

Estonia makes 'token' effort to take euro crypto

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Estonia is looking to drag the euro into the crypto age—and tame the volatility plaguing bitcoin and its peers—by creating a digital token backed by the single European currency.

Cryptocurrencies have been on a rollercoaster ride recently, with bitcoin swinging from \$10,000 to nearly \$20,000 and back in under two months, and volatility is a major hurdle to their widespread adoption for electronic transactions.

One way to counter this would be to issue digital versions of an existing currency, but an initial proposal by a government agency in eurozone member Estonia was torpedoed by European Central Bank chief Mario Draghi last year.

Nevertheless, Kaspar Korjus, managing director of the Estonian government's e-Residency global digital identity programme, is back with three new proposals to create an "estcoin" digital token that "doesn't necessarily" break ECB rules.

His three models for creating an "estcoin" would use the [blockchain technology](#) behind bitcoin and other peer-to-peer payment systems.

Blockchain experts argue that one of the proposals could pave the way for the European single currency to be used on a blockchain platform, but forex analysts are sceptical.

e-Residency

Estonia, the birthplace of Skype and digital global money transfer site Transferwise, is something of a pioneer in shifting government services online. And it also seeking to make it easier for businesses to operate.

Korjus' e-Residency programme allows people worldwide to open businesses in Estonia—and hence the European Union—and manage them remotely, declaring taxes and signing documents digitally.

More than 4,000 businesses and 28,000 individuals have signed up to the scheme since it was launched in 2014.

All three "estcoin" proposals would be tied exclusively to the e-Residency programme.

In the first, Estonian e-residency holders investing in the programme would be rewarded with estcoins.

In the second, "estcoins" would be tied to a user's e-Residency identity and used for "digitally signing documents, logging into services or enforcing smart contracts."

In both of these versions, the estcoin's value would depend on its usefulness on the blockchain, and would not be pegged to the [euro](#).

'No alternative to euro'

A third model would essentially enable anyone in Estonia's e-residency community to use euros on the blockchain, Korjus told AFP.

Under this version, "banks would be required to move money in and out

of euro estcoins, but transactions could then take place independently of them through the blockchain," Korjus explained in an official blog post.

Here, the estcoin's value would be backed up by "the commitment of the government to buy back every euro estcoin for one euro", which would be the first time a cryptocurrency was backed up by a state guarantee to convert it into a major currency.

According to cryptocurrency expert Xen Baynham-Herd, this third proposal would be a "new way of expressing a currency, but not a new currency itself."

He likens it to the "utility settlement coin", a prototype he helped develop at Swiss bank UBS and which is intended to be used for settling trades of financial instruments.

UBS and other banks have teamed up to use blockchain technology to speed up such settlements and they suggest resolving the issue of the unit's value by linking it to an existing currency.

Baynham-Herd said the prototype unit would be backed by "existing cash reserves held at a central bank or commercial bank which is exactly what the 'euro estcoin' would be."

'Interesting experiment'

Since such a prototype was being explored by a large number of central and commercial banks around the world, "the underlying idea isn't hugely controversial," said Baynham-Herd, who is now head of strategy and lead economist at Blockchain.com, which develops [blockchain](#) infrastructure.

He believes ECB chief Draghi would view the new "euro estcoin" token

differently, since it was "simply a new way of issuing or representing existing euro reserves. The value would be one-to-one—there's no new money being created."

But Fawad Razaqzada, an analyst at Forex.com, was more cautious, saying if the "euro estcoin" were pegged to the single [currency](#), it would "effectively create new euros", which would be illegal.

He pointed out that the Estonian government's involvement would lend the token a legitimacy and value that many cryptocurrencies were lacking at the moment.

"Whatever the outcome, it will be an interesting experiment," he told AFP via email.

Estonia's central bank has been cool to the proposals, which it notes have yet to be officially endorsed by the government.

"The emission of virtual tokens that could be converted limitlessly into euros according to an officially fixed exchange rate would definitely be more problematic" than the authors imagine, spokeswoman Ingrid Mitt told AFP.

But Siim Sikkut, a senior official at Estonia's finance ministry, said that "we fully welcome the e-Residency team's initiative."

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