What is Liquidity Mining?

Liquidity mining is still relatively new, has been around since 2020 and, alongside staking and lending, is another way to generate passive income in the crypto sector by letting your cryptocurrencies work for you.

Liquidity Mining is a product from the Decentralized Finance (DeFi) sector.

How does liquidity mining work?

Liquidity must be provided so that trading on decentralized platforms is possible at all. You can contribute with your cryptocurrencies by depositing your capital with the exchanges and thus providing liquidity. In return, you receive rewards and can earn passive income.

You always have to deposit trading pairs, which means that two different cryptocurrencies always flow into the liquidity pool.

In addition to the rewards, you can of course also benefit from the price increase of the cryptocurrencies that you have deposited.

Risks in Liquidity Mining

- Vulnerabilities: The area of decentralized finance (DeFi) is still very young and is therefore still under development. It can therefore not be ruled out that many platforms may have security gaps. In the worst case, attackers could use this to hack pools.
- Loss in price: Another risk is price losses. Some protocols offer their users to deposit their capital in fixed periods of time. As a result, they cannot withdraw their liquidity from the pool for a certain period of time and are tied to it. If the prices of the stored assets change in the meantime, the user is threatened with losses.

Opportunities:

- High passive income

Risks:

- It can be very risky, many projects are just starting out and don't have a lot of liquidity yet. You can also lose all your money here.
- Volatile market - high price fluctuations