Forum: The Second General Assembly

Issue: Evaluating the economic implications of cryptocurrencies and central bank digital currencies (CBDCs)

Student Officer: Myesha Bangdiwala

Position: Deputy Chair

Introduction

The effects of digital currencies, both decentralized cryptocurrencies and state-regulated Central Bank Digital Currencies (CBDCs), have changed the global financial system by creating both opportunities and challenges.

Cryptocurrencies are gaining popularity due to their decentralized, borderless, and transparent nature. They rely on blockchain technology, a secure digital system, to record and verify transactions, enabling the movement of digital assets between users (see: *remittances* in Key Terms). These currencies promise to make finance more accessible, lower transaction costs, and enhance financial inclusion, especially in areas with limited banking infrastructure.

On the other hand, Central Bank Digital Currencies (CBDCs) represent an evolution of traditional monetary systems. Central banks are introducing state-backed digital currencies to improve settlement efficiency, regulate financial ecosystems, and maintain control over monetary policy in the digital age.

While digital currencies, including cryptocurrencies and CBDCs, present significant opportunities, they also introduce a range of challenges. Cryptocurrencies, with their decentralized nature, come with risks such as significant disruptive price fluctuations and unclear regulations. Additionally, the unclear regulations surrounding their use poses a threat of the potential for misuse in illegal activities. This can make them unstable for both individuals and businesses alike, as cryptocurrencies challenge the role of central

banks by operating outside traditional monetary policy, potentially affecting inflation and financial stability.

CBDCs offer benefits like more effective monetary policy and economic stability, yet their introduction could disrupt commercial banking by altering how countries trade, send money across borders, and manage their economies, while for individuals, they raise concerns about privacy and government control over financial transactions. Additionally, as digital currencies reshape global trade, remittances, and economic integration, their long-term impact on developing economies and financial markets remains uncertain.

These complexities require careful consideration of both the benefits and potential risks as digital currencies continue to evolve, with the topic at hand arising as a subject of the committee's debate.

Definition of Key Terms

1. Cryptocurrency- A digital form of money that operates on a decentralized network, using blockchain technology to secure transactions and control the creation of new units.

2. Blockchain- A secure digital system that records and verifies transactions across a decentralized network, ensuring transparency and preventing tampering.

3. Central Bank Digital Currency (CBDC)- A digital currency issued and regulated by a central bank, designed to function as an official form of money for transactions and value storage within a country's financial system.

4. Inflation- A sustained increase in the general price level of goods and services over time, which reduces the purchasing power of money.

5. Remittances- are funds transferred by individuals working abroad to their families or communities in their home country, typically used for household

expenses, education, or investment.

6. Fintech- Fintech, short for financial technology, refers to the use of technology to improve and automate financial services. It includes innovations like digital payments, online banking, blockchain, and AI-driven financial tools, making transactions faster, more accessible, and efficient.

7. Legal Tender- Legal tender is money that a government officially recognizes and requires to be accepted for paying debts within that country. It is issued and controlled by a central authority like the government or central bank. When talking about Central Bank Digital Currencies (CBDCs), legal tender means that the digital currency issued by the central bank is officially accepted as payment for goods, services, and debts.

8. Anti-Money Laundering (AML)- A set of laws, regulations, and procedures designed to prevent criminals from disguising illegally obtained money as legitimate income. AML measures require financial institutions and businesses to detect, report, and prevent activities related to money laundering, fraud, and other financial crimes.

9. Countering the Financing of Terrorism (CFT)- CFT involves regulations and measures to prevent digital assets from being used to fund terrorist activities. Since cryptocurrencies allow for fast, borderless, and sometimes anonymous transactions, they can be exploited for illicit financing. CFT policies require crypto exchanges and financial institutions to monitor transactions, report suspicious activity, and comply with identity verification and Anti-Money Laundering (AML) regulations to prevent misuse.

Key Issues

Volatility of Cryptocurrencies

One major concern is how cryptocurrency volatility affects individuals and businesses. In many developing countries, families rely on remittances—money sent by relatives working abroad—to cover daily expenses. If cryptocurrency values drop suddenly, recipients may receive less than expected, making it harder to afford necessities. Similarly, businesses that use digital currencies in international trade may struggle to set stable prices or predict costs due to frequent market fluctuations.

Risks for Financial Institutions

To address these challenges, governments are developing CBDCs, which are digital currencies issued by central banks to provide stability and improve monetary policy control. However, if people prefer decentralized cryptocurrencies over CBDCs, central banks may lose influence over inflation, interest rates, and the money supply (World Economic Forum). Financial institutions, such as banks and investment firms, also face risks when holding cryptocurrencies. A market crash could lead to significant losses for these institutions, contributing to broader financial instability (Scholastica). In extreme cases, a sharp decline in digital currency use could cause liquidity issues for financial institutions, making it difficult to quickly convert assets into cash to meet obligations. This lack of liquidity could limit their ability to respond to market changes or cover urgent expenses, increasing overall financial system vulnerability.

Risks of Corrupt Usage

Risks to CBDCs include not only decentralised cryptocurrencies, but also the uncertain legal framework surrounding cryptocurrencies and CBDCs that makes widespread adoption difficult. Cryptocurrencies, which operate outside government control, can facilitate tax evasion, money laundering, and illicit financing, particularly in emerging markets with weaker financial oversight. Meanwhile, poorly regulated CBDCs pose risks of misuse by both private and unregulated entities and central authorities, such as excessive surveillance.

Disparities in Accessibility

While digital currencies can improve financial inclusion, their benefits are not evenly distributed. Adoption depends on internet access, digital literacy, and infrastructure, which are lacking in many underdeveloped regions. In areas with poor connectivity and financial education, people may be excluded from using digital currencies, deepening existing economic disparities. Additionally, many developing nations lack the technical expertise, infrastructure, and financial resources necessary to fully implement and enforce digital finance regulations, further limiting their ability to integrate these technologies effectively. Such global standards might disproportionately favor stronger economies and impose inequities on developing nations.

Inconsistent Regulations Globally

Countries have taken different approaches to regulating digital currencies, resulting in a lack of global coordination and guidelines. Some have strict regulations, while others have weak or unclear policies. This makes it easier for cryptocurrencies to take advantage of gaps in oversight and avoid restrictions. Without a common set of rules, governments struggle to control risks like fraud, money laundering, and financial instability.

Government Hesitation

Governments have been slow to adopt CBDCs due to concerns over privacy, security, and the potential impact on traditional banking systems. This hesitation has led to delays in the widespread implementation of CBDCs, preventing them from fully realizing their potential benefits in enhancing financial stability and policy control.

Major Parties Involved in the Conflict

Federal Republic of Nigeria

The Central Bank of Nigeria has taken a cautious approach by banning banks from facilitating cryptocurrency transactions while actively exploring the potential of central

bank digital currencies (CBDCs). In 2021, Nigeria launched the eNaira, one of Africa's first CBDCs, aiming to enhance financial inclusion, lower transaction costs, and strengthen monetary policy. However, the rise of unregulated and unlicensed cryptocurrencies undermines these efforts, posing risks to financial stability and national security.

Republic of South Africa

South Africa has emerged as a regional leader in cryptocurrency adoption and regulation, implementing measures to address risks like money laundering and tax evasion. The South African Reserve Bank (SARB) plans to classify crypto assets as financial products, requiring service providers to be licensed and comply with anti-money laundering laws. While crypto is not recognized as official currency, its growing use reflects distrust in traditional finance. Meanwhile, South Africa is piloting a CBDC to modernize payments and support cross-border trade, though challenges remain in ensuring consumer protection and market integrity.

People's Republic of China

China has banned cryptocurrency trading and mining—an energy-intensive process that validates transactions—to maintain financial stability, control capital flows, and reduce energy consumption. However, it remains a leader in Central Bank Digital Currency (CBDC) development, with the Digital Yuan (e-CNY) aimed at improving payments and reducing reliance on the US dollar. The ban on decentralized cryptocurrencies has driven companies, investors, and developers to relocate to countries with more favorable regulations, allowing other nations to benefit from crypto-related innovation and investment.

European Union

The European Union has embraced a broad approach to digital currencies, focusing on regulation with the protection of consumers in mind. The Crypto-Asset Markets, or

MiCA, provides a legal framework for cryptocurrency oversight across members. It also modernises the payment systems and monetary policies and acts to counteract the growing influence of private cryptocurrencies. The EU's approach balances promoting innovation and mitigating risks, including money laundering, and maintaining financial stability.

India

Despite regulatory ambiguity, India has seen remarkable cryptocurrency adoption. The country's central bank—the Reserve Bank of India—has raised concerns about cryptocurrencies undermining monetary policy and contributing to financial instability. On the other hand, India is actively working on developing a Digital Rupee that would upgrade its payments and promote financial inclusion. The government maintains a very cautious approach toward private cryptocurrencies, with proposals for a potential ban or heavy regulation to prevent misuse while encouraging blockchain innovation.

United Kingdom

The UK has positioned itself as a global leader in fintech and blockchain. The Bank of England is exploring the creation of a Digital Pound to promote financial stability and privacy. At the same time, the UK has introduced new laws to increase transparency in cryptocurrency markets and combat illegal activities. With its strong financial infrastructure, the UK aims to foster innovation with responsible development in mind.

Private FinTech Companies

Private fintech companies play a key role in driving cryptocurrency innovation and adoption. Companies like Coinbase, Binance, and Ripple have created blockchain-based trading and financial services that are reshaping digital finance. While these companies help set industry standards and push for favorable regulations, there are also risks, such as market monopolization, security breaches, and weak consumer protection.

Global Advocacy Groups

Organizations such as Blockchain for Social Impact and the Financial Action Task Force (FATF) play a vital role in the global conversation about digital currencies. These groups work to develop clear regulatory frameworks that address the risks associated with digital assets, while also striving to make digital finance more accessible to underrepresented communities. By balancing the need for security and regulation with the goal of financial inclusion, they aim to ensure that the benefits of digital currencies reach everyone.

International Monetary Fund (IMF)

The IMF is actively addressing the economic impact of digital currencies and CBDCs, offering technical assistance and policy advice to maintain global financial stability. It emphasizes the need for strong regulations to manage risks like money laundering and terrorism financing. The IMF also supports CBDC development, highlighting their potential to improve financial inclusion and payment systems, particularly in emerging economies. It encourages international cooperation to ensure interoperability and prevent regulatory gaps, while analyzing the risks and benefits of digital currencies for a fair transition, especially for developing nations.

Timeline

Date	Event	Outcome
2009	Launch of Bitcoin	Bitcoin, the first cryptocurrency, was introduced as a decentralized digital currency, laying the foundation for the global cryptocurrency market and challenging traditional financial systems.

2015	Introduction of Ethereum	Ethereum brought smart contracts and decentralized applications (dApps) to the blockchain space, significantly expanding the use cases for cryptocurrencies beyond just payments.
2020 2021 2021	China's Digital Yuan Pilot Nigeria Launches the eNaira El Salvador Adopts Bitcoin as Legal Tender	China launched the pilot for its Central Bank Digital Currency (CBDC), the Digital Yuan (e-CNY), aiming to modernize payment systems, enhance cross-border trade, and reduce dependency on the US dollar. Nigeria became the first African nation to launch a CBDC, the eNaira, to promote financial inclusion, improve payment efficiency, and combat the challenges posed by unregulated cryptocurrencies. El Salvador became the first country to adopt Bitcoin as legal tender, highlighting the potential for cryptocurrencies to support financial inclusion and economic growth in developing nations.
2022	European Central Bank Advances Digital Euro Development	The European Central Bank (ECB) announced progress in the development of the Digital Euro to modernize payments and enhance monetary policy effectiveness across the European Union.

2023	IMF and World Bank Issue Guidelines on CBDCs	The IMF and World Bank issued detailed guidelines on the design and implementation of CBDCs to help nations balance innovation with economic and financial stability.
2024	United States Expands Research on Digital Dollar	The Federal Reserve intensified research into a Digital Dollar, focusing on improving payment efficiency, maintaining monetary sovereignty, and addressing risks posed by private cryptocurrencies.

Previously Attempted Solutions

Regulation of Cryptocurrencies

These regulations have led to increased transparency and consumer protection in crypto markets. However, critics argue that overregulation could stifle innovation and restrict access to emerging markets, especially in developing economies where cryptocurrency adoption has been more prominent.

- **South Africa (2020)**: South Africa's Financial Sector Conduct Authority (FSCA) declared crypto assets as financial products under the Financial Advisory and Intermediary Services (FAIS) Act. This regulation also required cryptocurrency service providers to comply with anti-money laundering measures. South Africa's approach aims to protect users while ensuring the financial system remains secure.
- **UK (2020)**: The UK's Financial Conduct Authority (FCA) imposed a ban on crypto derivatives and exchange-traded notes (ETNs) for retail consumers. The

intention was to protect consumers from the high risks associated with crypto assets, such as volatility and market manipulation.

- **EU (2020)**: The European Commission proposed the MiCA Regulation (Markets in Crypto-assets), a comprehensive legal framework that seeks to regulate crypto markets across the EU. This regulation aims to provide clearer rules on crypto asset trading and ensure that consumer protection standards are met.

CBDCs as a Solution to Decentralised Cryptocurrencies

The adoption of CBDCs could help improve payment systems, enhance financial inclusion, and lower transaction costs, particularly in emerging economies–and do so without the security and stability risks associated with decentralised cryptocurrencies. However, there are concerns regarding privacy, government surveillance, and central bank control over monetary policy, especially in jurisdictions where CBDCs are being actively developed.

China (2020): The People's Bank of China began pilot testing the Digital Yuan (e-CNY), aiming to streamline domestic payments and reduce reliance on the US dollar. The digital yuan is designed to be used as a legal tender within China and is expected to enhance payment efficiencies across the country.

EU (2020): The European Central Bank (ECB) initiated public consultations regarding a potential digital euro. The ECB's focus on CBDCs is primarily centered around improving the efficiency of payment systems within the Eurozone, especially for cross-border payments.

UK (2021): The Bank of England created a task force to explore the feasibility of a digital pound. This initiative is designed to assess the potential impact of a CBDC on financial stability, privacy, and consumer protection.

Setting Global Standards

These global efforts aim to reduce discrepancies in how countries regulate digital currencies and ensure that digital finance is secure and stable. However, challenges remain in finding common ground, as countries have different levels of readiness for digital currencies and varying approaches to regulation.

FATF (2019): The Financial Action Task Force (FATF) issued guidelines in 2019, urging countries to apply the same rules for preventing money laundering (AML) and fighting terrorism financing (CFT) to virtual assets (cryptocurrencies) and the companies that provide services related to them. This means that cryptocurrency exchanges and other platforms should follow the same regulatory measures that traditional financial institutions do to prevent illegal activities such as money laundering and funding of terrorism. These guidelines aim to ensure that digital currencies are not used for illicit purposes while encouraging international cooperation in regulating the crypto market.

IMF (2021): The International Monetary Fund (IMF) has supported global coordination in regulating digital currencies, stressing the need for standardized regulations to prevent regulatory arbitrage. The IMF encourages international cooperation to ensure digital currencies are integrated into the global financial system in a way that maintains financial stability.

Encouraging Innovation

The role of fintech companies in the growth of cryptocurrencies is undeniable, but their expansion has also led to concerns about monopolization and market manipulation.

US (2012-2021): The Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) have issued several guidelines on the classification of cryptocurrencies and regulations on Initial Coin Offerings (ICOs). These regulations aim to provide clarity on the legal status of cryptocurrencies while ensuring that the market operates within a legal framework.

EU (2020): The European Commission introduced the Digital Finance Package, a set of proposals designed to foster innovation in the fintech sector. The package includes a legal framework for crypto assets, which aims to strike a balance between promoting innovation and ensuring financial stability.

Promoting Education and Financial Literacy

As cryptocurrencies become more mainstream, several countries and organizations have sought to improve digital literacy and raise awareness about the potential risks and benefits of digital currencies.

FATF (2019): FATF's recommendations also emphasize the importance of public education to raise awareness about the risks associated with cryptocurrencies, such as fraud and market volatility. This is seen as a critical part of ensuring that users make informed decisions in the crypto space.

India (2021): India's proposed cryptocurrency bill included measures to increase awareness about digital currencies and their risks. The Reserve Bank of India (RBI) has been cautious in its approach, warning users about the potential volatility of cryptocurrencies.

Environmental Concerns

The environmental impact of cryptocurrency mining, particularly the high energy consumption required to mine coins like Bitcoin, has led some countries to take action in limiting or banning mining operations. The focus on environmental concerns has forced the relocation of mining operations to other regions, raising new challenges for countries that are not equipped to handle the environmental and economic consequences.

China (2021): China intensified its crackdown on cryptocurrency mining to reduce energy consumption. The Chinese government argued that mining operations were consuming unsustainable amounts of energy and contributing to environmental degradation. This move has forced mining operations to relocate to countries with less stringent regulations.

EU (2021): The European Parliament has discussed the environmental impact of cryptocurrencies and proposed regulations that would require cryptocurrency mining operations to comply with the EU Green Deal. These regulations aim to reduce the carbon footprint of crypto operations while maintaining market stability.

Possible Solutions

Global Regulation – Establish coordinated international policies to prevent regulatory loopholes and ensure compliance.

AML & CFT Measures – Enforce strict anti-money laundering and counter-terrorism financing rules for crypto transactions.

CBDC Privacy & Security – Develop digital currencies with strong encryption while balancing transparency and user privacy.

Public-Private Collaboration – Encourage partnerships between central banks and fintech companies for responsible financial innovation.

Financial Literacy & Inclusion – Expand digital finance education and infrastructure, especially in underdeveloped regions.

Cross-Border Transactions – Standardize CBDC and crypto use for international trade to reduce costs and improve efficiency.

Sustainable Crypto Mining – Promote energy-efficient blockchain technology and renewable energy use in crypto operations.

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