



2017.2.6

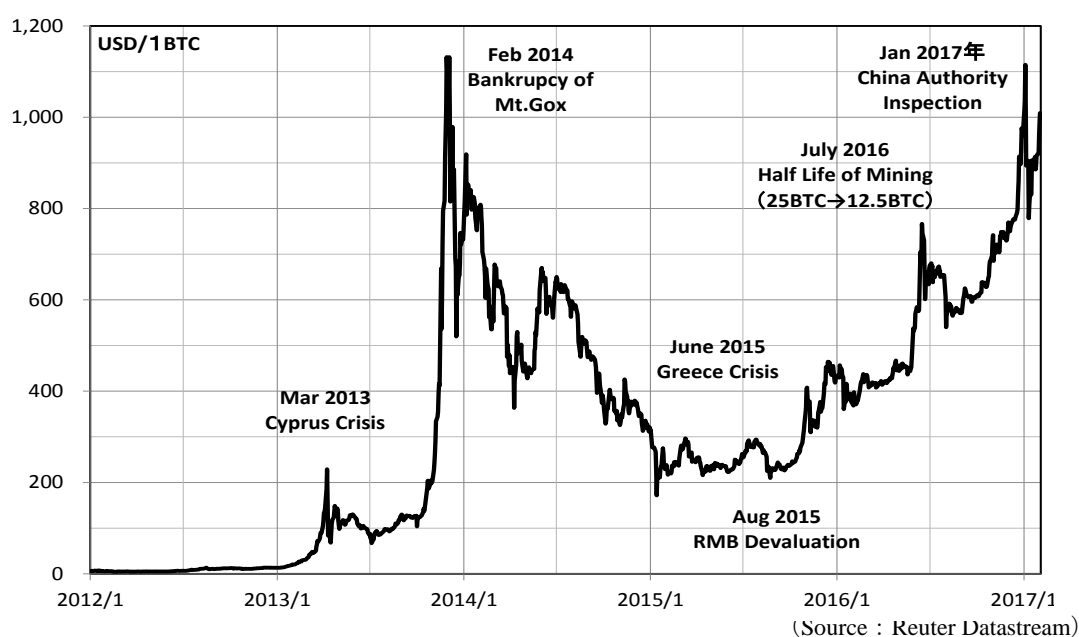
## Can the “Bitcoin” gain Citizenship?

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The Revised Act on Money Settlement (commonly called “Virtual Currency Act”) that aims at protecting users is to be put into force in Japan until June 4th this year and some of the media have labeled this year as “the inaugural year for virtual or crypto currency<sup>1</sup>.” Recently we have plenty stories about the virtual currency, say that the Bank of Japan and the European Central Bank started in full swing the collaborative research project on virtual currency technology, say that a major Japanese financial institution announced its intention to issue its own virtual currency within this year, and so on.

Differing from the legal tender that a country issues and controls in a centralized fashion, a virtual currency refers to those that have following characteristics: (i) whose value is not guaranteed by the state and the central bank, (ii) which is an electric data on the network, (iii) and that is controlled decentral. The number of those identified adds up to about 650 kinds as of February 5th, growing rapidly with the market capitalization value exceeding JPY2 trillion<sup>2</sup>. Among them the Bitcoin accounts for about 85% of the total.

### Price development of the Bitcoin (in US dollars)



<sup>1</sup> In this report, we will unify the word as “virtual currency”.

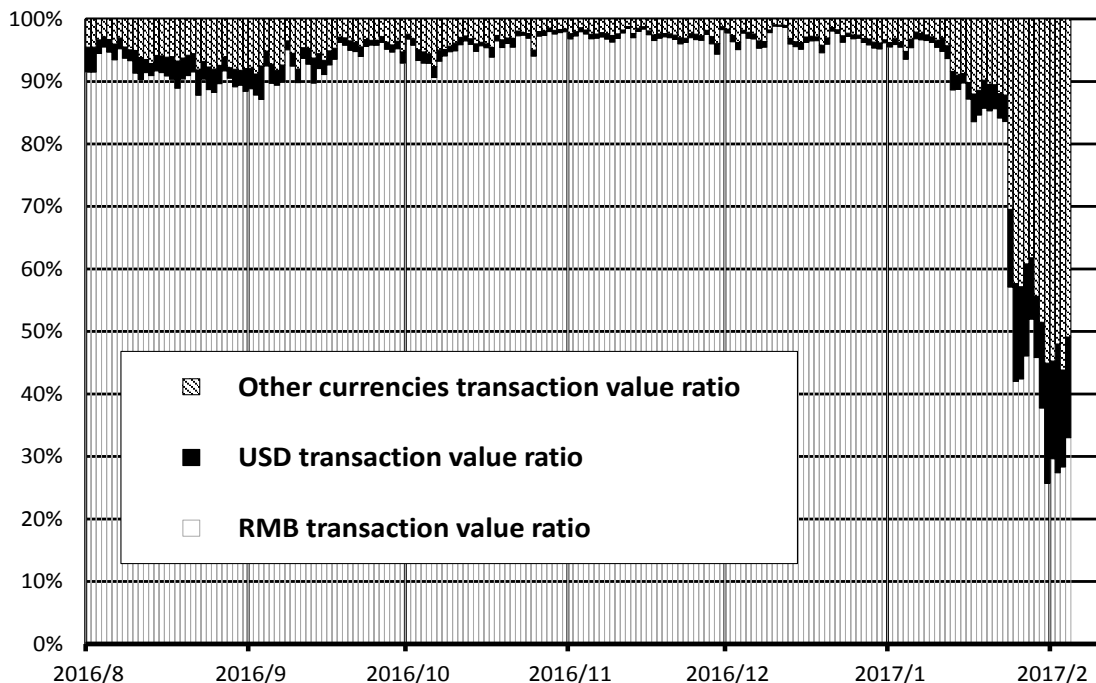
<sup>2</sup> <http://coinmarketcap.com>

The specific scheme of Bitcoin was introduced in an article published in 2008 by a person named Mr. Satoshi Nakamoto, and its transactions started in 2009. Compared to a legal tender the value of the Bitcoin fluctuates more volatily reflecting its speculative element, but the demand of it as a means of settlement is rising because of its high convenience and low remittance fees. In Japan, people can already pay in Bitcoin in 4,200 shops currently but within this year, the number of the shops is expected to grow by 5 times to about 20, 000.

Further, the Bitcoin has functions of exchange and of storage to be used as an alternate to a legal tender when the credibility of the country has fallen. Actually, it is fresh in our memory that at the time of Cyprus financial crisis in March 2013 or Greek debt crisis in June 2015, there were a person who exchanged their home currency to the Bitcoin s beforehand and re-exchanged the Bitcoin with their home currency at an “Bitcoin dedicated ATM machine” after a ceiling was put to a withdrawal of bank deposits.

Though Bitcoin till has many problems to be solved like that of money laundering, it will be more beneficial to the world economy that we try to overcome the difficulties it faces and put it into wider circulation rather than dismiss it outright since the Bitcoin has already steadily permeated people’s life all around the world because of its convenience. Yet, recently the price formation of it has been distorted because many transactions involve those in China (Chinese yuan) and the price of the Bitcoin moves quite volatily reflecting the domestic political and economic factors of China.

**Transactions of the Bitcoin by currency (Daily, %)**



(Source : Made by IIMA using the data of Coinhills)

For instance, People’s Bank of China (PBOC), a central bank for China, issued a ban to financial institutions in December 2013 on financial services using Bitcoin, showing their intention not to let the Bitcoin circulate as money. However, as the Chart above shows, the

turnover of Bitcoin transactions denominated in Chinese yuan (RMB) constantly accounted for about 90% until December 2016. The Bitcoin keeps to have a strong presence as a key player although the share of the RMB-denominated turnovers decreased to the level of around 30% and the Bitcoin price denominated in the US dollars dropped by about 30% because of the on-site inspections by the PBOC conducted in early January and restrictive measures taken by the exchanges (like ban on leveraged transactions and collection of transaction commissions) coupled with the start of Lunar New Year toward the end of January. In fact, there is a sign that the purchases of the Bitcoin has gradually increased again after the end of the spring festival and the price started to rise recovering the level of USD1,000 per Bitcoin on February 2nd almost for the first time in the past month.

Taking the above into consideration, it is hard to say that the Bitcoin has now completely shifted from a virtual currency with strongly speculative element to a “new kind of money that can coexist with legal tenders as a means of settlement”. Rather the fact that a large majority of transactions are conducted against the RMB suggests that there are increasingly deep distortions behind the transactions.

In this regard, in order to make the Bitcoin circulate in a genuine manner, it will be essential to:

- (i) Promote the soundness and smooth function of the market, by developing global common guidelines (code of conducts) and the like that clearly demonstrate an appropriate practice and process of Bitcoin transactions, and
- (ii) Develop a price formation system for transactions based on the global demand and supply

in order to deepening the market of the Bitcoin.

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