

**Forum:** Economic & Financial Committee (GA2)

**Issue:** Preventing hyperinflation caused by the introduction of cryptocurrency in national markets



**Student Officer:** Anastasia Svolou

**Position:** Co-chair

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## Personal Introduction

Dear Delegates,

My name is Anastasia Svolou, and I am a IB-1 student at HAEF-Psychiko College. This year, I have the utmost honor of serving as a Co-Chair in the Economic & Financial Committee at the 8th ACGMUN, marking it my 8th MUN conference and my 2nd time serving as a student officer. The Economic & Financial Committee is especially significant to me, as it was the first ever committee I served as a delegate in, two years ago. Therefore, I am delighted to share this experience with you! First of all, I would like to congratulate you on your decision to participate in the 7th ACGMUN conference. Through participating in MUN conferences, I have become more globally conscious, embraced a more open-minded viewpoint and made friendships I cherish to this day. I hope that this conference will be an eye-opening opportunity for all of you and that you will be able to enjoy it to its fullest. This study guide will provide a detailed explanation and discussion of the second topic on the committee's agenda. To completely understand the policy of your country or organisation, you should, nevertheless, do your own research. If you have any questions regarding this study guide do not hesitate to contact me via email: [asvolou@athenscollege.edu.gr](mailto:asvolou@athenscollege.edu.gr)!

I sincerely look forward to meeting you all this March!

Best Regards,

Anastasia Svolou

## Topic Introduction

In the 21<sup>st</sup> century, cryptocurrencies have emerged as a transformative force, reshaping global and national financial markets and offering decentralized alternatives to traditional money. Cryptocurrencies, such as Bitcoin and Ethereum, are digital assets that utilize cryptographic techniques to achieve secure transactions, as cryptography not only protects data from theft or alteration, but can also be used for user authentication. These transactions primarily occur through blockchain technology, a decentralized digital database that is shared amongst a network of computers ensuring transparency amongst parties of the transaction as well as privacy from unauthorized persons.

The rapid adoption of cryptocurrencies occurs mostly in countries experiencing high economic stability. For example, Argentina in 2023 faced an inflation rate of 98.6%, leading to a decrease in the peso's value.<sup>1</sup> As a result, Argentinian citizens, between 2023 and 2024, have increasingly turned to Bitcoin, resulting in over \$91.1 billion transaction in cryptocurrency, surpassing Brazil in crypto activity.<sup>2</sup> Similarly, Venezuela, in 2023 faced an inflation rate of 337.46%, leading a vast majority of its citizens to turn to stablecoins, such as Tether (USDT).<sup>3</sup>

However, the integration of cryptos brings about various concerns. In a world where all sorts of financial assets can be tokenised through cryptography and transacted on blockchains, the question of which payment instrument will be used to settle transactions arises. It seems that entities and individuals will want to pay with, and receive, financial assets that have a high degree of stability of value and not cryptocurrencies with high volatility.<sup>4</sup> Furthermore, the volatility of cryptocurrencies can lead to rapid devaluation of local fiat currencies, causing further economic instability. For instance, in Turkey in March of 2024, when stablecoin purchases accounted for 4% of the GDP, indicating a shift in preferences from the national currency to cryptocurrencies, the lira experienced an annual inflation

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<sup>1</sup> Paz, Javier. 'Why Inflation Battered Argentinians Are Turning To Crypto'. *Forbes*, <https://www.forbes.com/sites/javierpaz/2024/07/08/why-inflation-battered-argentinians-are-turning-to-crypto/>. Accessed 24 Dec. 2024.

<sup>2</sup> Paz, Javier. 'Why Inflation Battered Argentinians Are Turning To Crypto'. *Forbes*, <https://www.forbes.com/sites/javierpaz/2024/07/08/why-inflation-battered-argentinians-are-turning-to-crypto/>. Accessed 24 Dec. 2024.

<sup>3</sup> 'Average Inflation Rate in Venezuela 2025'. *Statista*, <https://www.statista.com/statistics/1392610/average-inflation-rate-venezuela/>. Accessed 24 Dec. 2024.

<sup>4</sup> 'The Future of Payments: Cryptocurrencies, Stablecoins or Central Bank Digital Currencies? | Speeches'. *Reserve Bank of Australia*, 18 Nov. 2021, <https://www.rba.gov.au/speeches/2021/sp-so-2021-11-18.html>. Accessed 23 Dec. 2024.

rate as high as 67%.<sup>5</sup> Lastly, a significant concern is the potential hyperinflation the rapid adoption of cryptocurrencies can trigger.

Comprehending why individuals turn to cryptocurrencies is essential to combat the issue. Cryptocurrency adoption is driven by a number of factors, including the need for financial inclusion, protection from currency devaluation, and the search for more effective remittance channels. For example, cryptocurrencies provide a way to protect wealth and ease cross-border transactions without the limitations of conventional banking systems in nations with high rates of inflation.

In order to preserve economic stability, the problem of hyperinflation brought on by cryptocurrencies must be addressed. Rapid and uncontrolled adoption has the potential to destabilise financial systems, damage public confidence in national currencies, and challenge monetary policies. Consequently, it is crucial to utilise the advantages of cryptocurrencies while reducing the risks they pose. This strategy emphasises the need for achieving a balance between adopting advanced financial technologies and maintaining economic stability, which is consistent with the notion of Balancing Infinite Opportunities (BIOΣ).

## Definition of Key Terms

### Inflation

Refers to the persistent rise in average prices of all final goods and services in an economy over a period of at least two consecutive quarters.<sup>6</sup>

### Hyperinflation

“A term that describes and measures rapid, excessive, and out-of-control general price increases that result in extreme inflation.”<sup>7</sup>

### Digital assets

“An umbrella term that refers to cryptoassets, stablecoins, and financial assets issued as tokens on a blockchain.”<sup>8</sup>

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<sup>5</sup> Turak, Natasha. ‘Turkish Annual Inflation Soars to 67% in February’. *CNBC*, 4 Mar. 2024, <https://www.cnbc.com/2024/03/04/turkish-annual-inflation-soars-to-67percent-in-february.html>.

<sup>6</sup> Surridge, Malcolm, and Andrew Gillespie. *Business Management for the IB Diploma*. Hachette UK, 2022.

<sup>7</sup> ‘What Is Hyperinflation? Causes, Effects, Examples, and How to Prepare’. *Investopedia*, <https://www.investopedia.com/terms/h/hyperinflation.asp>. Accessed 30 Nov. 2024.

<sup>8</sup> ‘IBIT | the Bitcoin Trust ETF | iShares’. *BlackRock*, <https://www.ishares.com/us/strategies/ways-to-invest-in-bitcoin>. Accessed 13 Dec. 2024.

## Cryptoassets, Cryptocurrencies, or crypto

“Digitally-native assets issued on a blockchain, utilizing cryptography, peer-to-peer networking, and a public ledger to regulate the generation of new units, verify the transactions, and secure the records of ownership without reliance on an intermediary.”<sup>9</sup>

## Stablecoins

Cryptocurrencies whose value is linked to the value of another currency, commodity, or financial instrument. “Stablecoins aim to provide an alternative to the high volatility of the most popular cryptocurrencies, including Bitcoin (BTC).”<sup>10</sup>

## Ledger (or general ledger)

“A record of a business's financial transactions.”<sup>11</sup>

## Decentralized ledger

“A (distributed) decentralized ledger is a transaction database that is stored and synchronized across multiple sites, institutions, or geographies. Independent network nodes store copies of the ledger and communicate any changes made by users to other nodes, which append their ledgers to match.”<sup>12</sup> “In a decentralized network, anyone can transact on the ledger.”<sup>13</sup> “Distributed ledgers contrast centralized ledgers, which are most commonly used by businesses and governments.”<sup>14</sup>

## Blockchain

A distributed decentralized digital database that is shared amongst a network of computers that enables consensus.<sup>15</sup> It functions as a decentralized ledger that duplicates and distributes transactions across the network of computers participating in it.<sup>16</sup> As a database, a blockchain stores information

<sup>9</sup> ‘IBIT | the Bitcoin Trust ETF | iShares’. *BlackRock*, <https://www.ishares.com/us/strategies/ways-to-invest-in-bitcoin>. Accessed 13 Dec. 2024.

<sup>10</sup> ‘Stablecoins: Definition, How They Work, and Types’. *Investopedia*, <https://www.investopedia.com/terms/s/stablecoin.asp>. Accessed 13 Dec. 2024.

<sup>11</sup> ‘What Is a Ledger? | Definition’. *Xero*, <https://www.xero.com/us/glossary/general-ledger/>. Accessed 23 Dec. 2024.

<sup>12</sup> ‘Distributed Ledgers: Definition, How They’re Used, and Potential’. *Investopedia*, <https://www.investopedia.com/terms/d/distributed-ledgers.asp>. Accessed 23 Dec. 2024.

<sup>13</sup> Rutland, Emily. *Blockchain Byte the Blockchain Byte Features a Question from the Distributed Ledger Space R3 Research*. [www.finra.org/sites/default/files/2017\\_BC\\_Byte.pdf](http://www.finra.org/sites/default/files/2017_BC_Byte.pdf).

<sup>14</sup> ‘Distributed Ledgers: Definition, How They’re Used, and Potential’. *Investopedia*, <https://www.investopedia.com/terms/d/distributed-ledgers.asp>. Accessed 23 Dec. 2024.

<sup>15</sup> ‘IBIT | the Bitcoin Trust ETF | iShares’. *BlackRock*, <https://www.ishares.com/us/strategies/ways-to-invest-in-bitcoin>. Accessed 13 Dec. 2024.

<sup>16</sup> ‘Blockchain Facts: What Is It, How It Works, and How It Can Be Used’. *Investopedia*, <https://www.investopedia.com/terms/b/blockchain.asp>. Accessed 15 Dec. 2024.

maintaining a secure record of transactions<sup>17</sup> and protects data in any industry from being altered.<sup>18</sup>

“Using this technology, participants can confirm transactions without a need for a central clearing authority.”<sup>19</sup> A blockchain’s value lies on the fact that it is a method of recording information that makes it impossible or difficult for the system to be changed, hacked, or manipulated.

## Cryptography

“Cryptography is associated with the process of converting ordinary plain text into unintelligible text and vice-versa. It is a method of storing and transmitting data in a particular form so that only those for whom it is intended can read and process it. Cryptography not only protects data from theft or alteration, but can also be used for user authentication.”<sup>20</sup>

## Peer-to-peer network

“An information technology (IT) infrastructure that allows two or more computer systems to connect and share resources without requiring a separate server or server software.”<sup>21</sup>

## Public ledger

“A distributed record-keeping system used to record cryptocurrency transactions. Because anyone can participate, they generally use cryptography in their programming to secure the ledger, but the transactions are publicly viewable.”<sup>22</sup>

## Volatility

“Volatility is an investment term that describes when a market or security experiences periods of unpredictable, and sometimes sharp, price movements.”<sup>23</sup> (prices can either rise or fall)

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<sup>17</sup> ‘IBIT | the Bitcoin Trust ETF | iShares’. *BlackRock*, <https://www.ishares.com/us/strategies/ways-to-invest-in-bitcoin>. Accessed 13 Dec. 2024.

<sup>18</sup> ‘Blockchain Facts: What Is It, How It Works, and How It Can Be Used’. *Investopedia*, <https://www.investopedia.com/terms/b/blockchain.asp>. Accessed 15 Dec. 2024.

<sup>19</sup> ‘Blockchain Facts: What Is It, How It Works, and How It Can Be Used’. *Investopedia*, <https://www.investopedia.com/terms/b/blockchain.asp>. Accessed 15 Dec. 2024.

<sup>20</sup> ‘What Is Cryptography? Definition of Cryptography, Cryptography Meaning’. *The Economic Times*, <https://economictimes.indiatimes.com/definition/cryptography>. Accessed 24 Dec. 2024.

<sup>21</sup> Herrity, Jennifer. “What Is a Peer-To-Peer Network? | Indeed.com.” *Www.indeed.com*, 21 Feb. 2023, [www.indeed.com/career-advice/career-development/what-is-a-peer-to-peer-network](https://www.indeed.com/career-advice/career-development/what-is-a-peer-to-peer-network). Accessed 24 Dec. 2024.

<sup>22</sup> ‘What Is a Cryptocurrency Public Ledger? How It Works and Risks’. *Investopedia*, <https://www.investopedia.com/tech/what-cryptocurrency-public-ledger/>. Accessed 24 Dec. 2024.

<sup>23</sup> ‘Volatility: Meaning in Finance and How It Works With Stocks’. *Investopedia*, <https://www.investopedia.com/terms/v/volatility.asp>. Accessed 24 Dec. 2024.

## Monetary Policy

“Monetary policy is a set of tools used by a nation's central bank to control the overall money supply and promote economic growth and employ strategies”<sup>24</sup>

## Fiat Currency

“Any legal currency that is not backed up by a physical commodity nor does the material it is made out of have a significant value. The value of fiat money is derived from the relationship between supply and demand and the stability of the issuing government rather than the worth of a commodity backing it.”<sup>25</sup>

## Central Bank Digital Currency (CBDC)

“A central bank digital currency (CBDC) is a form of digital currency issued by a country's central bank. It is similar to cryptocurrencies, except that its value is fixed by the central bank and is equivalent to the country's fiat currency.”<sup>26</sup>

## Gross Domestic Product (GDP)

“Is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.”<sup>27</sup>

## Formal remittance channels

Channels officially authorized to operate in the money transfer business, such as banks, money transfer operators, or other officially registered institutions.<sup>28</sup>

## Dollar-cost averaging

“Refers to the practice of investing a fixed dollar amount on a regular basis, regardless of the share price.”<sup>29</sup>

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<sup>24</sup> ‘Monetary Policy Meaning, Types, and Tools’. *Investopedia*, <https://www.investopedia.com/terms/m/monetarypolicy.asp>. Accessed 24 Dec. 2024.

<sup>25</sup> ‘Fiat Money: What It Is, How It Works, Example, Pros & Cons’. *Investopedia*, <https://www.investopedia.com/terms/f/fiatmoney.asp>. Accessed 24 Dec. 2024.

<sup>26</sup> ‘What Is a Central Bank Digital Currency (CBDC)?’ *Investopedia*, <https://www.investopedia.com/terms/c/central-bank-digital-currency-cbdc.asp>. Accessed 24 Dec. 2024.

<sup>27</sup> ‘Gross Domestic Product (GDP) Formula and How to Use It’. *Investopedia*, <https://www.investopedia.com/terms/g/gdp.asp>. Accessed 24 Dec. 2024.

<sup>28</sup> ‘Remittance: What It Is and How to Send One’. *Investopedia*, <https://www.investopedia.com/terms/r/remittance.asp>. Accessed 24 Dec. 2024.

<sup>29</sup> ‘What Is Dollar Cost Averaging?’ *Schwab Brokerage*, [www.schwab.com/learn/story/what-is-dollar-cost-averaging](https://www.schwab.com/learn/story/what-is-dollar-cost-averaging). Accessed 21 Jan. 2025.

## Background Information

### Cryptocurrency in Global Markets

#### Historical background and rise of cryptocurrency adoption

The ease with which digital payments are conducted has led certain groups of people to design and “mine” their own digital currencies widely known as cryptocurrencies. There are many types of cryptocurrencies, but the dominant among these are Bitcoin and Ethereum. Bitcoin was created in 2009 by an unknown person or persons under the pseudonym Satoshi Nakamoto and Ethereum is the brainchild of programmer Vitalik Buterin in 2013.<sup>30</sup> Ethereum was launched in 2015, and the key differentiator between Ethereum and Bitcoin is that the former uses smart contracts, that is self-executing contracts, with the terms of the agreement between buyer and seller are written in lines of code.<sup>31</sup> The term “cryptocurrency” connotes that these currencies use cryptography, algorithms and coding to protect information and electronic communication relying on blockchain technology, which stores all transactions in an online ledger, cryptocurrencies are supported by their networks rather than the government and this is appealing to many users. Proponents of such currencies thrive in the anonymity of this system, since financial institutions or the government have no access to individual funds.<sup>32</sup> Thanks to this, those who aim at laundering money or engaging in illegal financial transactions use it extensively. Cryptocurrency has revolutionised the financial landscape worldwide, with many investors preferring it. The “crypto boom” took place in 2017 with many economies around the world becoming concerned over the potential dangers of crypto adoption.<sup>33</sup> In fact, the first country concerned about the role of cryptocurrency is the UK, who as early as 2014 announced its treasury had commissioned a study of cryptocurrencies to find out more about the role in the UK economy, as well as to report on whether regulations should be implemented.<sup>34</sup>

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<sup>30</sup> Medema, Steven. *The Economics Book*. 2019. [Edition unavailable], Union Square &#38; Co., 2019, <https://www.perlego.com/book/3717680>.

<sup>31</sup> BT, DBT. “Ethereum’s Smart Contracts Explained.” *Deltec Bank and Trust*, 23 May 2023, [www.deltecbank.com/news-and-insights/ethereums-smart-contracts-explained/](http://www.deltecbank.com/news-and-insights/ethereums-smart-contracts-explained/).

<sup>32</sup> Medema, Steven. *The Economics Book*. 2019. [Edition unavailable], Union Square &#38; Co., 2019, <https://www.perlego.com/book/3717680>.

<sup>33</sup> *Is Bitcoin a Bubble? A History of Its Biggest Bubbles, and How They Deflated, Crashed* | *Fortune*. 2 Jan. 2021, [fortune.com/crypto/2021/01/02/is-bitcoin-a-bubble-will-it-crash-again-history/amp/](http://fortune.com/crypto/2021/01/02/is-bitcoin-a-bubble-will-it-crash-again-history/). Accessed 26 Dec.

<sup>34</sup> “UK Launches Initiative to Explore Potential of Virtual Currencies.” *The UK News*, [www.theuknews.com/news/224504231/uk-launches-initiative-to-explore-potential-of-virtual-currencies](http://www.theuknews.com/news/224504231/uk-launches-initiative-to-explore-potential-of-virtual-currencies). Accessed 26 Dec. 2024



## Advantages

The most obvious advantage of using cryptocurrency is the latter's ability to limit a central bank's control of money supply, the ability to help users avoid bank fees as well as the convenience of fund transfer. Another added benefit is the transaction transparency which renders any type of transaction clear to both buyer and seller, even ensuring a contract between the two parties (see Ethereum smart contracts). Cryptocurrencies pave the way to a more inclusive economy where the exchange of goods and services among participants is enabled even to people who currently lack access to traditional banking. This last benefit is especially felt in developing country's economies, who have found cryptocurrency as a substitute to the traditional banking system. One of the most notable advantages of cryptocurrency is the fact that its spread and circulation does not require a physical infrastructure (banking buildings, treasuries) and as such it remains the number one reason developing countries find it extremely appealing. This is a great way to combat financial exclusion and in this way, cryptocurrency is rendered the most efficient tool to reduce poverty<sup>35</sup>. Although top of the list, this is not the only advantage of "crypto". There is an added benefit for individuals and businesses alike: on the one hand, individuals save money thanks to lower transaction fees, while smaller businesses can engage in global trading as a payment system, thus getting rid of red tape procedures linked with financing in the traditional way. Another important benefit of adopting cryptocurrency is the fight against corruption. By utilizing blockchain technology, cryptocurrency can assist poorer countries in eliminating corruption. Governments can be held responsible because blockchain records are available to the public through an immutable distributed public ledger. Government spending on programs and initiatives can be tracked without the possibility of falsifying or manipulating documents. Authorized individuals may also be prohibited from utilizing funds for purposes other than what they were intended for.

## Challenges

A major concern is the risk that cryptocurrencies represent to consumers. According to the United Kingdom's Financial Conduct Authority,<sup>36</sup> customers may purchase unsuitable goods, suffer significant losses, be vulnerable to fraudulent activities, struggle to access market services, and be subject to service provider failures. These scenarios would impair market integrity, potentially resulting in consumer losses or a loss of market confidence.

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<sup>35</sup> "How Can Third-World Countries Counter Inflation Using Bitcoin?" *Cointelegraph*, 2023, [cointelegraph.com/learn/articles/how-can-third-world-countries-counter-inflation-using-bitcoin](https://cointelegraph.com/learn/articles/how-can-third-world-countries-counter-inflation-using-bitcoin).

<sup>36</sup> FCA (2019b) Cryptoassets: ownership and attitudes in the UK. Research Report. Available at: <https://www.fca.org.uk/publication/research/cryptoassets-ownership-attitudes-uk-consumer-survey-research-report.pdf>. Accessed: 28 July 2024.



The greatest challenge posed by cryptocurrency is that its very nature is based on anonymity. The anonymity or pseudonymity of bitcoin transactions may promote moral hazard.<sup>37</sup> This opaqueness would provide opportunities to implement scams, crimes, or arbitrage strategies for financial gain in both legitimate and illegitimate ways, such as money laundering or concealing illegal activities.<sup>38</sup> Users can transact using blockchain networks that are not necessarily under the regulator's scrutiny. The risk associated with cryptocurrency arises from decentralized or distributed financial systems known as Distributed Ledger Technology (DLT) or blockchain.<sup>39</sup> Decisions are made, or actions are executed by algorithms powered by artificial intelligence that function as 'black boxes,' rendering them both invisible and difficult for consumers or regulatory bodies to understand. A lack of transparency, ineffective governance, and poor communication with supervisors/authorities create particular challenges in comprehending the functioning of digital models and algorithms within a 'black box' framework. Potential hacking incidents pose security threats to consumers, as highlighted by cases of breaches in 'hot wallets'.<sup>40</sup>

Moreover, concerns about possible financial exclusion arise. A case in point is El Salvador which accepted Bitcoin as legal tender in September 2021.<sup>41</sup> The majority of the country's population did not have access to the internet or other technologies needed to make effective use of Bitcoin.<sup>42</sup> Furthermore, 61% of users left the government's Chivo wallet after using the initial \$30 incentive, according to a National Bureau of Economic Research report, suggesting that there was little ongoing use of the cryptocurrency.<sup>43</sup>

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<sup>37</sup> FCA (2019b) Cryptoassets: ownership and attitudes in the UK. Research Report. Available at: <https://www.fca.org.uk/publication/research/cryptoassets-ownership-attitudes-uk-consumer-survey-research-report.pdf>. Accessed: 28 July 2024.

<sup>38</sup> BBC News (2019a) TalkTalk hacker Elliott Gunton: cryptocurrency auctioned by police, 30 September. Available at: <https://www.bbc.co.uk/news/uk-england-norfolk-49880630>. Accessed: 25 Dec. 2024.

BBC News (2019b) OneCoin lawyer found guilty in 'crypto-scam', 21 November. Available at: <https://www.bbc.com/news/technology-50509299>. Accessed: 25 Dec. 2024.

BBC News (2020) Leicestershire cryptocurrency drug dealer jailed, 5 February. Available at: <https://www.bbc.co.uk/news/uk-england-leicestershire-51393208>. Accessed: 25 Dec. 2024.

<sup>39</sup> 'Distributed Ledgers: Definition, How They're Used, and Potential'. *Investopedia*, <https://www.investopedia.com/terms/d/distributed-ledgers.asp>. Accessed 23 Dec. 2024.

<sup>40</sup> BBC News (2018) Coincheck promises 46bn yen refund after cryptocurrency theft, 28 January. Available at: <https://www.bbc.co.uk/news/world-asia-42850194>. Accessed: 27 Dec. 2024.

<sup>41</sup> "Deep down in the crypto-dip; El Salvador." *The Economist*, 19 Nov. 2022, p. 30(US). *Gale OneFile: News*, [link.gale.com/apps/doc/A726928598/STND?u=acg&sid=oclc&xid=4ece6991](https://link.gale.com/apps/doc/A726928598/STND?u=acg&sid=oclc&xid=4ece6991). Accessed 27 Dec. 2024.

<sup>42</sup> Belsie, Laurent. "El Salvador's Experiment with Bitcoin as Legal Tender." *NBER*, 7 July 2022, [www.nber.org/digest/202207/el-salvadors-experiment-bitcoin-legal-tender](https://www.nber.org/digest/202207/el-salvadors-experiment-bitcoin-legal-tender). Accessed 24 Jan. 2024.

<sup>43</sup> Belsie, Laurent. "El Salvador's Experiment with Bitcoin as Legal Tender." *NBER*, 7 July 2022, [www.nber.org/digest/202207/el-salvadors-experiment-bitcoin-legal-tender](https://www.nber.org/digest/202207/el-salvadors-experiment-bitcoin-legal-tender). Accessed 24 Jan. 2024.

In addition cryptocurrency volatility poses a significant challenge as it can lead to hyperinflation in certain economic contexts. Unlike fiat currencies, cryptocurrencies often experience sharp and unpredictable price increases and decreases due to speculative trading, limited regulation, and fluctuating demand.<sup>44</sup> In economies that adopt cryptocurrencies as legal tender or heavily integrate them into financial systems, these price fluctuations can erode purchasing power, destabilize savings, and undermine confidence in the currency's value.<sup>45</sup> If businesses and consumers rapidly lose trust in the stability of a cryptocurrency, they may demand more units to compensate for perceived losses in value, triggering a self-perpetuating cycle of devaluation and inflation.<sup>46</sup> This volatility-driven instability can escalate into hyperinflation, particularly in economies with weak monetary policies or reliance on digital assets for daily transactions.<sup>47</sup>

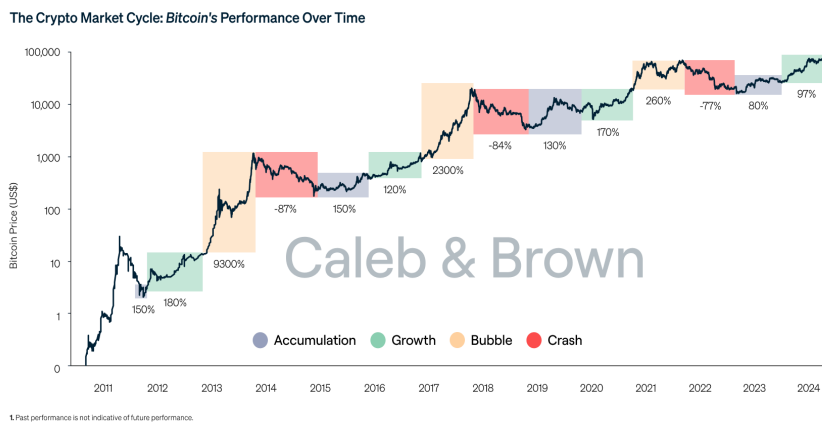


Figure 1: Volatility of Bitcoin over the years<sup>48</sup>

<sup>44</sup> Reiff, Nathan. "Why Bitcoin Has a Volatile Value." *Investopedia*, 13 Jan. 2024, [www.investopedia.com/articles/investing/052014/why-bitcoins-value-so-volatile.asp](https://www.investopedia.com/articles/investing/052014/why-bitcoins-value-so-volatile.asp). Accessed 25 Jan. 2025.

<sup>45</sup> Reiff, Nathan. "Why Bitcoin Has a Volatile Value." *Investopedia*, 13 Jan. 2024, [www.investopedia.com/articles/investing/052014/why-bitcoins-value-so-volatile.asp](https://www.investopedia.com/articles/investing/052014/why-bitcoins-value-so-volatile.asp). Accessed 25 Jan. 2025.

<sup>46</sup> Reiff, Nathan. "Why Bitcoin Has a Volatile Value." *Investopedia*, 13 Jan. 2024, [www.investopedia.com/articles/investing/052014/why-bitcoins-value-so-volatile.asp](https://www.investopedia.com/articles/investing/052014/why-bitcoins-value-so-volatile.asp). Accessed 25 Jan. 2025.

<sup>47</sup> Reiff, Nathan. "Why Bitcoin Has a Volatile Value." *Investopedia*, 13 Jan. 2024, [www.investopedia.com/articles/investing/052014/why-bitcoins-value-so-volatile.asp](https://www.investopedia.com/articles/investing/052014/why-bitcoins-value-so-volatile.asp). Accessed 25 Jan. 2025.

<sup>48</sup> *Ctfassets.net*, 2025, [images.ctfassets.net/4ua9vnmkuhzj/18h5xFWh8xQJCTt89NIGqd/eb374fc23c1b0270575919034ca055cc/Crypto\\_Market\\_Cycle\\_Chart\\_v2\\_\\_1\\_.png](https://images.ctfassets.net/4ua9vnmkuhzj/18h5xFWh8xQJCTt89NIGqd/eb374fc23c1b0270575919034ca055cc/Crypto_Market_Cycle_Chart_v2__1_.png). Accessed 25 Jan. 2025.

Last, but not least, the environmental impact of mining bitcoins cannot be overlooked. The whole process of bitcoin mining is based on PoW (proof of work), which requires high-performance computers to verify the transactions and keep the blockchain system functioning. The electricity needed to complete these transactions is estimated to reach around 63 terawatt-hours (TWh) annually which in turn translates to greenhouse emissions that contribute to climate change.<sup>49</sup>

## Hyperinflation Dynamics

### Causes of hyperinflation in traditional economies

An economy is deemed to be experiencing hyperinflation when prices increase by more than 50% within a single month. Hyperinflation is observed during times of significant economic distress or recession and it primarily arises from two key factors: an expansion of the money supply and demand-pull inflation. The first factor occurs when a government resorts to printing additional currency to finance its expenditures. This can lead to a government issuing more currency than what the nation's GDP can sustain. The increase in the money supply leads to a rise in prices, similar to the effects of standard inflation. The second factor, demand-pull inflation, takes place when a significant increase in demand surpasses the available supply, resulting in higher prices. Such a scenario may be triggered by heightened consumer spending due to economic growth, a sudden boost in exports, or increased government expenditure. Rather than constricting the money supply to mitigate inflation, the government or central bank may opt to continue printing more money. The excessive circulation of currency causes prices to soar. As consumers become aware of the situation, they anticipate ongoing inflation and tend to purchase more goods immediately to avoid future price increases. This surge in demand further exacerbates inflationary pressures, particularly if consumers begin hoarding goods, leading to shortages.

### Hyperinflation caused by crypto

The “wealth effect” caused by using cryptocurrency is the primary factor that leads to hyperinflation in developed countries. The illusion of having more than enough ultimately leads to over consumerism thus contributing to demand pull-inflation. A case in point is the Bitcoin and Ethereum 2024 surge that has increased total crypto market capitalization to \$2.64 trillion, and has created disposable wealth for retail investors.<sup>50</sup> This inflationary pressure challenges central banks like the U.S. Federal Reserve, complicating plans to reduce interest rates. Contrary to traditional stock gains, the

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<sup>49</sup> “The Large Environmental Consequences of Bitcoin Mining.” LSE Business Review, 8 Nov. 2024, [blogs.lse.ac.uk/businessreview/2024/11/08/the-large-environmental-consequences-of-bitcoin-mining/](https://blogs.lse.ac.uk/businessreview/2024/11/08/the-large-environmental-consequences-of-bitcoin-mining/).

<sup>50</sup> “Bitcoin’s Price Rally May Add to Inflation. Here’s Why.” *CoinDesk*, 5 Mar. 2024, [www.coindesk.com/markets/2024/03/05/bitcoins-price-rally-may-add-to-inflation-heres-why](https://www.coindesk.com/markets/2024/03/05/bitcoins-price-rally-may-add-to-inflation-heres-why). Accessed 28 Dec. 2024.

wealth effect of cryptocurrencies targets broader consumer spending, such as the housing market. To stabilize the economy during an inflation, central banks typically use fiat currency policies, for example they adjust interest rates or implement quantitative easing. A case in point is the 2008 financial crisis and the 2020 COVID-19 pandemic, when the Federal Reserve implemented zero-interest-rate policies to manage inflation and consumption.<sup>51</sup>

On the other hand, in developing nations, the use of cryptocurrency guarantees financial mobility and inclusion where traditional banking systems are inaccessible or unstable. In countries such as Nigeria and Venezuela which are plagued by hyperinflation crypto is what allows citizens to preserve value and participate in global markets. Along the same lines, due to Bolivar's immense devaluation, the Bitcoin has helped Venezuelans transact on a daily basis and has saved remittances. Cryptocurrencies, therefore, serve as a lifeline in these economies, empowering individuals with financial tools otherwise unavailable to them.

Consequently, it is important to note that while developed countries see crypto as a destabilizing force to national monetary systems, requiring fiat intervention as a backup, developing nations leverage it as an alternative to failing financial systems. The dichotomy underscores the distinct economic roles cryptocurrencies play globally, reflecting varying levels of financial infrastructure and monetary policy strength.

## Major Countries and Organizations Involved

### El Salvador

El Salvador is an example of a country whose inflation rate eased to 0.58% in September 2024 from 1.17% in August of the same year, marking the lowest level since January 2021.<sup>52</sup> In the aftermath of Mr. Nayib Bukele's, president of El Salvador, decision to make Bitcoin legal tender in September of 2021, El Salvador was officially the first country to ever adopt a cryptocurrency as legal tender. Despite the fall of inflation, the danger of cryptocurrency's high volatility poses a threat on national economies. This is evident by the fact that the value of the country's bitcoin has fallen by two-thirds.<sup>53</sup> The country's

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<sup>51</sup> "Compound: Lending on the Blockchain - Case - Faculty & Research - Harvard Business School." *Hbs.edu*, 2023, [www.hbs.edu/faculty/Pages/item.aspx?num=64876](https://www.hbs.edu/faculty/Pages/item.aspx?num=64876). Accessed 28 Dec. 2024.

<sup>52</sup> "Deep down in the crypto-dip; El Salvador." *The Economist*, 19 Nov. 2022, p. 30(US). *Gale OneFile: News*, [link.gale.com/apps/doc/A726928598/STND?u=acg&sid=oclc&xid=4ece6991](https://link.gale.com/apps/doc/A726928598/STND?u=acg&sid=oclc&xid=4ece6991). Accessed 27 Dec. 2024.

<sup>53</sup> "Deep down in the crypto-dip; El Salvador." *The Economist*, 19 Nov. 2022, p. 30(US). *Gale OneFile: News*, [link.gale.com/apps/doc/A726928598/STND?u=acg&sid=oclc&xid=4ece6991](https://link.gale.com/apps/doc/A726928598/STND?u=acg&sid=oclc&xid=4ece6991). Accessed 27 Dec. 2024.

president invested 105 million dollars in crypto assets, out of which 65 million dollars were lost.<sup>54</sup> These statistics are tracked through Mr. Bukele's tweets since there is no public ledger available to the public. Therefore, concern has been raised for whether they should be deemed trustworthy. The fall in cryptocurrency value has led to an increased national debt of 667 million dollars due in January. This is a case in point of a country in great risk of bankruptcy, hence cryptocurrency functioned as leverage, something that wouldn't occur in a strong economy.

## Venezuela

The president of Venezuela, Nicolas Maduro launched the Petro cryptocurrency in 2018 in order to combat hyperinflation. It was supposedly backed by Venezuela's oil, natural gas, and mineral reserves for stability, making it the first government controlled crypto. Historically speaking, Venezuela faces a very high annual inflation rate. It skyrocketed to over 130,000% in 2018 and even though it has slowed, it remained at 190% in 2023.<sup>55</sup> The slowing down of the soaring inflation can be partly attributed to the implementation of the cryptocurrency. However, it should be noted that cryptocurrency adoption can mainly benefit a chaotic economy.

## China

In late September 2021, the People's Bank of China (PBOC) banned all cryptocurrency transactions, in order to maintain economic control. They deemed cryptocurrencies as the number one reason for financial crime as well as posing a growing risk to China's financial system because of their highly speculative nature. Another possible reason behind the cryptocurrency ban is an attempt to combat capital flight from China.<sup>56</sup> According to the Chainalysis Blockchain data platform, more than \$50 billion worth of cryptocurrency left East Asian accounts to areas outside the region between 2019 and 2020, making Chainalysis staff believe that much of this net outflow was actually capital flight from China.<sup>57</sup> Finally, Bitcoins price growth and volatility have had a negative impact on China's economy's inflation rates and exchange rates.<sup>58</sup>

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<sup>54</sup> "Deep down in the crypto-dip; El Salvador." *The Economist*, 19 Nov. 2022, p. 30(US). *Gale OneFile: News*, [link.gale.com/apps/doc/A726928598/STND?u=acg&sid=oclc&xid=4ece6991](https://link.gale.com/apps/doc/A726928598/STND?u=acg&sid=oclc&xid=4ece6991). Accessed 27 Dec. 2024.

<sup>55</sup> 'Petro (PTR): What It Means, Concerns, FAQs'. *Investopedia*, <https://www.investopedia.com/terms/p/petro-cryptocurrency.asp>. Accessed 27 Dec. 2024.

<sup>56</sup> Shin, F. (2022). *What's behind China's cryptocurrency ban?* [online] World Economic Forum. Available at: <https://www.weforum.org/stories/2022/01/what-s-behind-china-s-cryptocurrency-ban/>.

<sup>57</sup> Shin, F. (2022). *What's behind China's cryptocurrency ban?* [online] World Economic Forum. Available at: <https://www.weforum.org/stories/2022/01/what-s-behind-china-s-cryptocurrency-ban/>.

<sup>58</sup> Li, X., Wu, R. and Wang, C. (2024). Impacts of Bitcoin on Monetary System: Is China's Bitcoin Ban Necessary? *Research in International Business and Finance*, 69(102237), pp.102237–102237. doi:<https://doi.org/10.1016/j.ribaf.2024.102237>.

## United States

The U.S. Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) are recognized as global leaders in the domain of financial regulation. As a result, a multitude of nations often perceive U.S. regulatory frameworks as exemplars in the formulation of their own policies. The United States has yet to articulate a conclusive stance regarding the adoption of cryptocurrency. Nevertheless, the recently inaugurated president, Donald Trump, has embraced a pro-cryptocurrency agenda in his campaign for the 2024 election. His strategy includes the dismissal of SEC Chair Gary Gensler, the reduction of regulatory constraints, and the aspiration to establish the United States as an international “crypto hub.”<sup>59</sup> However, existing legislation, such as the Strategic Bitcoin Reserve Act and FIT21, aims to enhance the clarity surrounding cryptocurrency regulations. Therefore, it is evident that a significant global market is trending toward the acceptance of cryptocurrency, contingent upon the governance of such activities by regulatory measures.

## International Monetary Fund (IMF)

The IMF is in favor of regulating cryptocurrencies with caution. First and foremost, it has proposed a framework of nine key policy elements, including maintaining monetary stability, managing financial risks, establishing legal clarity, enforcing oversight, promoting international cooperation, and monitoring systemic effects. IMF directors also emphasized the importance of comprehensive regulations that adhere to international standards, but they cautioned against excessively stringent regulations that could impede innovation.<sup>60</sup> Finally, because it encourages countries to adopt a suitable stance, emphasizing the development of institutional and regulatory frameworks that meet their needs, it will provide tailored guidance for a country.

## World Bank

The World Bank remains skeptical about cryptocurrencies, citing concerns about their volatility, lack of transparency, and environmental effect. In October 2024, the World Bank published a white paper arguing against including crypto assets in central bank reserve portfolios due to their high volatility, security concerns, and uncertain rules.<sup>61</sup> Furthermore, it denied El Salvador's request for assistance in converting Bitcoin to legal cash in June 2021 owing to transparency and environmental

<sup>59</sup> *The Ever-Shifting Landscape of U.S. Crypto Regulation* - O'Melveny. <https://www.omm.com/insights/alerts-publications/the-ever-shifting-landscape-of-us-crypto-regulation/>. Accessed 28 Dec. 2024.

<sup>60</sup> IMF. (n.d.). *IMF Executive Board Discusses Elements of Effective Policies for Crypto Assets*. [online] Available at: <https://www.imf.org/en/News/Articles/2023/02/23/pr2351-imf-executive-board-discusses-elements-of-effective-policies-for-crypto-assets>.

<sup>61</sup> Bhardwaj, H. (2024). *World Bank argues against cryptos as reserve portfolio asset*. [online] Wion. Available at: [https://www.wionews.com/business-economy/world-bank-argues-against-cryptos-as-reserve-portfolio-asset-769028?utm\\_source=chatgpt.com](https://www.wionews.com/business-economy/world-bank-argues-against-cryptos-as-reserve-portfolio-asset-769028?utm_source=chatgpt.com). Accessed 27 Dec. 2024.



concerns, demonstrating this cautious attitude.<sup>62</sup> The World Bank also denied to fund the Central African Republic's "Sango" crypto hub project in May 2022, citing concerns about the country's Bitcoin acceptability and emphasizing the importance of transparency and regulatory oversight.<sup>63</sup>

## Blocs Expected

### Alliance 1

- Pro-Cryptocurrency Bloc: countries or organizations emphasizing financial inclusion, transparency in governmental transactions and innovation. These are mostly developing countries, with an unstable financial landscape, relying on cryptocurrencies to ease their economic turmoil.

### Alliance 2

- Anti-Cryptocurrency Bloc: countries or organizations concerned about lack of transparency and possible loss of control. These are mostly developed countries, who view cryptocurrencies as a threat to their FIAT currency or wish to keep crypto activity under strict regulation.

## Timeline of Events

Date	Description of Event
9 January 2009	Bitcoin introduced as the first cryptocurrency <sup>64</sup>
2013	Etherium was released <sup>65</sup>
6 August 2014	UK announced its treasury had commissioned a study of cryptocurrencies <sup>66</sup>

<sup>62</sup> Farzan, A.N. (2021). *World Bank declines to help El Salvador adopt bitcoin, citing environmental and transparency concerns*. [online] Washington Post. Available at: [https://www.washingtonpost.com/world/2021/06/17/world-bank-bitcoin-el-salvador/?utm\\_source=chatgpt.com](https://www.washingtonpost.com/world/2021/06/17/world-bank-bitcoin-el-salvador/?utm_source=chatgpt.com) [Accessed 28 Dec. 2024].

<sup>63</sup> Coghlan, Jesse. "World Bank Won't Support Central African Republic's Sango Crypto Hub." *Cointelegraph*, 26 May 2022, [cointelegraph.com/news/world-bank-won-t-support-central-african-republic-s-sango-crypto-hub?utm\\_source=chatgpt.com](https://cointelegraph.com/news/world-bank-won-t-support-central-african-republic-s-sango-crypto-hub?utm_source=chatgpt.com). Accessed 28 Dec. 2024.

<sup>64</sup> "When Was Bitcoin Launched and at What Price." *Bitget*, 2024, [www.bitget.com/wiki/when-was-bitcoin-launched-and-at-what-price](https://www.bitget.com/wiki/when-was-bitcoin-launched-and-at-what-price).

<sup>65</sup> Medema, Steven. *The Economics Book*. 2019. [Edition unavailable], Union Square &#38; Co., 2019, <https://www.perlego.com/book/3717680>.

<sup>66</sup> "UK Launches Initiative to Explore Potential of Virtual Currencies." *The UK News*, [www.theuknews.com/news/224504231/uk-launches-initiative-to-explore-potential-of-virtual-currencies](https://www.theuknews.com/news/224504231/uk-launches-initiative-to-explore-potential-of-virtual-currencies). Accessed 26 Dec. 2024



30 July 2015	Ethereum launched, introducing smart contracts <sup>67</sup>
2017	Cryptocurrency market boom leads to increased awareness <sup>68</sup>
February 2018	Petro cryptocurrency is launched in Venezuela <sup>69</sup>
7 September 2021	El Salvador adopts Bitcoin as legal tender <sup>70</sup>
September 2021	The People's Bank of China (PBOC) banned all cryptocurrency transactions <sup>71</sup>
5 May 2022	Argentina decided on a ban on crypto transactions <sup>72</sup>
May 2022	Central African Republic's "Sango" crypto hub project <sup>73</sup>
2023	Global focus shifts to regulating cryptocurrencies due to market instability <sup>74</sup>
January 2023	Argentina faced an inflation rate of 98.6%, so Argentinian citizens turned to Bitcoin. <sup>75</sup>

<sup>67</sup> BT, DBT. "Ethereum's Smart Contracts Explained." *Deltec Bank and Trust*, 23 May 2023, [www.deltecbank.com/news-and-insights/ethereums-smart-contracts-explained/](http://www.deltecbank.com/news-and-insights/ethereums-smart-contracts-explained/).

<sup>68</sup> *Is Bitcoin a Bubble? A History of Its Biggest Bubbles, and How They Deflated, Crashed* | *Fortune*. 2 Jan. 2021, [fortune.com/crypto/2021/01/02/is-bitcoin-a-bubble-will-it-crash-again-history/](http://fortune.com/crypto/2021/01/02/is-bitcoin-a-bubble-will-it-crash-again-history/). Accessed 26 Dec.

<sup>69</sup> 'Petro (PTR): What It Means, Concerns, FAQs'. *Investopedia*, <https://www.investopedia.com/terms/p/petro-cryptocurrency.asp>. Accessed 27 Dec. 2024.

<sup>70</sup> "Deep down in the crypto-dip; El Salvador." *The Economist*, 19 Nov. 2022, p. 30(US). *Gale OneFile: News*, [link.gale.com/apps/doc/A726928598/STND?u=acg&sid=oclc&xid=4ece6991](http://link.gale.com/apps/doc/A726928598/STND?u=acg&sid=oclc&xid=4ece6991). Accessed 27 Dec. 2024.

<sup>71</sup> Shin, F. (2022). *What's behind China's cryptocurrency ban?* [online] World Economic Forum. Available at: <https://www.weforum.org/stories/2022/01/what-s-behind-china-s-cryptocurrency-ban/>.

<sup>72</sup> Goyeneche, Miguel. "Argentina's Central Bank Bans Payment Providers from Offering Crypto Services." *Argentina Reports*, 10 May 2023, [argentinareports.com/argentinas-central-bank-bans-payment-providers-from-offering-crypto-services/3394/](http://argentinareports.com/argentinas-central-bank-bans-payment-providers-from-offering-crypto-services/3394/). Accessed 22 Jan. 2025

<sup>73</sup> Coghlan, Jesse. "World Bank Won't Support Central African Republic's Sango Crypto Hub." *Cointelegraph*, 26 May 2022,

<sup>74</sup> Bureau, The Hindu. "Crypto 2023 Review: What Happened in Crypto and Bitcoin in 2023." *The Hindu*, 22 Dec. 2023, [www.thehindu.com/sci-tech/technology/crypto-2023-review-what-happened-in-crypto-and-bitcoin-in-2023/article67665303.ece](http://www.thehindu.com/sci-tech/technology/crypto-2023-review-what-happened-in-crypto-and-bitcoin-in-2023/article67665303.ece). Accessed 24 Dec. 2024.

<sup>75</sup> Paz, Javier. 'Why Inflation Battered Argentinians Are Turning To Crypto'. *Forbes*, <https://www.forbes.com/sites/javierpaz/2024/07/08/why-inflation-battered-argentinians-are-turning-to-crypto/>. Accessed 24 Dec. 2024.

2024	Bitcoin and Ethereum surges significantly increase total crypto market capitalization <sup>76</sup>
March 2024	Stablecoin purchases accounted for 4% of the GDP, so the lira experienced an increase in its inflation rate <sup>77</sup>
2024	Donald Trump has shifted to a pro-crypto stance <sup>78</sup>

## Previous Attempts to Solve the Issue

### Financial Action Task Force (FATF)

The Financial Action Task Force (FATF), an intergovernmental body, has implemented Anti-Money Laundering (AML) and Counter-Terrorist Financing (CFT) regulations globally. These regulations require cryptocurrency exchanges to report questionable activity and carry out customer identification verification, or KYC (Know Your Customer). In order to improve traceability, without violating anonymity in cross-border crypto transfers, FATF's "Travel Rule" mandates that crypto service providers offer customer information for transactions exceeding a specific amount that raises suspicion. To guarantee adherence to these criteria, FATF also routinely evaluates member nations' compliance. Although the goals of these policies are to stabilize markets and curb illegal financial flows, implementation varies by jurisdiction, creating gaps in the global monitoring of hyperinflationary pressures associated with cryptocurrencies.<sup>79</sup>

### Markets in Crypto-Assets Regulation (MiCA)

One of the most extensive initiatives to regulate digital assets is the Markets in Crypto-Assets Regulation (MiCA), which was introduced by the European Union (EU) in 2023. By requiring openness, responsibility, and appropriate risk management in cryptocurrency operations, MiCA seeks to reduce

<sup>76</sup> Edwards, John. "Bitcoin's Price History." *Investopedia*, 2024, [www.investopedia.com/articles/forex/121815/bitcoins-price-history.asp](https://www.investopedia.com/articles/forex/121815/bitcoins-price-history.asp). Accessed 22 Jan. 2025

<sup>77</sup> Turak, Natasha. "Turkish Annual Inflation Soars to 67% in February". *CNBC*, 4 Mar. 2024, <https://www.cnbc.com/2024/03/04/turkish-annual-inflation-soars-to-67percent-in-february.html>.

<sup>78</sup> ET Spotlight. "Navigating Cardiovascular Risk in People with Type 2 Diabetes Mellitus." *The Economic Times*, Economic Times, 10 Jan. 2025, [economictimes.indiatimes.com/industry/healthcare/biotech/healthcare/navigating-cardiovascular-risk-in-people-with-type-2-diabetes-mellitus/articleshow/117084723.cms](https://economictimes.indiatimes.com/industry/healthcare/biotech/healthcare/navigating-cardiovascular-risk-in-people-with-type-2-diabetes-mellitus/articleshow/117084723.cms). Accessed 22 Jan. 2025

<sup>79</sup> "FATF Annual Report 2022-2023." *Www.fatf-gafi.org*, [www.fatf-gafi.org/en/publications/Fatfgeneral/FATF-Annual-report-2022-2023.html](https://www.fatf-gafi.org/en/publications/Fatfgeneral/FATF-Annual-report-2022-2023.html).

systemic risks and safeguard investors.<sup>80</sup> It requires stablecoin issuers to keep adequate reserves and establishes licensing rules for crypto-asset service providers (CASPs). MiCA aims to lessen inflation spikes brought on by the wealth effect by tackling speculative excesses in cryptocurrency markets. However, since cryptocurrencies are used all over the world, investors may move their assets to areas with less regulation, making it difficult to track all activity.<sup>81</sup>

### Financial Conduct Authority (FCA)

The Financial Conduct Authority (FCA) in the UK oversees cryptocurrency companies, placing a high priority on AML compliance and consumer safety. To stop false information from influencing consumer behaviour, the FCA has enforced registration requirements for cryptocurrency companies and required risk disclosures. Furthermore, the UK has set up digital innovation sandboxes that enable fintech companies to test financial products linked to cryptocurrencies while being closely monitored by regulators. Although these actions show proactive involvement, the FCA recognises that it is challenging to regulate decentralised networks in which central enforcement of oversight is not possible.<sup>82</sup>

## Possible Solutions

### Regulation and Oversight

The challenging nature of cryptocurrency combined with the fact that it is an innovation that has not yet been charted by financial organizations, call for immediate action worldwide. As lack of regulatory bodies concerning crypto is the most serious challenge of using cryptocurrency, the primary step is to form coalitions to monitor cryptocurrency markets. A fine example of international collaboration in the cryptocurrency space is the Financial Action Task Force (FATF). The FATF is an organization whose task is to set standards and put in place measures against money-laundering as well as terrorist financing.<sup>83</sup> The lack of transparency of cryptocurrency has led to concerns that those systems could facilitate illegal activities. Activities conducted through illegal transactions could trigger hyperinflation in a country indirectly since such transactions can destabilize the economy (e.g through tax evasion, money laundering, capital flight) and severely undermine its financial system (e.g. breach

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<sup>80</sup> "The European Regulation Markets in Crypto-Assets (MiCA)." *AMF*, 2 Aug. 2024, [www.amf-france.org/en/news-publications/depth/mica](http://www.amf-france.org/en/news-publications/depth/mica). Accessed 28 Dec. 2024

<sup>81</sup> "The European Regulation Markets in Crypto-Assets (MiCA)." *AMF*, 2 Aug. 2024, [www.amf-france.org/en/news-publications/depth/mica](http://www.amf-france.org/en/news-publications/depth/mica). Accessed 28 Dec. 2024

<sup>82</sup> *Annual Report and Accounts 2023-24*. [www.fca.org.uk/publication/annual-reports/annual-report-2023-24.pdf](http://www.fca.org.uk/publication/annual-reports/annual-report-2023-24.pdf).

<sup>83</sup> Neeraj Raisinghani. "SoluLab - Blockchain Development Company." *Blockchain Technology, Mobility, AI and IoT Development Company USA, Canada*, 7 Aug. 2023, [www.solulab.com/big-problems-to-solve-in-crypto/](http://www.solulab.com/big-problems-to-solve-in-crypto/).

of trust in the FIAT currency). Regulatory bodies, such as the Financial Crimes Enforcement Network (FinCEN) claim that the only viable solution would be to ban the pseudonymous and anonymous nature of blockchain in order to be able to trace illegal activities, such as money laundering, fraud and financing terrorism. The suggestion of such a ban might find resistance as it undermines one of the basic advantages of crypto, anonymity. Therefore, a solution to the problem could be the creation of new regulatory bodies that would carefully monitor suspicious transactions and each case require a lift of anonymity.

### **Economic Safeguards**

In order to create a hedge against inflation and safeguard a country's economy from the slippery slope of crypto's effect, governments should issue a Central Bank Digital Currency (CBDC), which is backed up by a central bank, thus giving consumers guaranteed protection. CBDC's contrary to cryptocurrencies are a direct liability of a central bank, making them a safer form of digital money. Crypto, which is not issued by a government or other financial institutions, can be exchanged between people and various entities on a decentralized system, at the risk of being lost. Since, cryptocurrency is not backed up by a central public authority and it doesn't exist within the banking system, it cannot protect users from price volatility, hacking attacks or in the case of a crypto firm collapse.

### **Mitigating Crypto's Volatility**

Volatility is one of the main concerns surrounding cryptocurrency, thus measures should be taken to curb its negative effects. Although experts claim that most cryptocurrency markets will mature and hence stabilize overtime, in the meantime there are some steps to be followed in order to mitigate volatility. A great first step is to diversify investments across various crypto assets so that risk can be balanced. In this way, investors can minimize the impact of price swings in assets. An added solution would be to use dollar cost averaging (DCA) and limit orders in order to smooth out buying at optimal prices over time. Another approach that would help hedge volatility especially during downturns is to hold stablecoins pegged to fiat. Stablecoins keep their value through a variety of mechanisms such as algorithms use to control supply as well as being supported by reserves.<sup>84</sup>

### **Emergency Measures**

In extreme conditions where hyperinflation reaches a humanitarian crisis point, governments should turn to extreme measures such as a temporary ban of crypto currency and capital controls. A temporary ban on transactions using crypto is deemed necessary in order to restore stability in a hyper

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<sup>84</sup> Neeraj Raisinghani. "Solulab - Blockchain Development Company." *Blockchain Technology, Mobility, AI and IoT Development Company USA, Canada*, 7 Aug. 2023, [www.solulab.com/big-problems-to-solve-in-crypto/](http://www.solulab.com/big-problems-to-solve-in-crypto/).

inflated economy. A case in point is Argentina, when on May 5th 2022 decided on a ban on crypto transactions to protect the country's national payment system from overexposure to crypto currencies.<sup>85</sup> Companies such as Mercado Libre and Mercado Pago reportedly managed 36% of all bank accounts in the country, with the Argentinian government speculating that this could lead to a massive takeover of the banking system by such crypt-companies.<sup>86</sup> Capital controls is another scenario that can help to prevent massive capital outflow through crypto currencies. For instance, China implemented strict capital controls, limiting individual foreign exchange purchases to \$50,000 annually, in order to disable Chinese residents from moving large sums of money out of the country illicitly due to economic uncertainties.<sup>87</sup> Capital flight became a common practice and was generally driven by the search for better investment opportunities abroad amid economic slowdown, crackdowns on the private sector, and an aging workforce.<sup>88</sup> In response, China tightened its control over cryptocurrencies, pushing forward with its state-backed digital currency, the digital yuan.<sup>89</sup>

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[https://www.ecb.europa.eu/press/key/date/2022/html/ecb.sp220218\\_1~938e881b13.en.html](https://www.ecb.europa.eu/press/key/date/2022/html/ecb.sp220218_1~938e881b13.en.html).

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<sup>85</sup> Goyeneche, Miguel. "Argentina's Central Bank Bans Payment Providers from Offering Crypto Services." *Argentina Reports*, 10 May 2023, [argentinareports.com/argentinas-central-bank-bans-payment-providers-from-offering-crypto-services/3394/](https://argentinareports.com/argentinas-central-bank-bans-payment-providers-from-offering-crypto-services/3394/). Accessed 22 Jan. 2025

<sup>86</sup> Goyeneche, Miguel. "Argentina's Central Bank Bans Payment Providers from Offering Crypto Services." *Argentina Reports*, 10 May 2023, [argentinareports.com/argentinas-central-bank-bans-payment-providers-from-offering-crypto-services/3394/](https://argentinareports.com/argentinas-central-bank-bans-payment-providers-from-offering-crypto-services/3394/). Accessed 22 Jan. 2025

<sup>87</sup> Douglas, Jason, and Rebecca Feng. "The Quarter-Trillion-Dollar Rush to Get Money out of China." *WSJ*, The Wall Street Journal, 23 Oct. 2024, [www.wsj.com/world/china/china-economy-capital-flight-2ba6391b?utm\\_source=chatgpt.com](https://www.wsj.com/world/china/china-economy-capital-flight-2ba6391b?utm_source=chatgpt.com). Accessed 24 Jan. 2025.

<sup>88</sup> Douglas, Jason, and Rebecca Feng. "The Quarter-Trillion-Dollar Rush to Get Money out of China." *WSJ*, The Wall Street Journal, 23 Oct. 2024, [www.wsj.com/world/china/china-economy-capital-flight-2ba6391b?utm\\_source=chatgpt.com](https://www.wsj.com/world/china/china-economy-capital-flight-2ba6391b?utm_source=chatgpt.com). Accessed 24 Jan. 2025.

<sup>89</sup> Douglas, Jason, and Rebecca Feng. "The Quarter-Trillion-Dollar Rush to Get Money out of China." *WSJ*, The Wall Street Journal, 23 Oct. 2024, [www.wsj.com/world/china/china-economy-capital-flight-2ba6391b?utm\\_source=chatgpt.com](https://www.wsj.com/world/china/china-economy-capital-flight-2ba6391b?utm_source=chatgpt.com). Accessed 24 Jan. 2025.

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