

Can the Bitcoin revival reshape the future of finance?

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By Naandika Tripathi | Mar 19, 2024

In the current bull run bitcoin prices have been largely driven by retail investors globally, and though trading has gone up, India still lags due to regulations



[CAPTION]Image: Shutterstock[/CAPTION]

For some, bitcoin and cryptocurrencies are bubbles that will burst soon, while others think they're an attempt to democratise finance. Still in its teenage years, bitcoin, which recently touched an all-time high of close to \$73,000 on March 13, has already steered the crypto market.

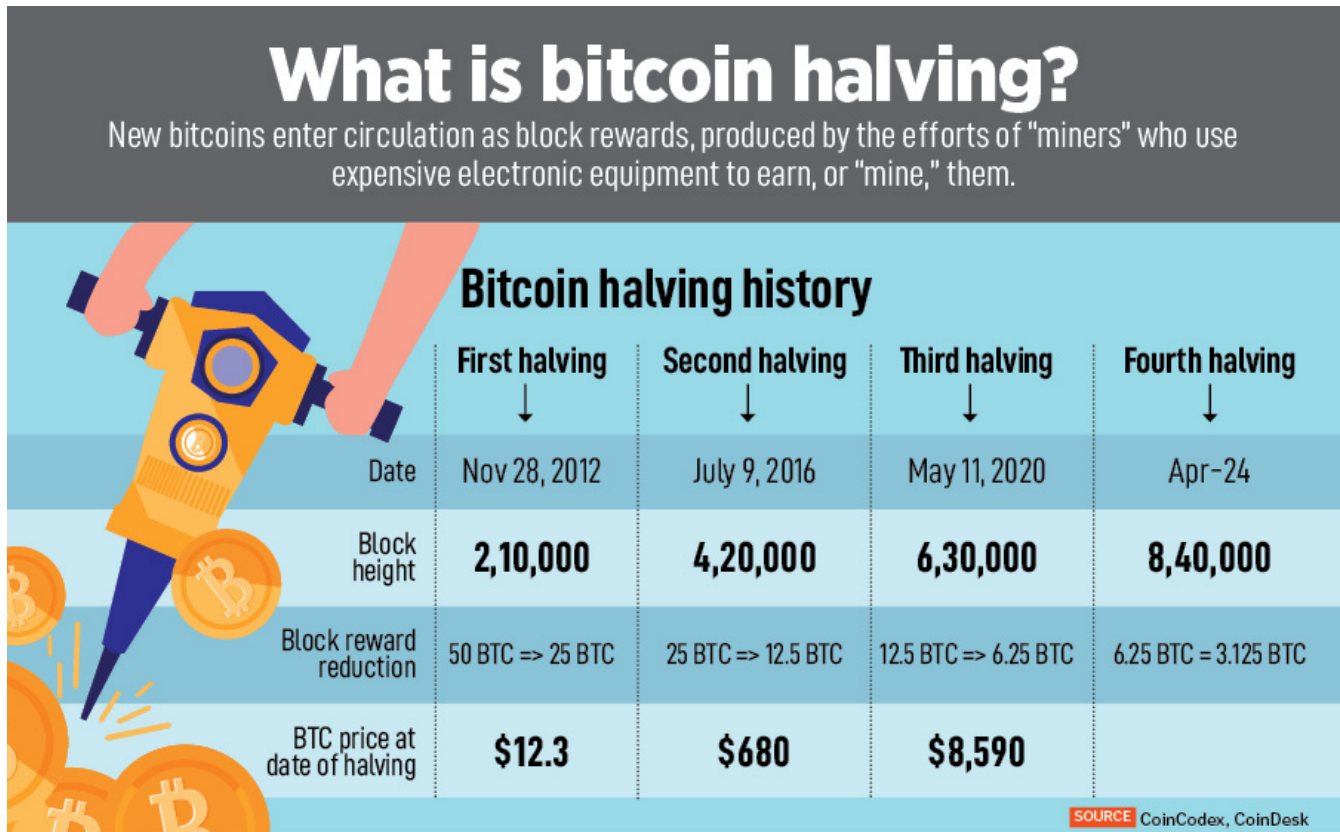
The price of Bitcoin has been vaulting upward ever since on January 10 US regulator Securities and Exchange Commission (SEC) approved bitcoin exchange-traded funds (ETFs), even though it added that it remained sceptical about cryptocurrencies. Nevertheless, this was a landmark moment for this sunrise market. The SEC authorised 11 ETFs for Bitcoin in the US, opening the door to cryptocurrencies for many new investors who are usually reluctant to take the extra steps involved in buying bitcoins. The largest cryptocurrency by market value has gained 50 percent this year.

Experts say that the acceptance from SEC came as a great validator for this burgeoning industry. As bitcoin becomes a part of traditional financial institutions, demand and acceptance will boost steadily and regulatory clarity from other countries would attract more investors.

RSS The acceptance of ETFs has led to mainstream adoption of bitcoin in the US markets, with major financial institutions such as Blackrock, Vanguard, Valkyrie, Vanek, and Fidelity launching their ETFs. The cumulative inflow of institutional money into bitcoin through these ETFs has reached \$41 billion, with a significant portion of this inflow occurring in the past two months, as per an analysis by crypto market research platform Crebaco.

Experts add that it might rise higher post April 20, when the "halving" event occurs. A bitcoin halving event occurs every four years, limiting the amount of new supply put into circulation from bitcoin miners. The total supply of bitcoin is capped at 21 million BTC. The halving event, expected around April 20, will reduce miner rewards from 6.25 to 3.125 BTC.

Given its fixed supply, demand is the primary variable determining its price. This demand fluctuates largely based on investor sentiment. The last bitcoin halving was in May 2020, which drove its price up about 600 percent from around \$9,000 to \$63,000 by April 2021. Then it fell by about 50 percent within three months, signalling renewed volatility for the asset.



This new asset class is still considered to be more volatile in comparison to stocks. From declines in value to multiple corporate bankruptcies to lawsuits and regulatory threats, the cryptocurrency market has seen many low points. The BTC price had sunk as low as \$13,000 in 2022 after the bankruptcy of the crypto exchange FTX. It was trading at \$46,500 hours after the SEC announcement. As of March 18, the total crypto market cap was \$2.52 trillion, with bitcoin making up 52 percent of that amount, according to CoinMarketCap data.

A bit of a recap. The 2008 global financial crisis, which intensified following the bankruptcy of US investment bank Lehman Brothers, gave birth to a new class of digital asset. About two months after its collapse, the first cryptocurrency, bitcoin, came into existence. Its purported creator, Satoshi Nakamoto [pseudonym], published a technical paper on this new currency that doesn't need the backing of any formal bank.

These peer-to-peer electronic transactions were designed to be completely decentralised, and the users of the currency would not need to rest their trust in traditional central banks, he said. Ever since 2009, these digital assets have been created or minted when new information is added to a particular blockchain. Through blockchain entries, users can exchange existing digital assets or mint new ones.

WHAT'S HAPPENING IN THE INDIAN CRYPTO MARKET?

The impact of the bull run has also been felt on the Indian exchanges, with trading volumes going up after a long time, though numbers are not as good as in 2021. "I haven't seen the retail stampede coming in yet," says Rajagopal Menon, vice president of WazirX. "Our transaction volume has surged impressively, up 300 percent in early March. New acquisitions have gone up. The sentiment is there, but we're not close to where we were in 2021, the last bull run."

Cryptocurrency exchanges in India have bounced back after the bull run in bitcoin. The overall sector in the country crumbled through the continued bear market in 2023. Majorly dominated by centralised exchanges, the crypto market in India faced a significant blow due

to the market downturn and the government's introduction of a 30 percent taxation rate along with a 1 percent TDS (tax deducted at source) in 2022.

Post-TDS implementation, trading volumes at the Indian exchanges dropped more than 95 percent, says angel investor Karthik Varma, who has also worked with exchanges like Koinex and CoinDCX. "The daily trading volumes on Indian exchanges are currently up almost 4x. The exchanges need to capitalise on the current retail interest to expand their user base and increase volume in order to justify the high valuations at which they raised funds during the previous cycle."

To dodge the high taxes, Indian users shifted to offshore bourses. A report by the think tank Esya Centre revealed that about three to five million Indian users shifted to offshore platforms, resulting in \$3.8 billion worth of trading volume shifting from domestic exchanges.

But India blocked access to foreign cryptocurrency exchanges like Binance, Kucoin, OKX, and virtual digital asset service providers in January. This came after an input from the finance ministry's Financial Intelligence Unit (FIU) which suggested that these platforms may have been used for money laundering. Global cryptocurrency exchanges do not have a registered entity in India, which causes a tax leakage of nearly Rs 3,000 crore a year to the central government, according to the Esya Centre.

Blocking access to these foreign platforms has helped domestic cryptocurrency exchanges. "At Zebpay, the current intraday trade volumes range between \$3 and \$5 million on a daily basis, whereas the over-the-counter (OTC) desk sees inflows north of \$40 million. The numbers in 2024 are comparatively lower than those in 2020 (\$100 million daily) due to stringent taxation policies in India," says Nirmal Ranga, chief revenue officer of Zebpay.

Crypto exchange Unocoin too has seen a surge in trading volumes. In the last month alone, they have crossed 100,000 active users in a month, up from 30,000 last year. But to sustain this momentum, crypto regulations in India are the need of the hour, explains Sathvik Vishwanath, co-founder and CEO of Unocoin. "When the new budget comes up, we are hopeful of seeing some amendments. In the end, the US has gone much further ahead, and we are lagging behind due to the high taxes."

Aditya Singh, co-founder of Crypto India, agrees. India has the opportunity to capitalise on this new technology and market. Around 900 startups in India are building on crypto, but a lack of clarity on regulation is making it difficult for them to function, he says. "That is why we have seen high brain drain. Most of these startups raise money and move their base to other countries where there are proper guidelines and regulations." Through Crypto India, which has 302K subscribers on YouTube, Singh educates people about investing in cryptocurrency. He's also running a petition urging the government to reconsider and reduce the crypto tax.

Talent from India too is moving out of the country to make the most of the opportunity created by this new asset class. "In the last 50 days, more than \$70 billion has been pumped into Bitcoin ETFs, whereas the Gold ETFs market is \$95 billion; it took 10 years to reach here. So it's clear something is happening in the sector. India is losing on human resources because of its lethargic approach to regulation," says Sidharth Sogani, founder and CEO of Crebaco.

Also Read: Are we looking at a crypto brain-drain? (<https://www.forbesindia.com/article/take-one-big-story-of-the-day/are-we-looking-at-a-crypto-braindrain/75993/1>)

Finance is the most undemocratic institution in society, and bitcoin was the first attempt at democratising finance, adds lawyer Suril Desai. Cryptocurrencies are usually linked to terrorist financing. But according to Desai, they are the most traceable. "Most of your fiat currency is untraceable. Bitcoins and cryptocurrencies are far more traceable than fiat money because they are on what we call the internet, or network. So it may be difficult to exactly track and trace it, but if you apply enough technology, you can trace it."

While scepticism among Indian investors still lingers, hopes among industry experts are high. The year 2024 is going to be the golden year for crypto, says Menon of WazirX. After the elections, the new government will have to have regulations in place for crypto. India is a signatory to the Delhi declaration of the G20 Summit that happened in Delhi, where the FIU roadmap clearly spells out that all G20 countries have to have crypto regulation in place by 2025.

"Doing business in the crypto sector is not easy in India. For instance, crypto exchanges still struggle for stable banking connections, and there are the whims and fancies of all our taxes. Banks can yank our connection anytime. So the ease of doing business will improve substantially. Things are going to look up in the next two years," adds Menon.

After reaching an all-time high recently, Bitcoin's price has gone down, and it is currently trading around \$65,000.



Bitcoin's recent surge, 'Halving,' and ETFs – a quick

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