

# [Boe economists take on bitcoin](https://assignbuster.com/boe-economists-take-on-bitcoin/)

The Bank of England’s Economists Take on Bitcoin

Bitcoin is a virtual currency with immense potential but what effects does it have on the United Kingdom’s economy?

The Bank of England has recently shared its views on the crypto currency. Their statement mentioned that the circulation of Bitcoin in the country poses no threats to the overall financial system.

While the digital currency will perhaps never prove harmful to the economy, it is believed that the innovation of technology will offer interesting possibilities. Ultimately, the digital currency could one day affect stocks, physical assets and other financial products.

The nation has about 60 million people living in UK at present and approximately 20, 000 of them hold Bitcoin.

A total worth of ? 60 million bitcoins circulate the United Kingdom. This is only about 0. 003% of the total money balance. As bitcoins make a very small proportion of the economy, it stands no threat to the financial stability of Britain.

The Bank of England’s economists added that there are many reasons to believe that the relative importance of Bitcoin to the economy will not increase much.

This is because even though cheap transaction is a prime attraction, the system’s design suggests that transaction fees would increase with usage. This could limit and that could limit interest.

As a medium of exchange, Bitcoin is a very attractive option but it is limited by volatility. As the crypto currency has very limited supply, it will not respond well to normal economic fluctuations in demand.

This means, while banks can adjust liquidity to fulfil economic conditions, a Bitcoin-based economy will never see the electronic currency’s value change violently.

The bank has talked about Bitcoin earlier too but never before has it opened up and shared so much on the topic.

It is often thought that in times like hyperinflation, when people lose hope in regular currencies, Bitcoin could become a crucial alternative. BOE researchers think this is highly unlikely.

This does not mean Bitcoin should be ignored completely. The concept is very innovative and it raises interesting possibilities. The crypto currency’s likely effectiveness relies on its purpose as a “ decentralized ledger.”

All traditional payment systems hinge on a central authority that supervises and organizes payments, which are later balanced on a main ledger. Bitcoin functions very differently.

The Bitcoin system is fully decentralized and so allows payments between two individuals without intervention from independent agencies.

It is important to add that Bitcoins are kept in electronic wallets. Although the virtual currency is complex and requires high level cryptography, the system has a built-in way for users to check for frauds

This security assistance is an important technological advancement.

The economists from BOE also said that they can see a possible future for decentralized and secure payments like Bitcoin.

So, can Bitcoin or any such currency change the financial world? Maybe it can.

The Bank of England researchers think that the pattern other technologies suggests is that this new system will take many years before it become a widespread.