

International Reserve and Cryptocurrencies: Is There Hedging Effect?*

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Abstract

In April 2022, the total market capitalization of cryptocurrencies reached over 2 trillion U.S. dollars, roughly 100% of the monetary base of the United States (M2). Financial technology (Fintech) is proliferating by enabling to automate the financial transactions. Using the dataset from Bloomberg and Federal Reserve Economic Data (FRED), covering from 2008 January to June 2019, I assessed the hedging effect of holding Bitcoin as a fraction of the international reserve. Based on the evidence from Time-Varying Parameter VAR, I confirm a diversification benefit in keeping a Bitcoin as a part of the reserve. Further, I have accounted for the possible heterogeneity in residual variance by incorporating the Markov Switching Model and confirming the findings.

Keywords: *Fintech, International Reserve, Time Series, Growth*

JEL Codes: *C22, G01, G11, Q58*

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