

WHAT IS BITCOIN HALVING AND WILL IT AFFECT THE RATE?

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Following the [Reserve Bank of India](#)'s judgement lifting the ban on cryptocurrency payments, they have gained traction in [India](#). We explain some key concepts in a series of explainers by talking to experts. This time we tell you what is bitcoin halving and how it affects the price of the cryptocurrency.

It took four years to mine 50% of bitcoins but will take another 120 years to mine the remaining 50%, and the reason is bitcoin halving.

[Bitcoin](#) halving is an important event in the network that happens every four years.

The bitcoin network introduces new bitcoins in the market by a process called bitcoin mining, which is done by verifying bitcoin blocks or groups of transactions. Every 10 minutes, any miner who is able to verify one block of transactions and is able to add it to the bitcoin network gets rewarded. Currently, miners get 6.25 BTC per valid block mined. But this reward changes roughly every four years, or after every 210,000 blocks are mined and gets reduced by half each time. This whole process is called bitcoin halving.

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Till now we have had three bitcoin halving events; the most recent being on 11 May 2020. Notably, every halving brings with it a change in the bitcoin price. Here's how:

When bitcoin was first launched in 2009, miners used to earn 50 BTC as rewards for processing per block. After the first halving, the reward was reduced to 25 BTC, then to 12.5 BTC and finally to 6.25 BTC.

These miner rewards are what dictates the inflow of new bitcoins in circulation. So when these rewards are cut into half, the inflow of new bitcoins reduces. That is where the economics of demand and supply kicks in. While the supply shrinks, the demand varies (increases or decreases) and the price changes accordingly.

Halving also brings down bitcoin's inflation rate. Inflation is the reduction in purchasing power for something, the currency in this case. But the core infrastructure of bitcoin is built for it to be a deflationary asset. Halving plays a pivotal role to ensure this.

In 2011, the inflation rate of bitcoin was 50% but after the halving in 2012, it dropped to 12%, and in 2016 to 4-5%. Its current inflation rate is 1.76%. This means the value of bitcoin goes up after every halving.

Historically, after every halving, bitcoin experiences a bull run. As supply decreases spurring the demand, the price surges. However, this uptrend is not immediate. After evaluating the past three halvings and the surges that followed, it will be accurate to say that the spike happens only after three to six months and not instantaneously.

For example, during the halving in 2020, the price per bitcoin was nearly \$8,500, and we didn't see any significant surge until six months later when the cryptocurrency started a bull run. At the

time of writing, every bitcoin is valued at \$27,256.

In 2016, when bitcoin experienced its second halving, it was trading nearly at \$650, and in the subsequent months, it successfully made an all-time high of that time and reached \$20,000 by December 2017.

Halving is just one of the several factors that influences the price of bitcoin. However, it does have an impact on the price whenever it occurs because it is surely one of the most important factors.

Other factors include the institutional and individual adoption rate and the developments and innovations on the network.

As told to Neil Borate by Ashish Singhal, co-founder and CEO, Coinswitch Kuber

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