



Understanding the Indian Government's Intentions Toward CeFi, DeFi, Cryptocurrencies, Share Market, Mutual Funds, Gold, and Fixed Deposits

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Abstract: This paper explores the Indian government's stance and evolving regulatory landscape regarding various financial instruments, such as centralized finance (CeFi), decentralized finance (DeFi), cryptocurrencies, share market, mutual funds, gold, and fixed deposits. It examines the current frameworks and regulations, and how government policies are shaping each financial avenue. By analyzing the different approaches toward traditional and modern financial systems, this paper highlights the challenges and opportunities faced by the Indian financial ecosystem, particularly in the context of cryptocurrencies and DeFi.

Keywords: CEFI, DEFI, Cryptocurrencies, Share Market, Mutual Funds, Gold and Fixed deposits

1. Introduction

India is at a crucial juncture regarding its approach to finance. As a rapidly growing economy, the government must balance innovation with regulation to maintain stability. The Indian financial system is highly diverse, incorporating traditional avenues like fixed deposits, gold, and the share market, alongside emerging technologies such as cryptocurrencies and DeFi. While the government has taken cautious steps toward regulating cryptocurrencies, it actively encourages investments in mutual funds, the share market, and gold. This paper will examine these different avenues and how the Indian government perceives and regulates them.





2. Centralized Finance (CeFi) in India

Centralized Finance (CeFi), which involves financial systems managed by centralized institutions like banks and government bodies, remains the backbone of India's financial structure. Traditional avenues like fixed deposits (FDs) and mutual funds are still heavily promoted by the government and financial institutions. FDs offer low-risk, steady returns, and the government has created multiple initiatives, such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), to promote financial inclusion and encourage saving among citizens.

Mutual funds, regulated by the Securities and Exchange Board of India (SEBI), have seen strong governmental support through tax benefits like the Equity-Linked Savings Scheme (ELSS). The government's support for these investment vehicles is consistent with its overarching goal of fostering stable, long-term financial security.

3. Cryptocurrency and DeFi Regulation

Cryptocurrencies and DeFi present a challenge for Indian regulators. Since 2018, the Reserve Bank of India (RBI) has maintained a cautious stance, initially banning crypto-related banking services. However, the Supreme Court overturned this ban in 2020, sparking discussions around potential regulation. Despite the removal of the ban, the government has not fully embraced cryptocurrency, reflecting concerns about money laundering, tax evasion, and financial instability [27†source] .

In 2022, the Indian government introduced a 30% tax on cryptocurrency gains and 1% TDS on all transactions. This move clarified the legality of crypto trading but imposed significant financial burdens on traders. However, unlike DeFi, which operates without intermediaries, India's financial ecosystem remains largely focused on centralized control. The government's reluctance to adopt DeFi-based systems can be attributed to concerns about decentralization's potential to undermine regulatory oversight [27†source] .

4. Share Market and Mutual Funds

The share market and mutual funds are vital components of India's economy. Regulated by SEBI, they provide structured and relatively transparent means of investment. The Indian government encourages participation in the stock market through various tax incentives and public awareness campaigns. Systematic Investment Plans (SIPs), which enable investors to





regularly invest in mutual funds, are widely promoted due to their potential for long-term wealth creation and low-risk nature.

Mutual funds and the share market enjoy government support as they align with the goals of formalizing the economy and fostering investment growth. Various schemes like Atal Pension Yojana and National Pension Scheme complement the equity market, encouraging citizens to secure their financial future while contributing to national growth.

5. Gold: Traditional vs. Digital

Gold has historically been a preferred investment in India. Whether in physical form or through digital means like Sovereign Gold Bonds (SGBs), the Indian government continues to encourage investment in gold as a stable and long-term store of value. The Gold Monetization Scheme (GMS) launched in 2015 aims to reduce gold imports by encouraging citizens to deposit gold with banks, thus freeing up liquidity in the market.

Digital platforms and innovations like gold-backed cryptocurrencies have also been explored, although the government remains wary of digital currencies and blockchain technologies. While gold retains its cultural and economic significance, the government's stance on digital gold innovations is cautious but evolving.

6. Fixed Deposits: A Conservative Favorite

Fixed deposits (FDs) continue to be one of the most trusted investment options for Indian citizens. FDs are widely promoted by both public and private sector banks, and the government ensures they are secure through regulations such as the Deposit Insurance and Credit Guarantee Corporation (DICGC). Fixed deposits offer security and guaranteed returns, making them especially attractive to risk-averse investors, such as retirees and low-income individuals.

The Indian government's promotion of FDs aligns with its broader objective of financial security, especially among rural populations. However, the returns on FDs have been diminishing in the face of inflation and more lucrative financial instruments like mutual funds.

7. Government's Hesitation Toward Cryptocurrency and DeFi

While cryptocurrencies and DeFi platforms represent innovation, the Indian government has been hesitant to fully embrace these technologies. The regulatory landscape is in its infancy,





marked by concerns over the potential misuse of decentralized systems for illegal activities, such as money laundering and fraud. The absence of centralized oversight makes it difficult for the government to implement traditional regulatory measures.

CeFi-based regulatory frameworks have sometimes been viewed as a means to maintain centralized control over the financial system. Government authorities have historically acted to protect the interests of institutional finance by limiting the growth of decentralized alternatives like DeFi. The lack of regulatory clarity is an obstacle for DeFi implementation, which operates on transparency and autonomy but poses risks in terms of compliance and consumer protection [27†source] [26†source] .

8. Significance of work

Research plays a critical role in advancing knowledge, solving complex problems, and informing decision-making across various domains. Its significance can be understood from multiple perspectives, including societal, economic, and scientific.

1. Advancement of Knowledge: Research is fundamental to the progression of knowledge in any field. It helps to uncover new information, develop theories, and validate existing ideas. For instance, in the medical field, clinical research leads to breakthroughs in treatments and therapies that can significantly improve patient outcomes. Similarly, social science research enhances our understanding of human behavior and societal dynamics, influencing policies and practices.

2. Informed Decision-Making: Effective research provides the data and evidence necessary for informed decision-making. Governments, businesses, and organizations rely on research findings to formulate policies, strategies, and plans that address pressing issues. For example, economic research informs fiscal policies and economic strategies, helping to manage inflation and unemployment. In the corporate world, market research enables companies to understand consumer needs and preferences, guiding product development and marketing strategies.

3. Addressing Global Challenges: Research plays a pivotal role in addressing some of the world's most pressing challenges, such as climate change, public health crises, and technological advancements. Environmental research leads to sustainable practices and innovations that mitigate the impacts of climate change. Similarly, public health research





informs responses to pandemics and health crises, ensuring that interventions are effective and evidence-based.

4. Economic Growth and Innovation: Research is a key driver of economic growth and innovation. Investments in research and development (R&D) lead to technological advancements that create new industries and jobs. Countries that prioritize research often experience higher rates of innovation, which contributes to their competitive edge in the global market.

5. Cultural and Social Impact: Beyond economic and scientific implications, research contributes to cultural and social development. Humanities and arts research enrich our understanding of cultures, histories, and values, fostering social cohesion and cultural identity. In conclusion, research is essential for knowledge advancement, informed decision-making, and addressing global challenges, ultimately contributing to societal progress and economic development. By investing in research, societies can harness innovation, drive progress, and improve the quality of life for all citizens.

9. Conclusion

India's approach to finance is undergoing significant transformation, with the government balancing its promotion of traditional financial instruments like FDs, gold, and mutual funds against the regulation of modern systems such as cryptocurrency and DeFi. The government's hesitation toward fully embracing decentralized finance stems from concerns about regulatory oversight and the risk of financial instability. At the same time, efforts to regulate cryptocurrency through taxation reflect a cautious willingness to integrate digital assets into the broader financial ecosystem. Future developments in India's financial regulation will likely depend on the government's ability to harmonize its regulatory frameworks with the innovative potential of DeFi and cryptocurrencies while protecting investor interests in more traditional sectors like the stock market, mutual funds, and gold investments.

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