

CRYPTOCURRENCY: THE CURRENT RELEVANCE OF VIRTUAL MONEY

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Annotation

This article comprehensively analyzes the history of the emergence of cryptocurrencies, their economic essence, and their role in the modern financial system. The study scientifically examines the evolution of the traditional monetary system, its transition to digital form, and the economic factors behind the emergence of Bitcoin.

Furthermore, the functional characteristics of cryptocurrencies, international regulatory practices, and the prospects of central bank digital currencies are analyzed. The research findings contribute to identifying the impact of cryptocurrencies on the global economy and developing effective regulatory mechanisms.

Keywords: cryptocurrency, blockchain, digital economy, financial market, central bank digital currency, virtual currency, digital assets, monetary policy.

Abstract

This article provides a comprehensive analysis of the historical development, economic essence, and role of cryptocurrencies in the modern financial system. The study examines the evolution of traditional money and its transition into digital forms, with particular attention to the emergence of Bitcoin.

Furthermore, the functional characteristics of cryptocurrencies, international regulatory practices, and the prospects of central bank digital currencies are explored. The findings contribute to understanding the impact of cryptocurrencies on the global economy and to developing effective regulatory frameworks.

MAIN PART

In recent years, the rapid development of information and communication technologies has led to fundamental changes in the global financial system, resulting in traditional forms of money gradually being replaced by digital assets¹.

This process was first demonstrated through **Bitcoin**, created by **Satoshi Nakamoto**.

Cryptocurrencies are distinguished by operating on a decentralized system, their relative independence from government control, and their reliance on advanced technologies such as blockchain. These features are transforming them into an important element of the modern economy. At the same time, the rapid development of cryptocurrencies is creating challenges related to regulation, ensuring financial security, and integration into the global economy.

Bitcoin, the first cryptocurrency, was created in **2009** by an anonymous individual or group known as **Satoshi Nakamoto**. It introduced the concept of decentralized money that can be transferred directly between individuals without involving banks or other intermediaries².

¹ Resolution No. **PQ-3832** of the President of the Republic of Uzbekistan, 2018.

² Nakamoto S. *Bitcoin: A Peer-to-Peer Electronic Cash System*, 2008.

Transactions are verified through a process called **mining**, in which powerful computers solve complex mathematical problems to confirm each transaction and add it to the blockchain. The success of Bitcoin paved the way for the development of thousands of other cryptocurrencies³.

Cryptocurrencies are considered an important stage in the evolution of the modern financial system because they appear as a digital alternative that emerged during the development of traditional forms of money.

Historically, the monetary system evolved from assets with real value such as **gold and silver** to paper money and electronic payment systems. Today, as a result of this evolution, fully digital assets — **cryptocurrencies** — have emerged.

Their appearance particularly coincided with the period of the **global financial crisis**, which can be explained by the decline in trust in the traditional banking system⁴.

Cryptocurrencies operate on a **decentralized network**, meaning that there is no single governing authority. This enables transactions to be carried out quickly, transparently, and at relatively low cost.

At the same time, they are protected through **blockchain technology**, in which all transactions are recorded in a public ledger and are considered nearly impossible to alter⁵.

The economic nature of cryptocurrencies is reflected in their ability to perform traditional monetary functions. That is, they can serve as:

- a **medium of exchange**;
- a **unit of account**;
- a **store of value**.

However, their value is determined not by governments but by **market mechanisms** — **supply and demand**.

This leads to the **high volatility** of cryptocurrencies, meaning their prices may fluctuate sharply within short periods⁶.

For example, **Japan** has recognized cryptocurrencies as a legal means of payment, while European countries generally apply a “**soft regulation**” policy. In contrast, some countries have introduced strict restrictions⁷.

Furthermore, the development of cryptocurrencies is encouraging **central banks** to create new financial instruments.

In particular, the concept of **Central Bank Digital Currencies (CBDCs)** is being developed, through which opportunities for implementing monetary policy more effectively are being explored.

Positive and Negative Aspects

³ Antonopoulos A. *Mastering Bitcoin*, 2017.

⁴ Swan M. *Blockchain: Blueprint for a New Economy*, 2015.

⁵ Mishkin F. *The Economics of Money, Banking and Financial Markets*, 2016.

⁶ [Investopedia](#)

⁷ [Traders Union](#)

Advantages

1. Decentralization

Cryptocurrencies operate on decentralized networks, reducing the risk of government interference and currency manipulation.

2. **High Return Potential** Due to their volatility, cryptocurrencies can generate significant profits, with some tokens appreciating exponentially over time.

3. Accessibility

Cryptocurrencies are globally available and provide easier access to financial systems and services.

4. Innovation

Blockchain technology enables new applications such as **Decentralized Finance (DeFi)** and **Non-Fungible Tokens (NFTs)**, expanding opportunities beyond traditional markets.

Disadvantages

1. **Volatility** Cryptocurrency prices can fluctuate sharply, making them high-risk investments.

2. **Security Concerns** Although blockchain itself is secure, crypto exchanges and wallets are sometimes targeted by hackers.

3. **Regulatory Uncertainty** Many governments have not yet established clear regulations, which may affect market access and stability in the future.

4. **Lack of Consumer Protection** Unlike traditional banks, cryptocurrencies do not offer the same level of protection, meaning users must take extra precautions to secure their assets.

In addition, **Central Bank Digital Currencies (CBDCs)** are digital analogues of traditional money guaranteed by the state. In this regard, they differ from private cryptocurrencies and play an important role in ensuring financial stability.

At the same time, the competition between cryptocurrencies and digital currencies may significantly influence the future formation of the global financial system.

Uzbekistan is also implementing important reforms aimed at developing and regulating the **crypto-assets market**.

A legal and regulatory framework focused on the development of the digital economy has been established, and procedures for conducting operations related to crypto-assets have been defined.

This contributes to the introduction of innovative technologies, the improvement of the investment environment, and stronger integration into the international financial system⁸.

CONCLUSION

In conclusion, cryptocurrencies are becoming an inseparable part of the modern economy and represent a new financial phenomenon.

Their development is bringing about deep transformational processes within the global financial system. At the same time, along with economic opportunities, cryptocurrencies also create certain risks.

Therefore, issues related to the effective regulation of cryptocurrencies, ensuring technological security, and integrating them into national economies are gaining significant scientific and practical importance.

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⁸ [Lex.uz](https://lex.uz)

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