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# Cryptocurrencies in 2022: What's next for bitcoin and co?

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As countries mull whether to ban, regulate or embrace digital coins and climate activists mount an increasingly

# vocal opposition to the energy-intensive sector, we asked crypto experts their predictions for 2022

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By Umberto Bacchi

Jan 5 (Thomson Reuters Foundation) - From El Salvador adopting bitcoin as legal tender - a world first - to China banning all cryptocurrency transactions, 2021 was an eventful year in the world of digital currencies.

Will 2022 hold more surprises? We asked five crypto experts what to look out for.

## **ENVIRONMENTAL FALLOUT**

The steady growth of the cryptocurrency industry over the years has drawn more attention to its carbon footprint.

Bitcoin and other cryptocurrencies are created or "mined" by high-powered computers competing to solve complex mathematical puzzles, which guzzle energy and fuel planet-warming emissions unless they run on power from renewable sources.

Bitcoin mining is currently estimated to account for about 0.5% of global electricity consumption, using up more power than Sweden does in a year, according to an index compiled by the University of Cambridge.

Pete Howson, a senior lecturer in international development at Northumbria University in Britain, said 2022 is likely to see "stronger public opposition" to bitcoin on environmental grounds, which could force regulators to act more decisively.

A **YouGov poll (<https://yougov.co.uk/topics/politics/articles-reports/2021/10/21/45-18-britons-support-banning-cryptocurrency-comba>)** in October found nearly half of Britons supported banning cryptocurrencies to fight climate change.

Scandinavian countries have voiced support for a potential ban on bitcoin mining across Europe, and, if that happens, authorities elsewhere might be driven to take a similar stance, said Howson.

"Massive power outages caused 700 deaths in Texas this time last year ... and since then, we've seen the U.S. overtake China as the bitcoin global superpower, with much of that extra burden added to the Texas grid," he said.

"If again we see ordinary folks freeze to death in places like Texas, the bitcoin bros will be out on their ears."

At the same time, the industry could be pressured into addressing its "sustainability challenges", according to Alexander Hoptner, who heads BitMEX, one of the world's largest virtual currency derivatives exchanges.

In November, the company said it had gone **carbon neutral** (<https://blog.bitmex.com/why-weve-gone-carbon-neutral-and-why-thats-not-enough/>), offsetting emissions from its bitcoin transactions and servers by buying \$100,000 in CO2 credits, a model some green groups criticise, saying it simply gives major polluters a way to avoid cutting their own carbon output.

"We've already had very encouraging chats with other exchanges, protocols, and organisations who are keen to work together to help lower the environmental impact of crypto," said Hoptner.

"I think 2022 will be the year that the crypto industry comes together to answer those who've challenged us to seize this responsibility."

## **CENTRAL BANKS GO DIGITAL**

State-issued digital coins will begin to compete with cryptocurrencies in 2022, as more nations trial their own central bank digital currencies - or CBDCs - said Eswar Prasad, a trade policy professor at Cornell University in New York.

"Central banks around the world are bowing to the reality that digital payments are becoming the norm," he said.

"Maintaining the relevance of central bank money in retail transactions necessitates the creation of digital versions of their currencies."

From Russia to Chile, many countries have started to look into CBDCs, with tests and rollouts scheduled for 2022.

Some, like Japan and Sweden, have already started trials.

China has coupled its CBDC plans with a sweeping ban on cryptocurrencies and India is looking to do the same.

"The emergence and widespread adoption of CBDCs could undercut some cryptocurrencies, especially stablecoins (which are backed by reserves of dollars or other assets), by making efficient and low-cost digital payments widely and easily accessible," said Prasad.

## **LEGAL TENDER**

While some nations look to ban cryptocurrencies, others might choose to bring them into the financial fold instead, said Hoptner of BitMEX.

"Inspired by the El Salvador 'experiment' ... more developing countries will embrace bitcoin as legal tender," he said.

In September, the Central American country became the first to adopt bitcoin as valid currency alongside its local currency, the U.S. dollar.

President Nayib Bukele said this would help millions of Salvadorans living abroad send money back home, as well as boost financial inclusion, investment, tourism and development.

The move generated global media attention but also attracted criticism amid technical problems and concerns that less tech-savvy older people and those living in rural areas with limited internet access would be left out.

The International Monetary Fund warned against the decision, citing bitcoin's high price volatility and risks to consumer protection, financial integrity and financial stability.

Still, other governments might look at adopting bitcoin as a way to hedge against inflation, enable more affordable remittances and give people more payment options, said Hoptner.

"El Salvador might have been the first, but it certainly won't be the last," he said.

## **TAMING THE 'WILD WEST'**

In August, the chair of the U.S. Securities and Exchange Commission **described (**<https://www.sec.gov/news/public-statement/gensler-aspen-security-forum-2021-08-03>**)** the world of decentralised finance platforms - also called DeFi - as a "Wild West", urging Congress to give the agency more authority to police the currently unregulated, blockchain-based banking services.

Worried about the lack of consumer protection and the weak standard of anti-money laundering checks, regulators around the world put trading platforms under increased scrutiny throughout 2021.

"We can expect a more well-defined regulatory framework to emerge, with a goal to bridge the crypto world with the traditional financial systems," said Ying-Ying Hsieh, associate director of the Centre for Cryptocurrency Research and Engineering at Imperial College in London.

But decentralised finance platforms will keep expanding into areas like lending, trading and derivatives, said David Yermack, a finance professor at New York University's Stern School of Business.

"We have seen rapid rates of growth and innovation in this space throughout 2021, and regulators face clear challenges in integrating these platforms into traditional compliance frameworks," he said.

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