

# Bitcoin a safe haven during national economic crises, but not during COVID-19 pandemic, research finds

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Research by a Kingston University economist provides fresh evidence for Bitcoin being a safe haven for finance during a nation's economic crisis. The cryptocurrency proves volatile during a global crisis, however, as seen during the COVID-19 pandemic.

Economists widely agree that Bitcoin exhibits features of currency but behaves like a speculative asset, such as gold or oil. Being isolated from the central financial system of a country means cryptocurrency can be considered a sanctuary for funds during a time of economic crises, referred to by economists as "flight to safe assets."

Since Bitcoin is directly traded in every currency, the impact of a local economic crisis can be studied, said senior lecturer in accounting and finance at Kingston Business School Dr. Jinsha Zhao, who carried out the research, which was published in the *Review of Behavioral Finance* by Emerald Publishing.

Instead of examining relationship between Bitcoin returns and returns of financial assets, Dr. Zhao employed a new approach to investigate its safe haven properties, testing the association between currency price and return and Bitcoin [trading](#) volume in 48 countries.

The data revealed that when currency price and value dropped, trading in Bitcoin increased, Dr. Zhao said. "Currency price and return are two indicators of a country's economic health. In economic distress, currency depreciates and currency return can serve as a proxy for [economic crisis](#)," Dr. Zhao said.

"If Bitcoin is perceived as a safe asset in a [local market](#), a spike in Bitcoin trading volume is seen during major currency devaluation. As locals flight to safe assets in a crisis, trading in Bitcoin intensifies. In other words, economic crises lead to increased trading in Bitcoin," he added.

The Kingston Business School study spanned currency prices between 2014 and 2020 for 48 global currencies. The sample included major currencies, such as U.S. Dollars and Euros, and eight currencies that suffered regular economic crises.

The eight currencies lost more than 60 percent of their value against U.S. Dollars between 2014 and 2019, among them the Iranian Rial, Ukrainian Hryvnia and Nigerian Naira.

In some cases, such as for the Venezuela Bolivar (VES) and Argentina peso (ARS), the increased volume of Bitcoin investments preceded a currency depreciation, suggesting populations invest in cryptocurrency when anticipating an economic crash, such as when countries are on the brink of conflict.

Trading declined, however, after the start of the COVID-19 pandemic in 2020, suggesting that Bitcoin is still regarded as a speculative asset, Dr. Zhao said. "When the COVID-19 pandemic erupted, I wanted to look at, not just individual countries, but at the global crisis. I found that since the start of the pandemic trading in Bitcoin across all countries have actually dropped. That means investors, or entire markets, still believe that Bitcoin is a risky asset."

Cryptocurrency is risky on a global scale, compared with other assets such as [real estate](#), gold and oil, so whenever there's a crisis on a global scale, people are less willing to trade in Bitcoin, Dr. Zhao said. "Overall, the findings show that Bitcoin is a hedging asset to protect against local [currency](#) depreciation, but not a safe haven asset for the [global crisis](#)," he added.

Most other cryptocurrencies follow Bitcoin's prices so, although the research focused solely on Bitcoin, it's likely others would follow a similar pattern, Dr. Zhao added.

**More information:** Jinsha Zhao, Do economic crises cause trading in Bitcoin?, *Review of Behavioral Finance* (2022). [DOI: 10.1108/RBF-02-2022-0048](https://doi.org/10.1108/RBF-02-2022-0048)

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