

Bitcoin

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In News: British authorities are exploring the possibility of creating a new digital currency which could become commonly known as “Bitcoin”.

About Bitcoin

- The Bank of England and the Treasury are considering creating Bitcoin in the wake of declining cash payments in the region, which are partly due to the Corona pandemic.
- If passed, the digital currency would function alongside cash and bank deposits as a new type of money that households and businesses in England could use.
- It would sit at the crossroads of cash and private payment systems, and it wouldn't have to be built on distributed ledger technology.
- This 'bitcoin' will be linked to the value of the pound, making it impossible to benefit from it as an asset.
- The transition could have a positive economic effect by attracting more investment to the UK's tech sector and lowering transaction costs for foreign companies.
- In one important way, Britain's digital currency would be unique in that, if passed, it would be issued by the government.
- Only the Bahamas has such a currency at the moment, though China is testing it in a few cities.

Central Bank Digital Currency (CBDC)

- A CBDC is a virtual version of a country's fiat currency that is represented by an electronic record or digital token (or region).
- A CBDC is a centralised currency that is issued and controlled by the country's competent monetary

authority.

- Each unit functions as a safe digital instrument that can be used as a mode of payment, a store of value, and an official unit of account, similar to a paper bill.

Benefits CBDC

- A CBDC seeks to combine the best of both worlds the convenience and security of digital forms such as cryptocurrencies, as well as the controlled, reserve-backed money circulation of traditional banking.
- New types of digital money could supplement the critical lifelines that remittances provide for the poor and emerging economies.
- It will safeguard citizens against financial uncertainty caused by the collapse of private payment systems.
- Ensures central banks maintain power over monetary policy in the unlikely event that payments move to cryptocurrencies over which they have no control.

Fiat currency

- Refers to government-issued money that is not backed by a tangible asset like gold or silver, but rather by the government that issued it.

Bitcoin

- Bitcoin is a form of digital currency that allows you to send money to anyone instantly.
- In 2009, Bitcoin was launched. Bitcoin is a decentralised digital currency that is built on an open-source algorithm and is not distributed by a centralised authority. Bitcoin is a peer-to-peer electronic cash system.
- No central authority issues new money or keeps track of transactions in a peer-to-peer system.
- The network manages these activities collectively.

- The capitalised term “Bitcoin” refers to the protocol and transaction network, while the lowercase term “bitcoin” refers to the currency itself.