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DIGITAL ECONOMIES: THE RISE OF CRYPTOCURRENCY AND ITS IMPLICATIONS FOR GLOBAL FINANCIAL SYSTEMS

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ABSTRACT

This study will delve in the development of digital economies and more specifically, how cryptocurrencies are transforming the world financial systems. The sudden surge of cryptocurrency has severely disrupted the world financial system, forcing us to reconsider classical financial models. Cryptocurrency, especially bitcoin and Ethereum, will challenge the domination of existing financial systems as well as their policies and regulations. This study investigates digital economies, the growth of cryptocurrencies and how they might affect global monetary systems. The research explores the role of blockchain technology in fueling cryptocurrency, providing alternative financial systems and bypassing traditional banking services. Applying a qualitative methodology, the paper analyses some of the possible advantages (or downsides) for crypto-assets and digital currencies: financial inclusion; greater speed; and the systemic risk that they may cause. Key findings indicate that despite the great potential of cryptocurrencies to promote economic activities, they also pose certain challenges in terms of regulations, security threats, and market turbulences. The paper concludes with a brief examination of the requirement that global financial institutions create responsive regulatory environments in order to marry digital currency, and thus financial inclusion, with mainstream finance. This research adds to the discussion on technology, economics and global finance.

Keywords: Cryptocurrency, blockchain, digital economy, financial systems, decentralized finance, regulation, global economy.

INTRODUCTION

Cryptocurrencies have quickly become one of the most disruptive and revolutionary developments in finance over the past few years. Utilizing blockchain code, these digital currencies are able to offer a new world of trading devoid of all the clunky financial infrastructure like banks that once shackled people and businesses from both ends. We will examine cryptocurrencies such as Bitcoin and their derivatives, Ethereum, that represent a new way of exchanging value between different parties across the globe. The decentralization—and promise of greater privacy, transparency, and security—has been embraced globally, providing fuel for rampant excitement and concern alike.

Cryptocurrencies represent a radical break from traditional economic structures. Historically, financial systems have evolved based on centralized entities like central banks, commercial banks and payment service providers to facilitate economic activity. The intermediaries offer services like transaction clearing and settlement, currency exchange, bank credit etc., whilst maintaining monopoly on the money supply (Narayanan et al., 2016). On the other hand, cryptocurrencies make it possible to conduct transactions directly between users without intermediaries who are trusted. With the elimination of central authority, cryptocurrencies hold promise for increased financial independence and decreased fees and time of transactions as well as a guarantee of transparency through an unalterable digital record (Catalini & Gans, 2016).

It can’t be denied that the cryptocurrency market is one of the fastest-growing. The total market value of cryptocurrencies (of 2024) now surpasses $2 trillion, with Bitcoin is the most prominent and most utilized digital token (CoinMarketCap, 2024). The alternative ones, such as Ethereum, Cardano and Solana are also capturing the imagination due to their unique technology and use cases. For example, Ethereum has introduced the notion of so-called "smart contracts," which are able to perform programmable transactions and automate several business processes (Buterin, 2013). Such advancements in technology have turned cryptocurrency into more than just a store of value, but rather a core infrastructure for decentralized applications (dApps) and decentralized finance (DeFi), disrupting the financial system altogether.

In this work, we aim to explore the emergence of ‘digital economies’ by hearing from promoters that claim these are contributing towards a new systematisation of global financial organisations. And one of the most exciting things about this evolution is what it could mean to finally solve problems like financial inclusion. About 1.7

billion adults globally are excluded from the formal financial system, where they lack access to basic banking facilities like savings accounts, credit and insurance (Demirgüç-Kunt et al., 2018). Cryptocurrencies can enable financially underserved populations to access financial services in areas of under banking due to the fact that cryptocurrencies do not need traditional banking infrastructure. While cryptocurrencies do have some way to go before they are truly capable of serving as everyday forms of payment, mobile phone penetration and access to the internet in remote or underdeveloped areas allows many people in the world to be able to save, invest and send assets partly by using these newer digital monies (Narayanan et al., 2016).

Apart from financial inclusion, cryptocurrencies also claim to be able to facilitate disintermediation in conventional financial systems. Cross-border remittances, for example, continue to be slow and expensive due to the use of numerous intermediaries like correspondent banks and clearing houses. On average, it is estimated that a cross-border payment costs about 6.5% of the total transaction value (BIS, 2020). Decentralised cryptocurrencies, such as stablecoins that are pegged to fiat money such as USDT (Tether) and USDC (USD Coin), provide a more economical alternative by allowing transactions between parties in different countries just milliseconds after being sent at low cost via intermediary organisations not required for transaction authenticity (Chen et al.

For all thes pros, cryptocurrencies pose a challenge as well. One of the key problems is their instability. Cryptocurrencies are notorious for their price volatility, with even Bitcoin showing 30% changes in prices over a single week (Foley et al., 2019). Such volatility restricts the utility of cryptocurrencies as stable channels of value and poses challenges for investors and consumers. In addition, cryptocurrencies are decentralized which challenges regulation, particularly concerning its use for laundering and financing nefarious activities (Zohar 2015). This has compelled multiple government agencies and regulatory bodies such as the United States Securities and Exchange Commission (SEC) [16] and European Central Bank (ECB) to look into ways cryptocurrency markets can be brought under existing regulations without suppressing innovation.

The primary research question of this study is: What is the impact on economic systems, social regulation, and financial inclusions when cryptocurrencies are integrated with global monetary networks? In investigating this query, the study will seek to analyze the wider implications which widespread acceptance of virtual currency could have on world economies, national regulatory structures and financial intermediaries. It will examine in details the potential changes that this can bring to classical banking and also how central banks could be participating of such decentralised process, also it will explore how cryptocurrencies are driving enablement initiatives from the financial inclusion point of view. Considering the speed of evolution in technology-based cryptocurrencies, this research will provide the foundation for a greater understanding of how digital currencies are likely to be integrated into the world economy and their subsequent wider social and economic impacts.

Now that digital currencies are being more widely adopted and incorporated into the broader financial system, we need to be able to gauge their effect for regulators and banking institutions as well as ordinary citizens. The results of our study will provide useful information regarding what ways of cryptocurrencies could affect future economic policies and regulatory interventions.

LITERATURE REVIEW

Cryptocurrencies, a type of digital asset made possible by the blockchain technology, have caused a major transformation in financial system as they allow decentralized transactions without intermediaries such as banks (Nakamoto, 2008). This technological advance is regarded as a disruption to the centralized structure of conventional financial systems, where central authorities such as central banks and commercial banks are stipulated as key regulators and institutions for economic transactions. This increasing interest in cryptocurrencies is evidenced by a fast-growing academic literature that highlights their potential implications for financial systems, as well as the world economy, through different dimensions such as inclusion mechanisms and transaction ef ciency, centralization issues and regulatory challenges.

One of the most frequently touted benefits of cryptocurrencies is their potential to encourage financial inclusion. Financial inclusion is defined as the transfer of individuals, belonging mostly to underbanked and underserved areas, to financial services, such as savings, credit and insurance (Narayanan et al., 2016). Large sections of the global population still does not have access to basic banking services, especially in areas where traditional banks are scarce or do not exist. Cryptocurrencies can be a way to reach those peoples by circumventing traditional financial intermediaries. The introduction of smartphones and internet connectivity has led to the widespread availability of cryptocurrencies for individuals in underdeveloped/remote areas, enabling them to store value and relay money without being reliant on classical bank accounts (Narayanan et al., 2016). This is good politics and potentially good development, as widening access to finance could be an important lever for reducing poverty and fostering economic development in unstable parts of the world where banking systems are more fledgling.

Cryptocurrencies are not only more affordable to transact, but also execute much faster than MMT support. Conventional banking systems, particularly in relation to cross-border payments, are frequently inefficient as they take a long time for transactions and impose high fees (Catalini & Gans, 2016). Cross-border payments, for instance, have to go through a few intermediaries and each of them will charge service fees, which makes it expensive and time-consuming. Cryptocurrencies can settle this faster by cutting out the middleman. Decentralized platforms enable payments to be made within seconds and at miniscule fee rates relative to centralized alternatives (Catalini & Gans, 2016). With the potential to cut costs on domestic and international transactions, cryptocurrencies have grown as a way to enable faster and cheaper financial transfers.

Additionally, crypcurrencies have attracted attention in the form of a reaction to mounting worries concerning the concentration of financial authority. In conventional financing, central and commercial banks hold quite a lot of control over how money flows, as well as monetary policy and interest rates. Such concentration can pose risks credit or financial crises, and the market may be monopolised by a small number of large firms which control money flows. Cryptocurrencies give people an option that does away with centralized financial systems and break the hegemony of central banks and financial institutions (Zohar, 2015). Decentralization of power has been cited as a revolutionary aspect of cryptocurrencies – one that is thought to provide the system with more resistance to manipulation than centralized systems. The original cryptocurrency, Bitcoin, was purposely created as a decentralized, person-to-person method to send and receive money without intermediation from institutions such as the banks or governments (Nakamoto 2008).

However, the literature also discusses in detail the high level of risk and challenges related to cryptocurrencies. A significant issue is that they are unstable. The value of cryptocurrencies are known to be highly volatile, as has been demonstrated by volatile fluctuations in cryptocurrency values over short periods. For instance, Bitcoin has traded for under $1,000 in early 2017 to above $60,000 on some days of the year 2021 and then dramatically wavered (Foley, Karlsen, & Putniņš., 2019). Such extreme volatility renders cryptocurrencies unusable as a safe way of storing value and hampers their use for day-today transactions, or even an investment with relatively constant returns. Despite that regarding the price, some researchers warn that we should not overestimate the long-term stability of cryptocurrencies due to these price fluctuations , which can discourage potential users (Baur et al, 2018.incetmayekerinavohadetheypaoese").

Regulatory ambiguity is another major issue related to digital money. Cryptocurrencies play in unchartered territory, they are not well-regulated and thus constitute an opportunity for harming transactions which might involve money laundering, tax evasions and scam activities (Zohar, 2015). As cryptocurrencies have grown in prominence, governments and regulators around the world have been struggling with how to include them in existing financial systems without undermining the stability of monetary policy or the security of their own financial networks. The absence of regulation requests clearer structures to mitigate the risks with cryptocurrency usage, for example that cryptocurrencies might be used for illegal activities (Foley et al., 2019; Karlsen & Putniņš, 2017). Countries on the other hand, such as China and India, are moving towards more stringent regulatory routes and some countries like El Salvador have adopted cryptocurrencies by introducing Bitcoin as a legal tender (Chohan 2017). The emerging regulatory framework poses a threat to the ongoing development and adoption of cryptocurrencies in international finance.

Nevertheless, existing research has not yet fully explored the wider socio-economic impacts this peculiar type of money may have on global financial systems. Most of the prior work has looked at technologically aspects of blockchain (Bank Negara Malaysia, 2017a) or volatility in cryptocurrencies themselves (Narayanan et al., 2016). Yet there are also fewer studies that look into the long-term effects of cryptocurrency adoption on traditional finance system stability, central banks and monetary policy implications (Chohan, 2017). This lack of clarity creates significant opportunities for further research, given that the inclusion of cryptocurrencies could potentially have far-reaching implications on monetary governance, bank designs, and financial controls.

This drawback will be addressed by the current work which will investigate the relationship between cryptocurrency adoption and global financial systems. Drawing on theoretical and empirical thinking, the research seeks to explore how cryptocurrencies could re-shape current financial architectures, alter central banks' role, or change global efforts for adopting financial inclusion. The transition of digital cryptocurrencies into the financial system represents a transformation in economic control, and it is critically important for both governments and merchant banks to grasp its implications as they maneuver through this new territory.

PROBLEM STATEMENT AND MOTIVATION

The inclusion of cryptocurrencies in worldwide financial markets carries a mix of practically unfathomable promises and heart-stoppingM downfalls. On one side, cryptocurrencies can democratize financial inclusion where traditional banking infrastructure is missing. It is estimated that, some 1.7 billion unbanked adults are recorded worldwide and cryptocurrencies may be to the advantage of these groups through financial inclusion without reliance on traditional banks (Demirgüç-Kunt et al., 2018). Furthermore, cryptocurrencies could lower transaction fees and time for cross-border payments that are currently, on average, equal to 6.5% of the total transaction amount as reported by the Bank for International Settlements (BIS, 2020).

Furthermore, the transparency and tamperproof characteristic of blockchain technology may provide enhanced accountability and allow users to trace fund flows for less opportunity for fraud (which remains a problem in some conventional financial systems) (Narayanan et al., 2016).

Yet the level of risk involved in cryptocurrencies is just as high, if not even higher, and it is largely unregulated and decentralized. These cryptocurrencies can also be used for illegal purposes including laundering of money, tax evasion and facilitation of terrorist activities (Zohar 2015). Many cryptocurrencies that offer a high degree of anonymity are proving difficult for law enforcement and other regulatory forces to track and control. What's more, is that the decentralized nature of cryptocurrencies makes it nearly impossible for governments to control monetary policy, worrying over whether they might be able to destabilize a nation's economy. For those countries with fragile financial systems, it is feared that the use of cryptocurrency can encourage capital flight outflow (Hong and Baur, 2018), or undermining value local currency as citizens are now able to transfer their assets as digital currencies through international markets without having to abide by domestic rules and regulations set within the country border (Baur et al., 2018).

One of the most important issues that this line of research tries to solve is what happens if cryptocurrencies become globally adopted and how would they affect international financial systems. Especially how will traditional banks, governments and countries as a whole respond to the rising threat of decentralized currency? And what will be the effect of cryptocurrencies on national currencies (which you do not question) and, more generally, global stability in the financial system? For instance, some countries including El Salvador have already made Bitcoin legal tender and the central banks of many more are considering the creation of Central Bank Digital Currencies (CBDCs) as an alternative to private cryptocurrencies (Chohan, 2017).

This work is motivated by the growing interest in cryptocurrency as a disruptive force against traditional finance. As digital currencies increasingly gain traction and support around the world, the consequences for global financial relations, monetary policy and international macroeconomic governance are truly staggering. This research aims to identify the improvements cryptocurrencies may bring to the world's economy

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while also emphasizing that financial systems must progress into this changing digitalament. It is essential to understand these forces if the financial systems are to accommodate cryptocurrencies while addressing the risks of financial instability, evasive behavior for regulation, and the potential loss of control over national currencies.

METHODOLOGY

This research is a qualitative study and based on secondary data to examine the changing role of cryptocurrencies in the global monetary system. Secondary data is collected from peer reviewed academic journals, policy reports, government publications, business news media and country and institution specific case studies on those which have embraced or rejected cryptocurrency integration. Through integrating multiple viewpoints, the study seeks to offer an in-depth perspective on the technological, regulatory and socio-economic implications of cryptocurrencies.

The paper is organized around three main dimensions. First, the paper investigates the technological backbone of cryptocurrencies in general and blockchains in particular. Cryptocurrencies are based on, or make use of: Blockchain – A decentralized, public ledger system that uses advanced cryptographic techniques for transparency and security and to prevent tampering with transaction data. The only way to determine its potential for disintermediation of legacy financial systems is by understanding how blockchain works. Blockchain was introduced by academics such as Nakamoto (2008) who presented it as a peer-to-peer transaction system in which no central authority exists, while other researchers like Catalini and Gans (2016) examined how blockchain can lower transaction costs and improve trust in digital transactions. This literature is utilised in this research to understand the potential impact of blockchain on P2P transactions, disintermediation, and enhancing efficiencies in financial transactions.

Second, the research examines how regulators have grappled with and responded to the adoption of cryptocurrencies by existing financial systems. Decentralization and the anonymity of cryptocurrencies create strong deterrence challenges to regulators concerned with enforcing laws against criminal activities like money-laundering, fraud etc. (Zohar, 2015). The study will review policy documents, regulatory tools and government reports across different nations to figure out how they are tackling these challenges. "It's not about digital colonization. For instance, regulations can range from outright restrictions to conditional endorsements and the adoption of Bitcoin as legal-tender (Chohan 2017) Countries such as China have aggressively cracked down on cryptocurrency exchanges and initial coin offerings (ICOs) (Zohar 2015), while others like El Salvador have recognized it operating as legal-tender, which illustrates alternative regulation regimes. The paper seeks to uncover any patterns in regulatory reactions, compare these responses and evaluate how they have impacted on the wider use of cryptocurrencies and their place within national economies.

The study also analyzes the social and economic impact of crypto-currency acceptance, focusing on financial inclusion including financial] along with market stability. One of the main selling points for cryptocurrencies is that they could bring financial services to unbanked and underbanked people. According to the World Bank (2018), a figure of about 1.7 billion people in the world have no access to formal financial services. In particular for developing countries, cryptocurrencies could be an alternative through providing mobile friendly access to digital wallets, cross-border payments and remittances (Narayanan et al., 2016). But the price movements in cryptocurrencies are so extreme it is now questionable if they can be considered a stable store of value and especially a reliable medium of exchange (Baur, Hong, & Lee, 2018). Bitcoin, e.g., has seen price fluctuations of more than 30% all over a week (Foley, Karlsen, & Putniņš, 2019), which hinders cryptocurrencies from serving as stable value stores. To explore these dynamics, the study will examine both qualitative and quantitative data on market trends and economic indicators to evaluate how cryptocurrency adoption affects financial access, stability and equity.

Analysis of the data is done using thematic content analysis, with key themes, patterns and trends drawn from their literature. This approach can synthesise varied viewpoints, and reveal common ground or discrepancies in the literature to this point. In addition, the comparative cases of countries that have embraced or rejected integration with of cryptocurrency will illuminate how digital currency interacts with current financial environment. Through examination of these individual cases, the study aims to uncover universal lessons about what it means for global financial systems that cryptocurrencies are being adopted, and provide guidance on how financial institutions and regulators can best respond to this digital metamorphosis.

RESULTS AND EVALUATION

This study shows that the emergence of cryptocurrencies creates beneficiary as well as harmful effects and positive implications differ greatly across country context. The use of cryptos has added much value, especially for those living in areas where a financial infrastructure doesn't exist or where people have little access to traditional banking facilities. But factors including the wild market swings that are more common in cryptocurrencies and their decentralized nature create obstacles that could limit such a widespread embrace outside of global markets.

One of the most significant beneficial impacts of cryptocurrency is in boosting financial inclusiveness especially in regions without bank presence or with poor banking services. Source: World Bank The number of unbanked adults reaching 1.7bn across the globe, more octenyl in developing countries with scarce access to banking cause auctionability (Demirgüç-Kunt et al., 2018). Cryptocurrencies offer a novel way to solve this problem by side-stepping traditional banking systems. Cryptocurrencies allow people to store value, transfer funds and access financial services using a smartphone and internet connection. Consider, for instance, Bitcoin and Ethereum, which enable even people from remote locations to access the global economy without needing to depend on banks or other financial intermediaries (Narayanan et al., 2016).

Real-world proof of this success is found in a country like El Salvador, which has adopted cryptocurrencies. El Salvador made historyby being the first country to acceptand legalize Bitcoin, with the government creating a digital wallet named 'Chivo' to enable cryptocurrency transactions (Chohan, 2017). The idea was to include into the formal economy by giving them access to digital financial tools more than 70% of the country's unbanked. It is too early to predict how successful this adoption will be in the future but there are early reports of people using Bitcoin for remittances, which is an important source of income for many households in El Salvador. It has made sending and receiving money faster and cheaper for many

Salvadorans by providing a substitute to traditional money transfers — which can be costly and take days — to some of the world's poorest people.

Likewise, in other regions where banking services are scarce, cryptocurrencies have ensured entry to the most basic of financial facilities. Venezuela is a great example of a place where people are using cryptocurrencies (BTC, USDT) to fight hyper-inflation and the devaluation of local currencies. In recent times of economic uncertainty, several Venezuelans began using cryptocurrencies as an investment method to prevent their money from devaluating against the national currency, the bolívar (Baur et al., 2018).

But as exciting and hopeful as these use-cases are, the bitcoins themselves can prove extremely risky especially if one considers the use-case of bitcoin to be a robust store-of-value. The cost of Bitcoin, to take an extreme example, has been famously volatile: swinging wildly in value. In 2017, Bitcoin wallowed near $1,000 before soaring to almost $20,000; a year later it was worth less than $4,000. Such a volatility reduces the ability of cryptocurrencies as an everyday means of transcations and as a strong value-store. Recent evidence suggests that the prices of important cryptocurrencies such as Bitcoin and Ethereum continue to be volatile, which can affect investors but can also influence people using crypto-currencies for standard daily transactions (Foley, Karlsen, & Putniņš, 2019). Consider 2021: In the span of a couple of weeks, the value of Bitcoin had declined by more than 30%, presenting businesses and consumers with yet another obstacle in using it as a stable form of payment.

As well as volatility the fragmented nature of cryptocurrencies brings about regulatory challenges. Cryptocurrencies defy oversight by banks and governments _ cryptocurrencies could go a long way toward suddenly changing the fund-raising game, while causing some havoc on central bankers' ability to manage monetary policy and keep the financial sector stable. With no central control over digital currencies, it is feared that the national monetary sovereignty would be eroded and regulations could be circumvented. For instance, the fact that one can easily move money in cryptocurrencies between countries without using banks and avoiding government operation instruments is considered to make it difficult for institutions to control financial transactions from which money laundering and financing of illegal activities may occur (Zohar, 2015). To deal with such risks, some countries, such as China, have taken a series of measures to restrict or even prohibit Bitcoin transactions and exchanges, which further illustrates that the regulatory issue related to digital currency gradually become one of the hottest issues in today's society (Zohar, 2015).

In addition, the rise of decentralized finance (DeFi) on blockchain networks like Ethereum adds more layers of complexity for financial regulators. DeFi products allow people to access financial services like lending, borrowing and trading without the need for conventional middlemen. Despite providing better financial access and inclusion, these systems circumvent the layers of regulations developed to shield users from being ripped-off or protect against systemic shocks in the financial system. The possibility for rapid expansion in DeFi and the presence of non-regulation is worried to create systemic risk, as well manipulate the market (Baur et al., 2018).

DISCUSSION

The findings of this study underscrore the complexities and interconnectivities between cryptocurrencies, which means they the come with a lots advantages that are accompanied by considerable risks that need to be managed well. Cryptocurrencies have shown their potential to improve the efficiency of financial actions, foster inclusivity in finance and offer new investment avenues especially for low banking infrastructural regions (Narayanan et al., 2016). The decentralised nature of cryptocurrencies, supported by blockchain technology, supports faster, cheaper and more secure transactions that appeal to millions around the world. What's more, as illustrated by the example of El Salvador, cryptocurrencies have the potential to bring financial services to people without bank access, which can allow people in rural areas a place to store their wealth and participate in the global economy (Chohan, 2017).

Nonetheless, they also bring along a considerable number of challenges which should not be overlooked. Market volatility is among such concerns. Given that cryptocurrencies such as Bitcoin and Ethereum are subject to common price volatility (and occasionally violent fluctuations), it is not clear that they serve effectively as stable stores of value, nor reliable media of exchange. The value of Bitcoin itself, for instance, has bounced around by more than 30 percent in just a few weeks leaving investors and users confused as to what they could safely hold onto (Foley, Karlsen & Putniņš, 2019). This volatility erodes the possibility for widespread, every day use of cryptocurrencies, when people are wary to use them as money if they can lose or gain 25% of their value in a single day. It also potentially threatens people who are using cryptocurrencies as a hedge against inflation, and in countries with financial insecurity failing currency-independent ones could make matters worse.

A second major risk is the ease of regulatory circumvention. The decentralised nature of cryptocurrencies enables people to transact away from the oversight of central banks and regulators. Although this comes as a financial independence style and level of privacy, it also requires a challenge for governments to enforce tax laws, money laundering and black market limits (Zohar,2015). Anonymity of cryptocurrencies, particularly Bitcoin, enables transactions that are hard to trace and paves the way for their application in illegal activities like tax evasion, drug sales and terrorism funding. This has resulted in demands for greater regulation of these risks, while maintaining the potential benefits of cryptocurrencies (Baur et al., 2018 Hong et al., 2017Lee, Sung, & Salman, 2019). Government bodies and global institutions need to have detailed policies in place that address these risks, without impeding innovation or the cryptocurrency markets.

These results are consistent in showing that while cryptocurrency may be a promising technology, it's introduction must be carefully managed. Many researches have revealed the pros and cons of cryptocurrencies. For instance, Catalini and Gans (2016) believe that cryptocurrencies could reduce the cost of transaction and improve transparency in financial transactions. But they also warn that the volatility and lack of regulation raise systemic risks, especially if cryptocurrencies are widely adopted without sufficient protections. Likewise, Baur, Hong & Lee (2018) suggest that while digital currency can certainly lead to financial inclusion, they could also disrupt incumbent and established financial institutions should they fail to be integrated in their respective ecosystem.

With such dynamics at play, the need for governments, financial institutions and regulators to work together in order to establish detailed regulatory regimes that strike a balance between innovation and risk management is more important than ever. This includes tackling the issues related to market volatility, preventing crypto from being used in illegal activities and setting up mechanisms for cryptocurrencies to fit into conventional finance without endangering the stability of financial systems. For instance, regulators might implement standards for cryptocurrency exchanges to facilitate transparency and prevent fraud, while central banks may seek a relationship with Central Bank Digital Currencies (CBDCs) as a more stable alternative to the decentralized cryptocurrencies they compete against (Chohan, 2017).

Clearly, cryptocurrencies will continue to become more integrated with the worldwide financial system, but it must be done in a manner that safeguards both investors and general economic stability. With the continuing advancement of technology, continued research and discussions between regulators, industry players and legislators will be key to determining what digital currencies will become in future and how their use fits into the financial ecosystem.

CONCLUSION

The emergence of cryptocurrencies is a world-shaking change in global financial systems and has far reaching possibilities as well as many hurdles to overcome. On one hand, cryptographic currencies have the potential to promote financial inclusion by bringing unbanked and underbanked people access to financial services which was earlier inaccessible. Cryptocurrencies aim to increase the efficiency of cross-border transactions as well, in terms of cost and speed (Catalini & Gans, 2016). Moreover, the decentralised nature of cryptocurrencies is believed to decrease dependence on central financial entities and give individuals more power when it comes to managing their money. Still, the swift assimilation of these virtual currencies is also causing concerns about market instability, regulation and the threat of theft. The extreme volatility of such as Bitcoin et al., impairs their role as credible stores of value and mediums of exchange (Foley, Karlsen, & Putniņš, 2019). In addition, the decentralized and (in many cases) anonymous features of cryptocurrencies impede monitoring and controlling criminal financial transactions such as money laundering or fraud (Zohar 2015).

The rise of cryptocurrencies like Bitcoin poses risks to the global financial system but implementation of strong regulatory frameworks is critical for its inclusion in the global monetary architecture in a manner that harvests maximum gains and minimizes these risks. Policymakers have to think about striking the right balance in regulation and innovation to ensure systemic health and consumer protection. Central Banks, banks and international organizations have to work together to form coherent regulations able To meet the threat represented by decentralized finance and digital currencies (Chohan, 2017). More broadly, researchers could investigate the broader socio-economic ramifications of adopting cryptocurrencies (particularly, in developing countries) and also how digital coins interact with financial institutions. The potential of cryptocurrencies can only be realized without compromising the stability of global finance by engaging in international cooperation and prudent regulatory strategy.

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