El Salvador’s gamble on Bitcoin

Why in news?

The world's largest cryptocurrency, Bitcoin crashed from the highs of $53,000 amid El Salvador's rollout of Bitcoin as a legal tender.

What are cryptocurrencies?

- Cryptocurrency is a digital or virtual currency designed to work as a medium of exchange.
- It uses cryptography to secure and verify transactions as well as to control the creation of new units of a particular cryptocurrency.
- Examples of cryptocurrencies include Bitcoin, Litecoin, Ethereum, Ripple,etc.

What is the recent development in El Salvador?

- El Salvador became the 1st country to accept Bitcoin as the legal tender besides US dollar
- Businesses will be required to accept Bitcoin for exchange of goods and services, except the ones who are technologically incapable
- But Bitcoin crashed the day El Salvador accepted it as a legal tender
- Technical glitches on El Salvador’s official digital wallet, **Chivo** was also reported
- The downtrend has swept the entire market off its feet affecting other leading altcoins such as Ethereum, Cardano and Dogecoin

What are the reasons for the crash?

- The market was running strong over the last eight weeks and became overvalued that sent the market plunging
- Volatility of the crypto market
- US Federal Reserve’s readiness to harden its easy monetary policy might lead to reduced interest rates
- This could eventually decrease the liquidity in the system, making investors cautious of risky assets like cryptocurrencies
- Reported instances of order failures
- Cryptocurrencies lack intrinsic value that is required for survival of any

commodity

What is India’s view on cryptocurrencies?

- In a 2018 circular, the RBI had banned banks from dealing with virtual currency exchanges and individual holders.
- But the Supreme Court lifted the ban in 2020 stating that the circular didn’t pass the ‘test of proportionality’

Source: Livemint, The Indian Express

