"Cryptocurrency's value volatile"

By Ivamere Nataro , 13 November 2018

(http://www.samoaobserver.ws/en/14_11_2018/local/38431/"Cryptocurrency's-value-volatile".htm)

TALKING CRYPTOCURRENCY: Tommaso Mancini-Griffoli. (Photo: Misiona Simo)

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Virtual currency or cryptocurrency is not a form of money and is not secure because its value is volatile, says International Monetary Fund Deputy Division Chief (Central Banking Division), Tommaso Mancini-Griffoli.

"Money is a unit of account so it's a measuring stick for what you purchase, it's a store value, so you need to have some security that what you put in you will be able to get out, it's a means of payment, it's something that facilitates transactions," Mr. Mancini-Griffoli told the Samoa Observer.

"Virtual currencies, to date, don't satisfy any of those three criteria, they are not a secure storage of value, and because it is not a good storage of value, it is not a good means of payment, you wouldn't want to pay with something which its value is moving around. Because it's not a good means of payment, it's not a unit of account either."

Mr. Mancini-Griffoli said there are other disadvantages of virtual currencies that relate to technology, but they could be overcome except for the stability of its value, which some new firms are devising ways to try and stabilise.

“Cryptocurrencies are expensive to trade, and they don’t always ensure finality of settlement, which means when I pay, you cannot be completely sure that the money has actually arrived in your account."

“This is also a currency that is not backed by anything, it’s not a liability of any company, and it does not have any assets to back it up, and virtual currencies are more akin to a commodity then to a national currency or a form of money.”

Mr. Mancini-Griffoli said the cryptocurrency scheme can be very dangerous if it’s not managed by the State, especially when there are private created virtual currencies like bitcoin that exists.

“You have to be careful. Currency is a liability of the State and managed by the State, which means that there is monetary policy behind it, that there’s regulation of financial side behind it."

“So these private schemes, even if they may be endorsed by the Government, if they don’t have monetary policy attached to it, if they don’t have financial regulation attached to it can be extremely dangerous. The State wouldn’t want to issue any type of currency if it did not control somehow the issuance, the monetary policy, it did not have a strong regulatory framework to ensure financial integrity, to ensure some kind of legal basis of exchange of this currency.”

“This is something that cannot be done overnight. You certainly wouldn’t want to have a parallel system where you have two forms of legal currencies running in parallel, two forms of legal tender in a sense running in parallel. So just declaring that something is a legal tender is not sufficient to make it a viable currency.”

Mr. Mancini-Griffoli said there is the question of whether the central banks should be offering a digital form of money, which might be called central bank digital currency.

“Central banks digital policy would be a liability of the central bank, would be issued by the central bank, would be traded on par at par with cash, central bank reserves, which are the two other liabilities of the central banks."

“They might use a multiplicity of technologies, it’s not at all clear that it would use distributed ledger technologies, as a matter of fact because of the technological limits or hurdles, it is very unlikely that a central bank would resort to distributed ledger technologies if it decided to issue it as a currency.”

I.M.F. Small States Division Chief (Asia Pacific Department), Allison Stuart said it is essential to highlight the distinction between central bank digital currency and crypto assets, especially for most currencies, the central bank stands behind the currency that’s issued.

“There is one case which we know of that one country does not have a central bank put through a legislation that would enable issuing a cryptocurrency as legal tender, so we encouraged the authorities to consider all the risks for the reasons of stability,” she said.

Mr. Mancini-Griffoli and Ms. Stuart are part of the two-day 33rd Annual Central Bank Governors meeting that opened yesterday evening at the Return to Paradise Resort. The meeting brings together regional central bank governors and their delegation, international financial agencies to discuss issues of concern and how to collectively address them.

“I commend the authorities for organising such a meeting, for being open minded to invite their peers, to invite international organisations and other central bankers from elsewhere, it shows a great deal of vision, commitment,” Mr. Mancini-Griffoli said.