

# RBI's Stance on Cryptocurrencies: Issues, Challenges, and the Way Forward

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**Abstract-** This article examines the Reserve Bank of India's (RBI) cautious approach to private cryptocurrencies, identifies the principal regulatory and systemic challenges the central bank faces, and proposes practical policy options. Drawing on secondary sources and recent policy developments, it contrasts India's restrictive posture toward private digital assets with the parallel development of a Central Bank Digital Currency (CBDC) — the e-Rupee — and suggests measures to balance technological innovation with financial stability and monetary sovereignty.

**Keywords:** Cryptocurrencies, RBI Regulation, Monetary Sovereignty, Financial Stability, CBDC, DeFi.

## I. INTRODUCTION

Cryptocurrencies have seen rapid adoption in India, drawing interest from retail investors and global platforms despite unresolved regulatory questions. Industry estimates place Indian holdings in crypto assets in the multibillion-dollar range as of 2024. Since 2018, the RBI has consistently flagged the risks of unregulated digital assets, warning of speculative excesses, fraud, money-laundering, and potential disruption to monetary policy transmission. The central bank argues that large-scale adoption of private cryptocurrencies could weaken its ability to preserve financial stability and safeguard monetary sovereignty. India's immediate regulatory response has been partial rather than comprehensive. Measures adopted include a 30% flat tax on crypto gains and a 1% tax deducted at source (TDS) on certain transactions instituted in 2022, together with compliance expectations for exchanges serving Indian users. Nonetheless, significant gaps remain — notably around peer-to-peer transfers, decentralised finance (DeFi), and stablecoins — which the RBI views as threats to the integrity of domestic payment systems such as the Unified Payments Interface (UPI). Concurrently, the

government and RBI have advanced work on a regulated digital alternative: the CBDC or “e-Rupee,” piloted since late 2022. This dual-track strategy — discouraging private cryptocurrencies while promoting a sovereign digital currency — underscores the complex policy trade-offs India faces.

## II. REVIEW OF LITERATURE

### A. Financial Stability and Monetary Sovereignty

Scholars and policy reports have emphasized that unregulated crypto markets can foster speculative bubbles, enable illicit capital flows, and complicate central-bank policy transmission. Research indicates that, if private digital assets were to gain widespread traction, they could reduce demand for fiat currency and complicate the RBI's control over liquidity and interest-rate channels.

### B. Regulatory and Policy Responses in India

Recent analyses argue that taxation measures (notably the 30% tax on gains and the 1% TDS) represent efforts to curb speculative trading and improve tax compliance, yet they do not substitute for a coherent legal framework. Commentators also note that India's simultaneous promotion of a CBDC reflects a deliberate attempt to offer a regulated, sovereign digital payment instrument while discouraging dependence on privately issued cryptocurrencies.

## III OBJECTIVES OF THE STUDY

1. To examine the RBI's position on cryptocurrencies and identify the major challenges it faces in regulating them.
2. To propose policy recommendations that enable the RBI to manage digital-currency risks while preserving economic stability.

#### IV. NEED FOR THE STUDY

The rapid expansion of crypto activity in India presents both opportunities — innovation, new financial services, and investment options — and significant risks, including fraud, speculation, and potential capital flight. The lack of an all-encompassing regulatory framework has created uncertainty for investors, fintech firms, and regulators. DeFi and stablecoins introduce novel technical and cross-border difficulties that traditional regulatory tools struggle to address. Simultaneously, the RBI's CBDC initiative signals a policy preference for a state-backed digital alternative. A focused study helps clarify the RBI's stance, pinpoints policy lacunae, and suggests practical approaches to harmonise innovation with financial safety.

#### V. PROBLEM STATEMENT

Cryptocurrency adoption in India has outpaced the creation of a clear regulatory regime. Existing fiscal measures do not eliminate systemic and operational vulnerabilities arising from decentralised platforms, anonymous transactions, and rapidly evolving financial technologies. The RBI has warned of threats to monetary sovereignty and systemic stability, yet gaps persist in regulation of DeFi, peer-to-peer trading, and stablecoins. The role of the CBDC in mitigating these risks remains under development, necessitating an evaluation of policy options that reconcile digital innovation with macro-financial security.

#### VI. SCOPE OF THE STUDY

This study concentrates on the RBI's stance toward private cryptocurrencies and related regulatory, systemic, and policy challenges. It evaluates recent measures (taxation, compliance expectations) and highlights unresolved issues in DeFi and stablecoin governance. The analysis also considers the CBDC's potential role as a regulatory and policy tool. The study's findings are intended to inform policymakers, regulators, academics, and industry stakeholders.

#### VII. METHODOLOGY OF THE STUDY

A qualitative approach was employed, relying on secondary data sourced from central-bank reports,

government policy documents, academic literature, and credible news and industry analyses. The study synthesises these materials to identify key issues, risks, and policy alternatives.

#### VIII. DATA AND DISCUSSION

##### India's policy posture and rationale



Government reviews and RBI statements indicate reluctance to grant private cryptocurrencies formal legitimacy. Regulators caution that formal legal recognition could promote systemic adoption and complicate containment of associated risks. An outright ban, while potentially limiting certain activities, would not eliminate peer-to-peer transactions or decentralized trading. Instead, policymakers have opted for a cautious mix of taxation, reporting requirements, and market supervision—alongside development of a sovereign digital currency.

##### Major regulatory problems faced by the RBI

1. Regulatory vacuum and legal uncertainty: Contradictory signals over ban versus regulation have left enforcement and investor protection incomplete.
2. Monetary policy and sovereignty risks: Unbacked cryptocurrencies and certain stablecoins can dilute monetary control and interfere with policy transmission.
3. AML/CFT and anonymity: The pseudonymous nature of many cryptocurrencies hampers anti-money-laundering and counter-terrorist financing surveillance.
4. Consumer protection and market conduct: High volatility, fraud, and lack of uniform licensing expose retail participants to losses.

5. Technology and cybersecurity risks: Exchanges, wallets, bridges, and smart contracts remain vulnerable to hacks and operational failures.
6. Cross-border coordination challenges: Crypto activity transcends national borders, necessitating coordinated international regulation and information-sharing.

#### IX. FINDINGS OF THE STUDY

1. The RBI adopts a consistently cautious posture toward private cryptocurrencies, emphasizing systemic and consumer risks.
2. India currently lacks a comprehensive legal framework for cryptocurrencies; taxation measures exist but do not address all supervisory gaps.
3. Private digital assets, if widely adopted, could compromise monetary sovereignty and complicate monetary policy implementation.
4. AML/CFT vulnerabilities and cybersecurity threats remain pronounced in the crypto ecosystem.
5. Consumer protection mechanisms are inadequate relative to the risks posed by highly speculative crypto markets.
6. The government's CBDC initiative reflects a preference for a regulated, sovereign digital payment instrument as an alternative to private crypto solutions.

#### X. SUGGESTIONS OF THE STUDY

1. Adopt a technology-neutral legal framework that classifies digital assets, clarifies the legal status of token types, and establishes regulatory authority and enforcement powers.
2. Implement a calibrated licensing regime for Virtual Asset Service Providers (VASPs) that mandates robust KYC/AML procedures, minimum capital and custody standards, cybersecurity requirements, and periodic audits.
3. Regulate stablecoins with strict reserve and transparency rules, permitting only fully-backed, well-governed instruments that meet redemption and disclosure standards.
4. Accelerate and integrate the CBDC (e-Rupee) with existing payment rails to provide a secure,

widely accessible sovereign digital payment option that can mitigate private crypto demand.

5. Deploy regulatory sandboxes and phased testing to evaluate DeFi applications, tokenized securities, and other innovations under controlled conditions.
6. Enhance investor protection and public education through mandatory risk disclosures, financial literacy initiatives, and efficient grievance redressal mechanisms.
7. Strengthen international cooperation on taxation, AML, and supervisory information exchange to manage cross-border risks.
8. Mandate incident-response and resilience standards for systemic providers, including breach reporting, operational continuity planning, and minimum cold-storage requirements for custodial entities.

#### XI. CONCLUSION

India faces a pivotal policy choice in managing the rise of cryptocurrencies: to stifle innovation with heavy-handed prohibition, or to craft a measured regulatory environment that mitigates risks while allowing beneficial technological progress. The RBI's caution is grounded in legitimate concerns about monetary sovereignty, financial stability, and consumer protection. Partial measures to date — taxation and compliance expectations — are necessary but insufficient in the absence of a comprehensive legal and supervisory framework.

A practical path forward combines clarity and control with space for responsible innovation. A technology-neutral legal framework, targeted licensing of service providers, rigorous stablecoin rules, and the rapid rollout of a well-integrated CBDC would provide citizens with safe digital alternatives while curbing the systemic risks of privately issued tokens. Regulatory sandboxes and international collaboration will be essential to address the novel technical and cross-border features of crypto markets. Crucially, investor education and robust consumer-protection systems must accompany any regulatory design.

If implemented thoughtfully, this balanced approach can position India to reap the benefits of distributed-ledger technologies and digital finance, while protecting monetary policy levers and preserving the integrity of the country's financial system.

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