Guest editorial: Cryptocurrencies: current trends and future perspectives

This special issue of *Studies in Economics and Finance* focuses on issues surrounding cryptocurrencies to better understand the theoretical and practical elements of cryptocurrencies and their implication on the modern financial environment. Cryptocurrencies are digital assets that neither have intrinsic value nor do they offer a final promised payment or any dividends (Geuder *et al.*, 2019). Moreover, cryptocurrencies today do not broadly serve as legal tender in most countries around the world [1]. However, cryptocurrencies are increasingly being used by private payment services and there are an increasing number of institutional investors. At the same time, there is a debate about the abuse of cryptocurrencies such as money laundering.

Since their invention, cryptocurrencies showed various financial bubbles (Bouri *et al.*, 2019; Geuder *et al.*, 2019; Fry, 2018) having tremendous impacts on the market capitalization of cryptocurrencies. Figure 1 shows the market capitalization of cryptocurrencies from 2013 to 2020. A first peak was reached in the year 2017, when Bitcoin and other cryptocurrencies gained a lot of attention from the general public and private investors. In 2020, the market capitalization increased more than threefold compared to the previous year. Bitcoin continues to account for the largest share of this market.

The price of Bitcoin and most other cryptocurrencies has been very volatile which attracts speculators who hope that they can sell the digital asset, which they have bought now, at a higher price later. However, this kind of speculation does little for price stability. The lack of price stability distinguishes cryptocurrencies from traditional fiat currencies.

In 2020, the COVID-19 pandemic led to a massive increase of central banks' quantitative easing (QE) as well as government spending in Europe, the USA and other parts of the world. The excessive liquidity has led to various speculative bubbles in various asset classes. For example, there has been a bubble in non-profitable technology companies and also in cryptocurrencies. Moreover, Bitcoin and well-known altcoins gained not only value but also the so-called "shit coins", which have a vague use case compared to other coins. The hype in shit coins could be similar to the Dutch tulip mania in the 17th century. Some economists argue that the current market capitalization of cryptocurrencies can be regarded as a tulip mania, as well.

However, there are also some arguments against the existence of a tulip mania for Bitcoin. A well-known argument is that the amount of Bitcoin is limited to 21 million. In times of excessive QE, fiat currencies lose their purchasing power and there is a strong need for hard assets which protect savers from devaluation. In addition, a few private payment services have accepted cryptocurrencies, mostly Bitcoin, as a means of payment. Moreover, the blockchain technology has some interesting aspects, which offers new features for transferring money, especially all over the world. Because of the ease with which money can be transferred and low costs, cryptocurrencies may have some use in the future.

On the other hand, there are some other negative issues related to cryptocurrencies. Firstly, cryptocurrencies can be used for money laundering as well as other fraud. This is why policymakers around the world have called for further regulation of cryptocurrencies. Secondly, cryptocurrencies need a lot of energy. As the necessary server farms consume much energy, there has been a debate on the impact on climate change and carbon dioxide reduction. Especially, server farms in countries that generate their electricity from fossil fuels have recently been criticized.

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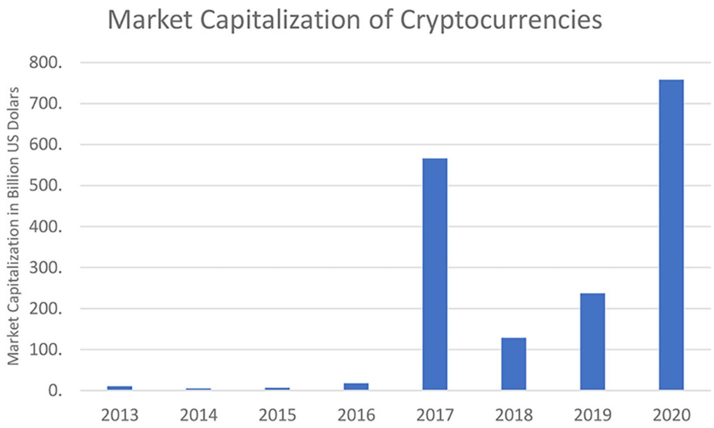

Figure 1.
Market capitalization of cryptocurrencies from 2013 to 2020

Source: Statista (www.statista.com/statistics/730876/cryptocurrency-maket-value/)

To sum up, cryptocurrencies have attracted a lot of attention and their market capitalization reached a new all-time high in 2020. The boom in cryptocurrencies is likely to continue in the next years as it is not likely that QE will end soon in most developed countries. In addition, cryptocurrencies use an interesting technology, therefore a few of them are likely to last longer. However, the evolution in the crypto market is very dynamic. At the time when this editorial was being written, some countries had banned financial institutions and payment services from providing services to and doing transactions with cryptocurrencies. So, it is quite hard to forecast future developments but one point is sure: Because of great uncertainty on future regulation or bans, crypto investors have to live with volatile prices in the future.

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Note

1. However, in 2021, there have been discussions about using Bitcoin as legal tender in a few countries such as El Salvador.

References

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