

**WILL THE WORLD, EVER, WIDELY EMBRACE
CRYPTOCURRENCIES AS THEY ARE PERCEIVED, TODAY ?**

Central banks are defined as being the national banks that, inter alia, provide financial services to the governments of their respective countries.

Central banks contain one very important attribute: Trust.

The services that central banks provide include, inter alia, banking and financial services and the implementation of a government's monetary policy.

In some areas of the world, central banks are responsible for the issuing of currencies, in addition to other services that they provide.

In The United States of America, the de jure central bank is the Federal Reserve System, in the People's Republic of China, the central bank is The People's Bank of China (), in The United Kingdom, the central bank is The Bank of England, The European Central Bank is the central bank for the euro and it administers the monetary policy of the euro area, which comprises 19 European Union member states, being one of the largest currency areas of the world, and, in the Special Administrative Region of the People's Republic of China, the de facto central bank is The Hongkong Monetary Authority.

In The United States of America, there is the department of government, named The United States Department of The Treasury, the mission of which is said to be:

'To maintain a strong economy and create economic and job opportunities by promoting the conditions that enable economic growth and stability at home and abroad, strengthen national security by combating threats and protecting the integrity of the financial

system, and manage the U.S. Government's finances and resources effectively.'

The Treasury was established by an Act of Congress in 1789. Its role includes the management of the government's revenue, printing all paper currency and minting all coins in circulation and collecting all Federal taxes through the Internal Revenue Service.

When The Federal Reserve Board, commonly referred to as The Fed, makes a public announcement in respect of, let us say, the direction of interest rates, the world listens – and reacts, almost immediately, to the announcement.

It is accepted, internationally, that there is a high degree of trust in public statements, uttered by the Chairman of The Fed.

If The Fed determines that interest rates should be increased, it is almost a certainty that interest rates will rise, internationally.

In the Hongkong Special Administrative Region of the People's Republic of China, the Hongkong dollar is pegged to the US dollar at the rate of \$HK7.80: \$US1.00 so that the Hongkong Monetary Authority becomes the tail that wags the dog whenever The Fed barks.

Money has three separate, but interdependent, functions. They are:

1. A means of fulfilling payment;
2. A unit of account; and,
3. A storage of an acceptable medium of exchange.

Two key ingredients in the acceptance of a currency within a state's monetary system are that the money must be seen as a means of payment; and, that the money has the ability to be used in the future.

For these ingredients to be received enthusiastically by the population of a country, there must be broad trust in the issuing institution.

In today's world, to some degree, cash money has been displaced by that which has come to be known as demonetisation – the withdrawal from use as legal tender.

Without question, cash is more than likely to remain as the world's quintessential means of payment: Cash is king, as the adage goes.

Cash still remains – and it is likely to maintain this position for many aeons to come – the most-important component of the world's money supply.

The Advent of the Cryptocurrency

Whereas the two distinguishing factors of cash are anonymity and peer-to-peer exchangeability within a digitised platform, of late, there has come into being the cryptocurrency.

A cryptocurrency is, presently, defined as being a digital asset, designed to work as a medium of exchange.

It uses strong cryptography in order to secure financial transactions, control the creation of additional units, and verify the transfer of assets.

In criminal world – which is pervasive in nearly every country – due to the payment of a service, using a cryptocurrency as the medium of exchange in order to satisfy the cost of a previous service, whatever it may be, anonymity is guaranteed and, as such, this system of payment may be abused and employed for terroristic activities and/or the evasion of an otherwise legal obligation.

Across nations' borders, however, the usage of cryptocurrencies do offer greater speed and efficiency in making payments and transfers of funds than traditional monetary units.

It is claimed that there are more than 1,600 cryptocurrencies in existence, today.

As far as the European Central Bank is concerned, due to the high-price volatility of cryptocurrencies and the low-acceptance rate of them, they could not, at this juncture, be considered as being a full form of money from an economic perspective.

Furthermore, most countries maintain that cryptocurrencies lack the important ingredients of sovereign currencies.

Thus, it is very evident that, today, cryptocurrencies have little or no bearing on monetary transmission

mechanisms.

Further, cryptocurrencies are unlikely, ever, to take the place of a '*Reserve Currency*', one that is widely used in international trade, one that a central bank would be prepared to hold as part of its foreign-exchange reserves.

Presently, the medium of exchange of The United States of America is considered the world's '*Reserve Currency*', with the People's Republic of China, being amongst the largest creditor of The United States of America due to its holdings of US dollars.

It would appear, despite the hullabaloo and song and dance in respect of cryptocurrencies, about the only definitive aspect of them is that of uncertainty.

Supervisory authorities, from time to time, issue warnings about dealing in cryptocurrencies; and, they have been known to make disparaging statements with regard to **Initial Coin Offerings (ICOs)**.

A number of countries have determined to ban crypto-assets, completely.

Of concern to many commercial banks, around the world, is that, should cryptocurrencies become popular so as to threaten traditional, commercial banks, their impact on traditional banks' balance sheets could well be akin to a classical bank run.

Should that scenario come to pass, commercial banks may well lose the ability to be able to attract deposits to any material degree, creating the potentiality for very destructive financial crises.

And, should that come to pass, without the ability to attract deposits, commercial banks would lose the ability to provide any material credit to its customers.

The end result would be to chip away at the core functions of commercial banks, as well as to act as financial intermediaries in an economy – a most-unwelcome scenario, one would suppose.

Whether or not cryptocurrencies will ever gain widespread acceptance only the future shall be able to record, but one thing is very evident: Cryptocurrencies have no intrinsic value, today, only their value in exchange transactions.

A cryptocurrency is only able to derive its value by one holder of a specific number of unit(s), locating another, that second party, being willing to accept that holding of the specific cryptocurrency at a mutually acceptable exchange rate – before the penny drops.

-- End --

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