical and legal infrastructures for the future of commerce is essential.

### **KEYWORDS:** Digital Currencies, Economy and Digital Assets, Digital Assets and Impact.

## INTRODUCTION

Financial inclusion will continue to be a challenge for nations or communities that lack the digital devices needed to store digital currencies or fundamental infrastructures such as energy, internet, identity services, or cash-to-digital converters. In a world where money is becoming digital, communities and especially small businesses who are now excluded confront an even bigger problem.

The flow of currency between buyers and sellers Digital currencies may or may not inspire more international trade. International commerce is based on comparative advantages, and while this may assist certain nations boost their trade volume, it does not affect the principles of it in any way. It's possible that nations with economic or political instability may still have problems even if digital currencies are used. In countries with low international commerce, the currencies of those countries would stay unwanted. Because of this, even when one digital currency has global reach, changing it into local money to facilitate international trade may still be prohibitively expensive and difficult if the demand for such local currency is restricted.

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Here are some implications. Due to the fact that present frameworks like bilateral investment treaties (BITs) and the safeguards they provide were developed before digital currencies were even a thing, many problems are being raised when cross-border investments are made using digital currency. Would the BIT classify digital currencies as "covered investments"? Investments made with and in digital currencies would be protected by the BIT, right? Is it possible to tokenize foreign direct investment (FDI) under present regulations? These are the kinds of issues that demand answers from both governments and investors [1].

By eliminating the digital gap, the international commerce community can seize the prospects of this new era. It is critical that no one be left behind as we move towards a new era of digital currency and exchange in products and services. To ensure that everyone has access to inexpensive and accessible internet in the future, we need to invest in the necessary infrastructure now.

Digital currency have introduced some new problems.

Even if digital currencies have the ability to alleviate many problems in international trade, they may also create new ones, including In order to properly comprehend the potential advantages and dangers of digital currencies, policymakers should collaborate closely with the technological service providers that power them. As a result, laws and regulations can offer enough security without suffocating new ideas. Over 85 public and commercial groups have worked together to solve concerns linked to digital currencies through the digital currency governance consortium.



The money flower: a taxonomy of money

Adaptation from Bank for International Settlements (2017)

Figure 1: The Money Flower and Taxonomy

#### **Types of Systems**

#### **Centralized Systems**

Currency can be exchanged electronically using debit cards and credit cards using electronic funds transfer at point of sale.

### Mobile Digital Wallets

A number of electronic money systems use contactless payment transfer in order to facilitate easy payment and give the payee more confidence in not letting go of their electronic wallet during the transaction [2].

In 1994 Mondex and National Westminster Bank provided an "electronic purse" to residents of Swindon

In about 2005 Telefónica and BBVA Bank launched a payment system in Spain called Mobipay which used simple short message service facilities of feature phones intended for pay-as-you-go services including taxis and pre-pay phone recharges via a BBVA current bank account debit.

In January 2010, Venmo launched as a mobile payment system through SMS, which transformed into a social app where friends can pay each other for minor expenses like a cup of coffee, rent and pay a share of the restaurant bill when one has forgotten their wallet. It is popular with college students, but has some security issues. It can be linked to a bank account, credit/debit card or have a loaded value to limit the amount of loss in case of a security breach. Credit cards and non-major debit cards incur a 3% processing fee.

On 19 September 2011, Google Wallet released in the United States to make it easy to carry all one's credit/debit cards on a phone.

In 2012 Ireland's O2 (owned by Telefónica) launched Easytrip to pay road tolls which were charged to the mobile phone account or prepay credit.

The UK's O2 invented O2 Wallet at about the same time. The wallet can be charged with regular bank accounts or cards and discharged by participating retailers using a technique known as 'money messages'. The service closed in 2014.

On 9 September 2014, Apple Pay was announced at the iPhone 6 event. In October 2014 it was released as an update to work on iPhone 6 and Apple Watch. It is very similar to Google Wallet, but for Apple devices only [3].

### **Decentralized Systems**

Digital Currency has been implemented in some cases as a decentralized system of any combination of currency issuance, ownership record, ownership transfer authorization and validation, and currency storage.

Per the Bank for International Settlements (BIS), "These schemes do not distinguish between users based on location, and therefore allow value to be transferred between users across borders. Moreover, the speed of a transaction is not conditional on the location of the payer and payee."

New forms of trade agreements are needed to allow for the full potential of digital currencies to be realised, including enabling market access to private digital currency issuers and facilitating

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the movement of payments and data. Such forward-looking trade agreements have been championed by Singapore, Australia, the United Kingdom, Chile, and New Zealand.

The adoption of digital currencies on a significant scale, particularly in cross-border settings, is still far off, despite the fact that traditional financial institutions have started to offer settlement through digital currencies and certain shops have started to accept digital currencies. Interoperability, AML, CTF, and consumer protection are only some of the technological and regulatory hurdles that need to be addressed. The advent of digital money is here without a doubt, but more work must be done before those involved in international trade can reap the benefits.

People's methods of payment are changing as the economy becomes increasingly digital. As a result of the epidemic, many countries' reliance on cash — the only form of central bank money — is dwindling.

Over 6,000 digital currencies are in circulation throughout the world and one in ten individuals own them [4]. Central banks can no longer ignore demand for digital currencies. Central banks around the world are stepping up to offer their own digital currency choices in response to a parallel monetary system that is entirely out of their control.

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Figure 2 : Statista Reports

Traditional monetary systems may be seen as a natural progression in the digital world, and these CBDCs are a step in the right direction. Since the CBDCs are developed and distributed directly by central banks, they have a higher level of confidence and consumer protection than other speculative crypto currencies and tokens. They are often backed by gold or reserves [5].

Central banks throughout the world, as seen in the map below, are now studying or actively working on these technologies in an effort to gain an advantage over their competitors. As early as this year, the Reserve Bank of India will begin testing the Digital Rupee.

Even though CBDCs are certain to effect both national and international monetary systems, we can see how their rise will affect significant stakeholder groups in the Financial System through a Future Wheel exercise. The future wheel graphic depicts the several levels of influence that should be considered before a CBDC-like strategic plan is implemented in a country [6].

A noticeable rise in the use of cryptocurrencies has occurred since Bitcoin's inception in 2009. Since its creation, the new form of money has grown in popularity and relevance throughout the world due to its portability and independence. In order to provide a more secure means of payment, many varieties of cryptocurrencies have been developed.

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More than 2000 coins are expected to exist by January 2020. In addition, 36.5 million people in the United States hold or invest in money. Bitcoins and other cryptocurrencies like them are popular because they offer a more modern and digital money. There are no third parties involved in transactions on these sites. As a result, the buyer and seller may conduct business directly. Low transaction costs and faster processing have also been praised for Bitcoin. That explains why hundreds of billions of dollars have been moving into new kinds of currency in recent years. Blockchain, the technology that underpins bitcoin, has also made its way into the public.

It's a win-win situation for entrepreneurs all across the world, thanks to cryptocurrency. Entrepreneurs no longer have to limit themselves to the domestic market in order to expand their businesses internationally. As a result, sellers in developing countries have been able to build connections and trust with customers they would not have otherwise been able to reach. There were around 287 thousand verified Bitcoin transactions every day in the final three months of 2020 throughout the world [7].

There are still drawbacks to this new kind of money, preventing it from progressing further. Failure to safeguard purchasers is a key problem with online currencies. Some purchasers are duped as a result of the sites' aversion to delegating transactions to a third party. Bitcoin is currently accepted by a limited percentage of internet shoppers.

Cryptocurrency has given rise to a new business model based on technology. As a result of the market, many new buyers have entered the market, making it easier for businesses to conduct business across borders. Even while the market has been on the rise, it still has a long way to go before it becomes a more commonly accepted form of cash [8].

Any cash, money, or money-like item that is handled, saved, or exchanged largely on digital computer systems, especially through the internet, is referred to as digital currency (also known as digital money, electronic money, or electronic currency). Cryptocurrency, virtual money, and central bank digital currency are all examples of digital currencies. An electronic computer database held by an organisation or bank may be used to hold digital money. Other options include a distributed database on the internet; digital files; or even a stored-value card.

However, unlike printed banknotes or minted coins for traditional currencies, digital currencies don't exist in a tangible form. Transactions over the internet are practically instantaneous since there is no need for notes or coins to be distributed. Virtual currencies are not legal money since they are not issued by a governmental agency and can be transferred over governmental borders.

Although this kind of money can be used to purchase real-world products and services, it can also be confined to specific groups, such as players of one particular online video game.

In a centralised system, the money supply is controlled by a single entity (such as a bank), whereas in a decentralised system, decisions about the money supply are made democratically.

## Comparisons between different forms of digital money

As a particular kind and as a meta-group term, digital currency, an electronic money known as Digital Currency has a certain set of characteristics. Although the phrase "digital money" is often used to refer to a broader category of digital assets, its precise meaning is dependent on the facts of a given situation. There are several legal definitions of digital money and its various subtypes, both on the legal and technological fronts. There are a plethora of implementations that combine

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various attributes to create many subtypes of Digital Currency. Digital currency, virtual currency, cryptocurrency, e-money, network money, e-cash and other sorts of digital currency have been defined in different ways by different governments. When it comes to digital money, several authorities and regulators in the same jurisdiction describe the various forms of digital currency with diverse and frequently contradicting definitions [9, 10].

### Digital Cash vs. Virtual Money

For the European Central Bank, "a sort of unregulated, digital money, produced and typically controlled by its developers and accepted among the members of a certain virtual community" was characterised as "virtual currency" back in 2012.

It has been defined by the US Department of Treasury in 2013 as "a means of exchange that acts like a currency in some situations, but does not have all the features of actual cash." There is no legal tender status for virtual money in any jurisdiction, according to the US Department of Treasury [11].

"Virtual currency schemes – a further examination" paper by the European Central Bank states that virtual currency is a digital representation of value, not issued by a central bank, credit institution or e-money institution, that can be used in some circumstances as an alternative to money.

An uncontrolled kind of digital money that is created and generally controlled by its developers and accepted by members of a certain virtual community was classified as a virtual currency in a prior study from October 2012.

Digital currencies, according to the Bank for International Settlements' November 2015 "Digital currencies" paper, are a type of asset that is both digital and monetary.

## CONCLUSION

Digital currency can be created in the name of a sovereign country and denominated in that country's currency. When it comes to electronic money, digital currency is a form of cash (emoney). A virtual currency is one that is denominated in its own units of value, or one that is issued through a decentralised or automated means. Because of this, bitcoin is not only an electronic money, but also a virtual currency. Virtual currencies like Bitcoin and its counterparts are referred to be cryptocurrencies because of the fact that they are built using cryptographic methods.Bitcoin, Ethereum, and other cryptocurrencies are all forms of digital currency that use encryption to secure asset transactions, peer-to-peer networks and decentralisation. In other circumstances, the money is created and managed via a proof-of-work or proof-of-stake It is possible to decentralise electronic money systems through the use of mechanism. cryptocurrency. Digital ledger systems and record-keeping systems that employ encryption to alter shards of database information scattered across multiple servers can be implemented using the blockchain. The earliest and most widely used system is bitcoin, a cryptographic peer-to-peer electronic currency.Many conventional money supplies are stored on computers by the banks. In certain circumstances, they're regarded as a form of digital cash. Some believe that our cashless world implies all currencies have become digital ones, although they are not presented to us in this way.

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