

Crypto Currencies: Issues And Perspectives

Dr. S. Gokul Kumar, Priya Dharshini S S & Vishnu Priya R

Abstract

Cryptocurrency is the hot topic of discussion. However, functioning of crypto currencies are said to be illegal in nature and most of the countries are not willing to incorporate it which may lead to collapse of the entire economy. Despite the prevailing issues, the crypto currency has been legalized in El Salvador country which had an adverse effect on its economic growth post legalization. In this background, present study analyses the impact of crypto currencies on El Salvador country, its functioning and the possible measures to minimize the effect of crypto currencies in the near future.

Keyword:

Cryptocurrency, Bitcoin, Impact, Legalization

Introduction:

Money is used as a medium of exchange. Before the invention of money barter system was used by people where goods are exchanged for other goods. There was lack of transferability in bartering of goods as well as it was confusing and inefficient. To overcome these hindrances a familiar, easily recognizable and generally accepted system has to be created, since it had to serve as a medium of exchange. This medium of exchange is known as money. Money has become common medium for the exchange of goods and services and generally accepted by all people and government.

With all the present technological development, digital currency was found. Digital currency is any currency, money, or money-like asset that is

primarily managed, stored or exchanged on digital computer systems, especially over the internet. Cryptocurrency is one such digital currency. Cryptography is a digital or virtual currency in which transactions are verified and records are maintained by a decentralized system using cryptography, rather than by a centralized authority. It was founded in 2009 by a programmer or, possibly, a group of programmers under the pseudonym Satoshi Nakamoto. There are different types of cryptocurrencies, but Bitcoin is the first and most popular cryptocurrency.

Crypto currencies are digital or virtual currencies underpinned by cryptographic systems. Crypto currencies are created using cryptographic techniques that enable people to buy, sell or trade them securely. They also enable secure online payments without the use of third-party intermediaries. "Crypto" refers to the various encryption algorithms and cryptographic techniques that safeguard these entries.

Central to the appeal and functionality of Bitcoin and other cryptocurrencies is blockchain technology. Transactions are recorded in "blocks" that are then linked together on a "chain" of previous cryptocurrency transaction. It is essentially a set of connected blocks or an online ledger. A blockchain is an open, distributed ledger that records transactions in code.

Cryptocurrencies are generated by mining. For example, Bitcoin is generated using Bitcoin mining. The process involves downloading

Dr. S. Gokul Kumar*, Assistant Professor, **Priya Dharshini S S**, MBA Student & **Vishnu Priya R**, MBA Student, Department of Management Studies, Coimbatore Institute of Technology, Coimbatore - 1.

*Email: gokulkumar.s@cit.edu.in

software that contains a partial or full history of transactions that have occurred in its network. As of January 2022, 18.9 million bitcoins have already been issued.

This research is mainly focused on Bitcoin, which alone has a market capitalization of more than 65 percent with all the cryptocurrencies put together. Investors and Governments have different opinions about cryptocurrency some people think that Bitcoin will fundamentally alter payments, economics, and even politics around the world. While some other think, Bitcoin is inherently broken and will suffer an inevitable and spectacular collapse. Further the article focuses on the various drawbacks and issues faced by the El Salvador country after legalizing cryptocurrency. In addition to that, based on the research findings, key preventive measures would be suggested to minimize the impact of cryptocurrencies on the economic well-being of a country.

Review of Literature:

Mubarak and Hosmani Manjunath (2021) examined the usage of crypto currencies in India. The research is predominantly focused on digital currencies used in the country, value of bitcoin in terms of Indian rupees. Study is based on secondary data collected from various available sources. The research results revealed that crypto currencies are very useful for those who deal with digital assets and digital currencies.

Benaik P (2019) analyzed the digitalization of payments and its benefits for the users. The study revealed that the rapid digitalization of payments leads to greater cost and time efficiency. The study aimed at examining the legal and security challenges in maintaining the financial stability in terms of money transmissions. It was found that in the digital system each digital currency is allocated with a value, which serves as a digital version of financial transaction. Further, the research relates to the effective functioning of digital currency in the digital transactions.

Asefeh Asemi and Andreo Ko (2019) reviewed the future development of digital money and systematic function of digital currency. The

research includes the economic function of digital currency and the study results revealed a thematic cluster dendrogram in field of crypto currency. Further, the research findings described the discussion and progression of few virtual economies, virtual banking, and global trade through the digital functioning. Furthermore, the research concluded with the effective information of digital money and digital transactions.

Olena Fomina, Olena Moshkovska, Olena Avhustova and Olha Romashko (2019) reviewed the need of crypto currency and the mechanism to improve the recognition of crypto currency. The study focused on forecasting the financial statement related to improving the relationship between owners of crypto currency and the state which manages such transactions. The research findings concluded that Ukraine has underwent the digital transformation with the processing of digital currency which includes the latest innovation.

Sumayyah Abdul Aziz (2021) examined the technological development of global financial industry which influences the digital development across the countries. The study is qualitative and descriptive in nature. The research is focused on analyzing the classifications of digital currencies, its functions and various characteristics. The study results showed that the crypto currencies are functioning with the systematic digital analysis which leads to the transformation in digital field.

Selim Sanlisoy and Tugberk Ciloglu (2019) evaluated the direct and indirect effects of cryptocurrencies on the global monetary system and economy as a whole. The research is concentrated on the background of crypto currency, functions of crypto currency and examined its impact on the effectiveness of monetary policy across the world. The research findings stated that the crypto currency has played a vital role in the economy and it has much higher impact on the monetary policy of those economies which opted for it.

Blesson James and Manjari Parashar (2018)

discussed the reliability and speculative part of crypto currency. The study reported the digital transformation and digital currency which depends on currencies related with digital transactions. The research findings concluded that there is high hope for bitcoin and legalization of digital currency. Further, the research explained the review of crypto currency from the perspective of Indian Economy.

Wonglimpiyarat (2016) highlighted the digital transformation and the various obstacles faced by the economy owing to the lawless lender in terms of bitcoin (crypto currency) which was allowed as a new currency in a cash-based society. The research findings concluded that the crypto currency serves as a monetary innovation with the surface development on digital platform.

Statement of the Problem:

Crypto currencies are considered as one of the massive innovations witnessed in the area of financial transactions which operates in the form of digital currency and at the same time it is not regulated by any Government authorities like central banks, monetary committee, finance departments and international monetary associations. Therefore, the functioning of crypto currencies are said to be illegal in nature because of which most of the countries are not willing to incorporate it which may lead to collapse of the entire economy. In spite of these prevailing issues, the crypto currency has been legalized in El Salvador country which had an adverse effect on its economic growth subsequently post legalizing it. This paves the way for analysing the various impacts of crypto currencies on El Salvador country, its functioning and the measures to minimize the effect of crypto currencies in the near future.

Research Objectives:

The objectives of the study are:

- I. To study the issues faced by the countries due to crypto currency
- II. To analyze the economic condition of El Salvador after legalizing bitcoin

Research Findings and Suggestions:

In the last few years cryptocurrency has gained a lot more attention and many people are interested to buy / invest in it which comes with a lot of challenges as well.

Crypto currency is a digital currency created and stored electronically. It can also be transferred electronically; therefore it is vulnerable to hackers and malware. So, it is important to reduce the risk in it by using block chain technology and recording the transactions in a decentralized network, which will give high confidence to the investors while investing as well as make them feel that their investment is secure in nature.

The anonymous nature of cryptocurrency transaction makes them easy to be used for illegal activities like money laundering, terrorist funding and tax evasion schemes. This can be avoided by regulating them and having a transparency in the transactions.

Crypto currency has huge market risk, as there is no centralized body to regulate it. The value of crypto currency is fluctuating due to the high number of informal and amateur investors. If this situation continues their value may go down and eventually lose their value also. Prices are driven primarily by the supply of coins from miners and the demand for them by purchasers. This supply-demand dynamics can result in hefty returns as well or the other way round. So, it is best to regulate the crypto currencies with the help of central government bodies like RBI which will give confidence and trust to investors as well.

There are so many security and impenetrable authentication protocols involved in cryptocurrency. But, if any of the users loses the private key then there is no way of accessing it. The wallet will remain locked with the number of coins in it. In that case, it might be a complete loss for such users. So it is better to have an alternative way to retrieve them if the user forgot the key.

Economic Condition of El Salvador after Legalizing Bitcoin:

On 8 June 2021, the country in Central America El

Salvador became the first country to make Bitcoin as its legal tender. Bitcoin can now be held in the country's banks and businesses are required to accept it in exchange for goods and services. The government rolled out a digital wallet called Chivo that individuals can download for holding Bitcoin and converting it into US dollars, which has been the country's official currency since 2001. El Salvador is a middle-low-income country with a relatively low economic growth rate for a developing country, high unemployment rate, and a large trade deficit.

One of the main reasons for this move is to make it cheaper and quicker for citizens to receive remittances from abroad. In the shift of remittance, the intermediaries will charge up to 20% of the transaction value. By adopting bitcoin, these intermediaries may be avoided. Remittances are an important source of income for his heavily indebted nation. The main risk faced in crypto currencies like Bitcoin are, it is highly volatile and speculative assets with no physical backing. They aren't well designed to fulfil any of the classic functions of money – a unit of account, store of value, or means of payment, because of which its prices are so extraordinarily volatile.

Another obstacle is that if a person has to access or use cryptocurrency, they have to have internet access. But only about a third of Salvadorans use the Internet, and a large share of the population lives below the poverty line. Most respondents to one recent survey indicated that they have little intention of using Bitcoin. The Salvadoran government has made an initial purchase of 400 Bitcoins, valued at the time of acquisition at about \$21 million. But if Bitcoin continues to lose value, the government risks the treasury reserves it has invested in the currency. Individuals have also already felt the personal risks of using the government's Bitcoin platform.

In the early days of Chivo's rollout across El Salvador, users reported losing money through the digital wallets. All this reasons affected the country's economy in large and increased their debt rate. In June, the World Bank rejected a

request to help El Salvador implement Bitcoin as legal tender, citing the “environmental and transparency shortcomings” of Bitcoin. In the same month, the IMF said that adopting Bitcoin “raises a number of macroeconomic, financial and legal issues” for the country. But in recent days, the institution's warnings have become more pointed.

In a January 25th report on El Salvador's public debt, IMF directors urged the country to better regulate its use of Bitcoin, citing risks to “financial stability, financial integrity, and consumer protection.” They also requested El Salvador drop Bitcoin as legal tender. The main reason for the major drawback in the economy after legalizing cryptocurrency is because they did not have a well-defined action plan and regulation to adopt cryptocurrency as a legal tender. With well-defined plan and action plan, I think they can overcome these drawbacks.

Crypto currencies were introduced with the intent to revolutionize financial infrastructure. There has also been lot of advantages using crypto currency like, there are no third parties or intermediaries involved in cryptocurrency transfers between two transacting parties, and therefore it is faster as compared to standard money transfers. Cryptocurrency users can pay for their coins anywhere that they have Internet access. It is a cheaper alternative compared to other online transactions while, transaction is done internationally. The fund transfer fee is also minimal. The transfer of funds is more secure and private. The infrastructure of cryptocurrency uses blockchain technology, the decentralized data-storage ledger that tracks every transaction undertaken on it. Once we make an entry in the blockchain, it can never be erased; this infrastructure gives a sense of security to the people using it.

Conclusion:

Crypto currency is the implementation of digital currency in global finance. The introduction of bitcoin as a legal tender in El Salvador paved the way for digital transformation with

uncomfortable currency transactions in the current economic system. Crypto currencies have some internal challenges in converting the whole world of financial system into the digital function of bitcoin. It is of high importance to know the key issues prevailing in these payment mechanisms and its impact on the economic growth of developing countries. El Salvador holds at least 1801 bitcoins worth about \$66 million or 2% of the country's listed in 2020 which represents about 84% of its GDP and public blockchain are more likely to dominate over private ones. Further, the protocol layers are likely to merge with increased adoption on rapid development of digital transactions.

References:

1. Asemi, A., & Andrea, Kő. (2019). Bibliometrics Literature Review on Cryptocurrency. *Library Philosophy and Practice (e-journal)*. 3714.
2. Beniak, P. (2019). Central bank digital currency and monetary policy: a literature review. *MPRA Paper 96663. University Library of Munich, Germany*.
3. Fomina, O., Moshkovska, O., Avhustova, O., Romashko, O., & Holovina, D. (2019). Current aspects of the cryptocurrency recognition in Ukraine. *Banks and Bank Systems*, 14(2), 203.
4. James, B., & Parashar, M. (2018). An Overview on Crypto currency and its Impact on Indian Economy. *International Journal of Creative Research Thoughts*, 6(2), 695-698.
5. Mubarak & Manjunath, M. (2021). A Study on Crypto currency in India. *International Journal of Research and Analytical Reviews*, 8(1), 435-444.
6. Şanlısoy, S., & Çiloğlu, T. (2019). An investigation on the crypto currencies and its future. *International Journal of eBusiness and eGovernment Studies*, 11(1), 69-88.
7. Wonglimpiyarat, J. (2016). S-curve trajectories of electronic money innovations. *The Journal of High Technology Management Research*, 27(1), 1-9..