

The Potential of Crypto-Currencies

What is the issue?

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- Finance Ministry and the RBI have warned investors/buyers of potential risks in dealing with crypto-currencies.

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- Despite the imminent risks, the advent of crypto-currencies has gifted us with the block-chain technology which may prove worthy.

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How is market scenario for crypto-currencies?

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- A new and seemingly attractive investment area has opened up within the cyber-space with the strong emergence of “Bitcoins”.

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- Bitcoin is currently the most popular crypto-currency, and its price has shot-up by over 1000% in the past year albeit with wide fluctuations.

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- The main reason for this volatility is market speculation and the entry of a large number of people lured by the prospect of quick and easy profits.

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- Significantly, the bullish run of the bitcoin prices has also encouraged investors to seek newer not yet well-established crypto-currencies.

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- While such cyber investment increased tremendously in India over the past year, most users know almost nothing of the technology involved.

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- Even the knowhow to verify the genuineness of a currency is lacking, which is of concern as almost 90% of the cyber-currencies are supposedly spurious.

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What are the regulatory and monetary aspects?

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- The use value of crypto-currencies as a medium of exchange and as a store of value is still being explored.
- Tech firms such as IBM are developing their own crypto-currency platforms to speed up cross-border transactions in a secure and transparent manner.
- But simultaneously, many countries are intensifying regulatory scrutiny of this online market and South Korea is even considering a blanket ban.
- Also, an US court recently ordered a popular crypto-currency platform to hand over information related to 14,000 accounts for revenue audit.
- These inherently undermine the anonymity and agility that digital currencies promise to offer.

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What does the future hold?

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- Crypto-currencies may or may not emerge as a useful tool, as governments may not want to encourage the proliferation of anonymous transactions.
- Nevertheless, better investor awareness on crypto-currencies is badly needed for the present and for future such episodes.
- Similarly, regulators also need to differentiate the “block-chain technology” on which crypto-currencies are based from the currency itself.
- Block-chains are digital ledgers of financial transactions that are immutable and instantly updated across the world in multiple user domains.
- They have the potential to streamline payment mechanisms, make them transparent and hence are worth looking at as aids to ease doing business.
- Notably, an inter-ministerial panel has been constituted by the Indian government to take a call on the future course of policies in this domain.

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Source: The Hindu

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