



## How Stagflation Could Impact Crypto

### Description

The fear of stagflation has painted the crypto and stock markets red. Stagflation is an economic state where the average consumer suffers financial hardships and the country's misery index increases. Stagflation has created a [selloff](#) in the stock market, but how is it impacting the crypto market?

### The current state of the crypto market

Crypto has been trying to emerge as a new asset class independent of other investments. However, the crypto market has shown a high correlation to stocks, especially [tech stocks](#), probably because most crypto investors are tech-savvy Gen Z. Even millennials are conservative about crypto and get their exposure through graphics cards and crypto mining stocks.

Until now, crypto has not faced an economic scenario like stagflation or a prolonged recession. The first cryptocurrency **Bitcoin** ([CRYPTO:BTC](#)) was developed after the 2009 financial crisis shook the global financial system. The 2009 crisis led to the growing adoption of fiat currency, as it achieved the three requisites that define money: a widely accepted means of exchange, a store of value, and a unit of account.

### A theory says stagflation could lead to wider adoption of crypto

Crypto has grown above infancy, but is still not separate from tech stocks. Bitcoin and **Ethereum** are closer to achieving the three pre-requisites that define money. There are theories that stagflation and a global recession could lead to the crypto era.

The International Monetary Fund (IMF) recommends against adopting cryptocurrency as a national currency. It even [urged](#) El Salvador, the first country to adopt Bitcoin as a legal tender, to reverse its decision. But crypto continues to enjoy popularity among consumers, as it is faster and cheaper to exchange crypto compared to banknotes. Central banks are trying to bring these benefits through Central Bank Digital Currencies (CBDCs).

Even though IMF discourages crypto adoption, it agrees that crypto adoption is possible in countries where the financial system collapses. In such markets, cryptocurrency, despite its risks, could improve the existing financial system. For instance, Ukrainians that flee after Russia's invasion [adopted](#) cryptocurrency to avoid financial misery. Many countries with severe fiat devaluation are investing in crypto to preserve their savings, despite crypto volatility.

## Can stagflation change the world for crypto?

Fiat devaluation is a threat to the currency. Fiat money gives governments and central banks tools to control money flow in the economy. While fiat money gives central banks power to print money, they need to use it cautiously. If central banks release too much fiat money into the economy, the currency value reduces, which could cause inflation.

The U.S. Fed printed over US\$13 trillion in pandemic relief in 2022-21, which led to 8.2% inflation in May 2022. Now, the Fed is pulling out the excess fiat money from the economy by increasing interest rates and slowing bond buying. Economists have warned of stagflation in 2022 and recession in 2024, as supply chain shocks keep the prices elevated, rendering interest rate hikes ineffective in controlling inflation.

History has shown that major developments and adoptions happen during a crisis. But can crypto achieve the status of a currency alongside paper currency? I have my doubts about that. Crypto can work as an asset class but not as a currency.

Bitcoin proved to be a global asset class that keeps savings secure, even when a country's economy and the financial system collapses. In a war economy, Ukrainians used Bitcoin to transfer their wealth across the border and convert it into fiat currency.

At the same time, it is a reminder of how big a threat crypto can become if not regulated. This faster and easier access to money raises the risk of money laundering and terrorist activities. Hence, many countries have banned crypto.

## Is crypto a good investment?

Stagflation can make people more accepting of crypto as an alternative asset, but it is unlikely to become a currency. This is a good time to park around 3% of your portfolio in BTC for asset class diversification. Do not expect short-term gains, as the looming recession could go either way for crypto.

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#### **Date**

2025/07/21

#### **Date Created**

2022/06/16

#### **Author**

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