

* Bitcoin Push

- El Salvador → 1st sovereign nation to make a cryptocurrency (Bitcoin) legal tender
 - Bitcoin → now accepted as a valid payment by all establishments
 - except those who don't have the technical knowledge to do so.
 - El Salvador's primary currency is US dollars since 2001
 - Countries adopt US \$ as their official currency -
 - when their local currencies fail (Eg in Zimbabwe → saw inflation in multimillion%)
 - To take advantage of its stability
 - To attract investments
 - Downside of adopting US \$
 - Economy gets linked to the monetary policies of the Federal Reserve of US.
 - US Fed. Reserve could set rates that may benefit the US economy but end up hurting other economies that use the same currency.
- This is ↓ the reason why El Salvador legalised Bitcoin.
↳ To mitigate the -ve impacts from central banks.

- Reasons why El Salvador made BTC a legal tender
- To mitigate the -ve impact from US Fed. Reserve
 - El Salvador → heavily reliant on remittances
 - ↳ \$6bn received in 2019 ~ 20% of its GDP
 - ↳ Thus, El Salvadorians can now remit money via BTC & save on transaction fees of banks etc
 - Politically, current Govt in El Salvador is at odds with Biden administration

- Bitcoin

- ↳ The first & biggest of all decentralized currencies
- ↳ based on blockchain technology.
- ↳ Users keep a tab on every digital 'coin' & transaction rather than a centralised banking system.

- Govts Vs Cryptocurrencies

- National currencies are in centralised control, while cryptocurrencies are decentralised
- Many countries warn citizens against investing in it
- China has its own digital Yuan on blockchain
 - ↳ but still cracks down on other cryptos.
- India treats them as commodities.

- Concerns on using cryptocurrencies.

• Highly volatile nature

↳ Massive swings in values of Bitcoin & Dogecoin, based merely on tweets of Elon Musk

• High energy use

↳ due to 'mining' of Bitcoin.

↓
individuals/companies setting up powerful systems to support blockchain network and get rewarded.

↳ Generates ~22 mn metric tonnes of CO₂e per year

↓
(b/w the levels produced by Jordan & S. Lanka)

- How El Salvador will mitigate above risks?

• Quick convertibility to dollars

↳ Govt to purchase it through a \$150 million trust.

• Bitcoin mining facilities

↳ to be connected to geothermal energy sources from the country's volcanoes.

* Embracing cryptocurrency

- Cryptocurrency (CC) market in India -

- Laissez faire regulation
- 2013-2018 → Govt cautioned investors & users

↳ Govt fears were legitimate as -

- Cryptocurrencies are extremely volatile
- Chances of hacking
- Use for criminal activities.

- So, in 2018 → RBI banned CC trading

- 2020 → SC overturned this ban

↳ SC held that there were alternative regulatory measures available.

- Thus, India was swinging in the extremes
↳ Non Interference ⇒ Prohibition ⇒ Again Non Interference

- 2021

↳ draft- CC & Regulation of Official Digital Currency Bill

↳ it criminalises all private CCs.

↳ lays down a regulatory framework for an RBI-backed digital currency.

- Also Govt stated that

↳ India's regulatory bodies cannot directly

regulate the private CCs

↳ as they don't have the legal framework to do so.

↳ because of the imprecise legal nature of pvt. CCs.

- Lessons from other countries -

• **UK** → classified CCs as property
→ thus including them in a regulated legal framework.
→ Seek to regulate crypto-businesses & also impose some restrictions.

• **Singapore** → No exact legal classification.
→ But there is now a legal framework for CC trading

• **US** → trade in CCs are both taxed and regulated

- Way Forward for India

• Each country's economic situation is different
↳ ∴ it can't be just copied in India

• But also, plain prohibition serves no one.

• Need to achieve balanced regulation

• Individuals should have freedom to explore a new technology & freedom to chose a medium of exchange other than the central bank's fiat currency.

* Why is China targeting cryptocurrencies?

- Cryptocurrencies (CCs)

- ↳ steep rise in prices till mid-April
- ↳ China crackdown started.
- ↳ Prices halved in last 2 months.

- CC mining

- miners play role similar to gold miners
- bring new coins into circulation after getting these as a reward for validating transactions
 - ↳ require successful computation of a mathematical puzzle.
- Computations become increasingly complex
 - ↳ use more & more computation power
- Makes this energy intensive

- Mining in China

- ↳ profitable due to cheap electricity.
- ↳ China accounted for $\sim \frac{2}{3}$ rd of total computational power last year.

- China's policy on CCs

- 2013 - barred financial institutions from

handling bitcoin (BTC)

- 2017 - barred **Initial Coin Offerings**, an unregulated market to raise money by selling new CCs.

• 2017

- ↳ China banned trading b/w Renminbi (RMB) & CCs, which led to fall in RMB-BTC trades from 90% to under 1%.
- Recently, directive to banks & power cos.
 - ↳ identify those involved in CCs and cut their payment channels
 - ↳ stop power supply to miners.

- Why so much crackdown?

- CCs → are decentralized; not regulated
 - can be used for illegal activities
- Strengthen its own new official digital currency ⇒ **Digital Yuan**
 - ↳ reducing dependence on dollar.
- Energy concerns

* The crypto conundrum

- Crypto prices rising recently
 - incl. of Bitcoin & others
 - increase in participation of retail investors in India.
- Earlier in 2018
 - ↳ RBI had restricted use of Crypto currencies (CCs)
 - ↳ In 2020, SC overturned it
- Are CCs a good bet?
 - Limited supply.
 - It's supply cannot be increased.
- Use of CCs as money
 - Scarcity is not sufficient to facilitate adoption
 - Need exchange value or use value.
- Eg:
 - (1) Stocks & Bonds → have exchange values
 - (2) Commodities like Oil & steel → have use value.
 - (3) Gold, Silver → Both use & exchange value

- But CCs

↳ offer neither exchange value nor direct use value.

↳ Bitcoin can be used to purchase a very few real goods & services.

- So, why the rise in prices of CCs

↳ some may see a future in its adoption as money.

↳ But in reality, it is just a speculative mania.

- Govt money Vs CCs

↳ Govt's power stems from its monopoly on issuance of money.

↳ Allows them to fund their budget deficits and also indirectly tax citizens by \uparrow in supply of money, thus devaluing them.

↳ Govts cannot cede control over such a monopoly.

↳ They will allow CCs to exist only as long as they are speculative & not a medium of exchange.