



THE FUTURE: FIAT CURRENCIES OR CRYPTOCURRENCIES

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ABSTRACT

This report attempts to look into the future of the global monetary system. The history and development of fiat currencies is reviewed, their strengths and weaknesses are presented, causing market stability or instability and recession, respectively. Attention is paid to the global processes affecting the traditional money markets and the accumulated experience of the institutions to deal with the crises. The increasing digitization in the industry, the economy and the daily life of every single person inevitably gives rise to the need for the use of digital currency to guarantee transactions between individual parties. The idea for these still unrealized needs was born nearly 40 years ago, and the first realization took place in 1996, when e-gold was born. Today, we have hundreds of cryptocurrencies that still operate in an unregulated market, and their legal status still varies from country to country. The desire of individual countries and banking institutions to start their legally regulated use by already developing and testing their own currencies is presented.

Key words: money, cryptocurrencies, money market development, overlapping crises

INTRODUCTION

The chaos in the foreign exchange markets in recent years, caused by the accumulating global crises, poses questions related to the security of fiat currencies before the central banks. Banking institutions have begun to explore the possibilities of digital money and how it could be regulated to flow into economic life. This happens while inflation becomes a ubiquitous phenomenon and continues to grow, which respectively takes away from the purchasing power of fiat money and leads to the failure of every single central bank in the world. With the removal of restrictions on printing money tied to the gold standard, the temptation for politicians to spend more and more is growing faster than tax collections. (1) All this leads to a decrease in the purchasing power of people in developed countries, and this raises a number of

questions, the main one of which is whether there is a mechanism to stop and even reverse this process. Doesn't security in the future of money lie in digital currencies?

In recent years, there has been a growing interest in cryptocurrencies, such as Bitcoin, that operate outside of the traditional fiat money system. Cryptocurrencies are decentralized digital currencies that use cryptography for security and run on a technology called blockchain. Although cryptocurrencies have gained popularity, they have not yet replaced fiat money as the dominant form of currency in most global economies. (2)

DEVELOPMENT OF FIAT

A fiat currency can be defined as legal tender deriving its value not from a physical commodity, but from the issuing government. The term "fiat" comes from the Latin word meaning "let it be done" or "will be." It replaces the gold standard and other commodity-based systems in establishing the value of legal tender. Its value is determined by the stability and strength of the governments that issue it and is used to buy goods and services, invest and save.

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It can exist in the form of physical notes and coins, as well as equivalent digital currencies in electronic form. (3, 4)

The value of fiat money is maintained through various means. Central banks, which are responsible for managing a country's money supply, use monetary policy tools such as interest rates, open market operations, and reserve requirements to influence the value of money and stabilize their economies. One of the advantages of fiat money is that it provides a flexible and convenient medium of exchange because it is widely accepted and easily transferable. However, they are subject to inflationary pressures and potential loss of value over time. If a government mismanages its economy or engages in excessive money printing, this can lead to inflation and a decrease in the purchasing power of the currency. (4, 5)

THE MONEY SUPPLY IN THE US AND EUROPE AFTER 2020

Looking back historically over the years, the dollar has lost over 99.6% of its purchasing power (6) The latest trillion dollar packages the Federal Reserve is pouring into the US economy in 2020 to deal with another crisis they are facing, namely the closing of the markets during the corona crisis. Thus, the money supply M2 (***) exceeds 19 trillion. dollars at the end of the year, while only a year earlier in 2019 it was 15.3 trillion. dollar or within one calendar year the central bank increases the money supply by as much as 25%. If we look at the money supply M1 (7) we see an even more impressive rise, with the central bank increasing physical money and demand deposits by as much as 344.5%. (6)

At the beginning of 2021, the euro managed to part with 40% of its purchasing power in just over 20 years. (8) This change is largely due to 2020, when the ECB printed 16.8% more money. (9) The ECB's balance sheet gives a clear picture of the changes in the Eurozone's government debt, which according to the data has grown by more than 54% at the beginning of 2021. (9)

All this leads to the unprecedented inflation of over 10% in the USA and the European Union two years in a row 2021 and 2022, and in the current year 2023 we observe a certain slowdown below 10%. (9)

EMERGENCE OF CRYPTO CURRENCIES

The emergence of cryptocurrencies represents a significant development in the world of finance and technology. Cryptocurrencies are digital or virtual currencies that use cryptography for security and run on decentralized networks called blockchains. Unlike traditional fiat currencies, cryptocurrencies are not issued or regulated by a central authority, such as a government or central bank.

The first and most famous cryptocurrency is Bitcoin, which was introduced in 2009 by an anonymous person or group of people using the pseudonym Satoshi Nakamoto. Bitcoin's underlying technology, the blockchain, is a decentralized ledger that records all transactions across a network of computers. Key features of cryptocurrencies include:

- **Decentralization:** Cryptocurrencies operate on decentralized networks, meaning there is no single point of control or authority. Transactions are verified and recorded by multiple network participants, increasing transparency and security.
- **Security:** Cryptocurrencies use advanced cryptographic techniques to secure transactions and control the creation of new units. This makes it difficult for unauthorized parties to tamper with or counterfeit the currency.
- **Privacy:** While blockchain transactions are transparent, cryptocurrencies can offer varying degrees of privacy. Some cryptocurrencies, such as Bitcoin, provide pseudonymity, where transactions are linked to cryptographic addresses rather than personal identities. Other cryptocurrencies are focusing on further improving privacy features.
- **Global accessibility:** Cryptocurrencies enable borderless transactions, allowing anyone with an internet connection to send and receive funds instantly, without the need for intermediaries
- **Tokenization:** Cryptocurrencies also enable asset tokenization, which means representing real-world assets, such as real estate or stocks, on a blockchain. This has the potential to revolutionize traditional financial markets and enable new forms of ownership and investment.

Cryptocurrencies have gained popularity due to their potential advantages, including financial

inclusion, faster and cheaper cross-border transactions, and the ability to bypass traditional intermediaries. However, they also face challenges such as regulatory uncertainty, scalability issues, price volatility, and security and fraud concerns.

In addition to Bitcoin, many other cryptocurrencies have emerged, including Ethereum, Ripple, Litecoin and many others. Each cryptocurrency has its own unique characteristics, use cases and underlying technology. The growth of cryptocurrencies has also spurred the development of a broader ecosystem, including cryptocurrency exchanges, wallets, and decentralized applications (dApps) built on blockchain platforms.

It is worth noting that the cryptocurrency market is highly volatile and investing in cryptocurrencies carries risks. It is essential to conduct thorough research and exercise caution when participating in the cryptocurrency space. Regulations and treatment of cryptocurrencies vary across countries and jurisdictions, so it is advisable to keep up to date with the legal and regulatory environment in your region.

TRANSITION TO THE FULL USE OF CRYPTOCURRENCIES

The claims that cryptocurrencies cannot be manipulated is among their main advantages, which instills confidence in their stability among their current owners and investors in blockchain technology. Also, digital currencies will eliminate the fees and commissions of banks in operations and transactions with fiat currencies, but this requires the improvement and development of their infrastructure. (10) The fact that the use of cryptocurrencies is equivalent to the encrypted form of the transaction, which is decentralized and secure, creates trust in the participants of the system. The transition to full integration of cryptocurrencies goes through a number of challenges, the main obstacle would be the infrastructure to facilitate the digital currency system in some countries. (11, 12) Another is the process of moving from fiat to digital money and the possible loss of assets for some people after the irretrievable loss of value of traditional currencies. On the other hand, individual governments will lose their ability to govern their citizens by printing banknotes and setting money in circulation, which will give the individual much greater freedom in what to buy

and how to save the funds at his disposal. (13, 14)

In the future, if cryptocurrencies manage to replace fiat money, the predictions are for an easier distribution of the world's wealth and the impossibility of its concentration due to the decentralized network they rely on. This, in turn, will facilitate the analysis of the financial stability of the individual and facilitate the identification and establishment of citizens. (12) The large number of users of cryptocurrencies and an integrated technological network would lead to a proportional increase in capital investment in it, which would lead to the rise of the entire system in developing countries. (13, 14) Expectations are that a similar cash substitute will be developed in the near future to displace fiat currencies as a means of payment by introducing large-scale payment networks beyond traditional cryptocurrencies. (15)

CONCLUSION

It is still too early to say that cryptocurrencies will successfully replace fiat currencies in the near future. But surely, after a smooth transition, we are moving towards this alternative digital system to guarantee the security of the funds, offering not only an encrypted request, but also the uniqueness of each issued "coin". This transformation can only happen after its approval and legitimization by local governments, global and local central banks, which will lead to its regulation and its decentralization will be removed. All of this closely resembles the current system with one major difference, that incumbent governments would lose control over issuing new money into the system, which would in turn ensure the stability of the currency.

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