

Bitcoin's risks present opportunities for CBDCs

Article

The news: Bitcoin won't work as a payments network because it's inefficient and bad for the environment, Sam Bankman-Fried, co-founder and CEO of crypto exchange **FTX**, told the Financial Times.

Bankman-Fried said the energy-intensive proof-of-work (PoW) process used to mine many cryptocurrencies isn't capable of scaling to handle the millions of transactions needed to make cryptos an effective payment method. He also noted that a functional crypto payments network would require technological innovations.

Key context: Bitcoin and other PoW cryptos have been highly criticized for their environmental impact—**Bitcoin mining consumes more energy than Norway**, [according to](#) the Cambridge Bitcoin Electricity Consumption Index.

While efforts like [proof-of-stake](#)—meant to be a less energy-intensive mining process—are gaining steam in the wider crypto space, that doesn't address cryptos' extreme price volatility. Bitcoin's [price](#) soared past \$65,000 in November 2021—only to crash below \$30,000 as of writing.

Price volatility is a major reason Bitcoin has yet to take off as a meaningful payment method.

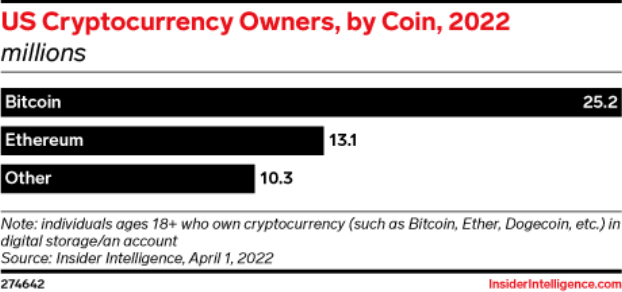
- El Salvador, which made Bitcoin legal tender last September, is at risk of a multibillion-dollar national [default](#) after pumping hundreds of millions of dollars into Bitcoin before the currency's price collapsed.
- The government's Chivo Bitcoin wallet app has “almost no new adopters,” and **less than 5% of sales** have been paid in Bitcoin through Chivo, most of which have been to large firms, [per](#) a US National Bureau of Economic Research survey.

Despite its risks, Bitcoin is still popular among consumers, though [mostly](#) for investment purposes: **75% of US crypto owners will hold Bitcoin in 2022**, [per](#) Insider Intelligence forecasts.

What this means: The risks involved with Bitcoin and other cryptocurrencies can open the door to increased central bank digital currency (CBDC) research and development.

- CBDCs offer many of the same [advantages](#) as traditional cryptocurrencies, like fast payment speeds and lower transaction costs, without the risks. And because CBDCs are issued by the state, their values can't deviate from their corollary fiat currencies.
- While countries like China and India have ramped up efforts to launch CBDCs, the US is still in the early stages. President Biden [signed](#) an executive order calling for research into CBDCs in March, but Treasury Secretary Janet Yellen [said](#) in April that the US is years, not months, away from issuing a CBDC.

Related content: Check out the [“US Crypto Payments”](#) report to learn more about the risks and opportunities involved with crypto transactions—and what this means for banks and payment networks.



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