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The Impact of the Cryptocurrency Market on the Financial System in the Modern Era

Abstract

In the last decade, cryptocurrencies and blockchain technologies have caused radical changes in the financial system and affected the structure of global economic relations. This area is of great relevance not only from technological, but also from economic and legal aspects. Especially for developing countries like Azerbaijan, cryptocurrencies have great potential in terms of the formation of a digital economy, increasing financial inclusion, and liberalizing capital flows. The main goal of the study is to study the mechanisms of influence of cryptocurrencies on the world and Azerbaijani economies, to determine their impact on financial stability, state regulation, and fiscal policy. At the same time, it is aimed to propose an optimal regulatory model that can be applied at the national level on a scientific basis. The study used analysis-synthesis, systematic approach, and comparative methods, and analyzed global cryptocurrency indicators based on databases of international organizations. The regulatory models of countries such as the United States, the European Union, and China were examined in a comparative manner, and the possibility of adaptation for Azerbaijan was assessed. The analyses conducted prove that cryptocurrencies carry both risk and development potential. Under the conditions of their proper regulation, the expansion of the digital economy, the strengthening of financial innovations, and the fintech sector are possible. The originality of the work lies in the fact that for the first time the concept of a "balanced regulatory model" is proposed for the Azerbaijani economy.

Keywords: *Azerbaijan, cryptocurrency market, blockchain technology, bitcoin, financial stability, digital economy*

Introduction

The 21st century is characterized as a period of rapid digitalization and technological transformations in the world economy. Artificial intelligence, big data and blockchain technologies have affected all components of the financial system and have created the basis for the formation of new economic relations. One of the most important consequences of these changes is the emergence and widespread spread of cryptocurrencies in a short time. Digital currencies not only perform the classical functions of money, but also act as a means of investment, investment and technological development. Their impact on the economic system covers multifaceted processes in monetary policy, capital markets and macroeconomic stability.

The emergence of the first cryptocurrency, "Bitcoin", in 2009 marked the beginning of a new era in the world financial system. In the following years, thousands of new crypto-assets were formed on blockchain technology, leading to the rapid development of the digital economy.

The rise of cryptocurrencies has created both opportunities and challenges for global financial stability (Kesebir & Günceler, 2019). Central banks are developing new approaches to establishing regulatory mechanisms and managing currency risks. At the same time, the decentralized structure of crypto-assets makes them a free financial instrument and a potential source of risk. Thus, although this market increases economic freedom and financial inclusion, it also brings risks such as weakening fiscal control and increasing market volatility.

The introduction of cryptocurrencies in international trade and cross-border payments increases economic efficiency by reducing transaction costs. At the same time, the development of the cryptocurrency market has led to the formation of new psychological models in investor behavior - "crypto psychology" based on expectations of quick returns, which is one of the factors increasing market volatility.

The approach of states to the cryptocurrency market is different: while the US and the European Union have implemented a broad regulatory policy, China has limited cryptocurrency activity. Switzerland and Singapore have accepted digital assets as an important element of innovative economic development. In Azerbaijan, the rapid expansion of digital payment infrastructure and the growing interest in crypto-assets make the study of this area relevant and necessary. However, since market regulation is still at an early stage, it remains important to assess legal, fiscal and technological risks.

Thus, this article will examine the impact of the cryptocurrency market on the financial system in the modern era, the opportunities and risks it creates, as well as regulatory issues in the Azerbaijani context. The goal is to analyze the impact of cryptoassets on the economic system and put forward conceptual approaches to their management. The objectives of the study include studying the functional characteristics of cryptocurrencies, analyzing global and local market trends, identifying legal and fiscal risks, and developing recommendations for Azerbaijan.

Research

The scientific article compares the results of various studies using the analytical-synthetic method, summarizes the mechanisms of influence of the cryptocurrency market, synthesizes its effects on the financial system. The impact of the cryptocurrency market on the financial system is assessed using the systematic approach method, and its interaction with the elements of the economic system is analyzed. A comparison of cryptocurrency policies in the USA, the European Union, China and developing countries is carried out based on a case-study approach. Author's research, reports of international organizations and state documents of the Republic of Azerbaijan are used as sources of information

Development and technological basis of the cryptocurrency market

The history of cryptocurrencies is considered the beginning of a new stage in the development of financial technologies. If in the 20th century the global financial system was built on banks, credit institutions and state regulation, then in the 21st century this structure has radically changed. The article "Bitcoin: A Peer-to-Peer Electronic Cash System", published in 2009 under the signature of "Satoshi Nakamoto", laid the ideological and technological foundation of the modern concept of cryptocurrency (Nakamoto, 2008). This document showed that financial transactions can now be carried out without a third party - that is, a bank or a government. Blockchain technology ensured the implementation of this principle. This feature brings reliability, transparency and security to the system.

In the early years, cryptocurrencies were of interest only to technology enthusiasts. However, after 2015, with the creation of the Ethereum platform, this area was opened to the general public. Ethereum was not just a currency, but also a technological environment in which smart contracts worked. In this system, people could not only send money, but also conclude digital agreements. Since then, projects such as Ripple, Litecoin, Tether, Cardano, and dozens of others have emerged. After 2020, the concept of "DeFi" took shape, and cryptocurrencies began to act not just as an asset class, but as a completely new financial infrastructure (Aquilina et al., 2024). In parallel with the rapid growth of cryptocurrencies, market capitalization also began to grow dynamically (Table 1).

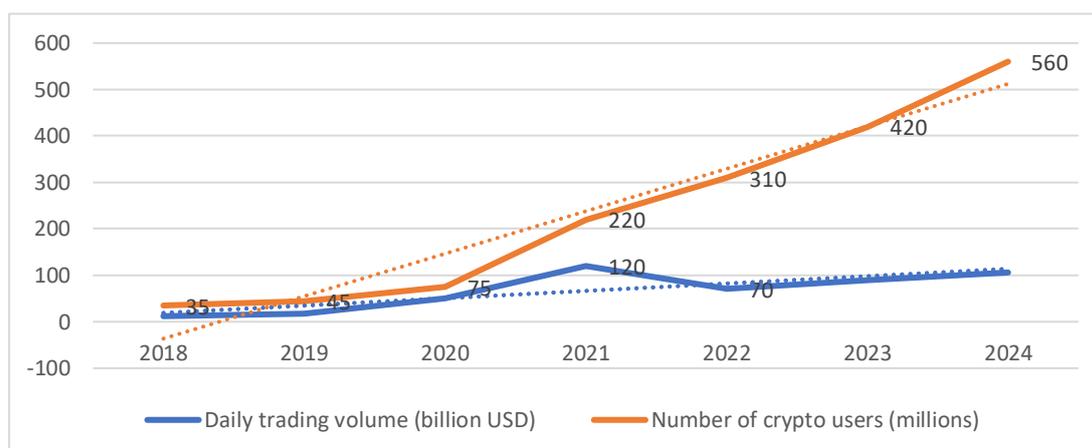
Table 1.
Dynamics of cryptocurrency market capitalization
in 2017–2024 (in trillions of US dollars)

Year	Total capitalization (\$trln)	Bitcoin share (%)	Main trend
2017	0.6	85	First massive growth wave
2018	0.12	70	Rapid decline and correction
2019	0.18	68	Stabilization period
2020	0.75	65	Growth during the pandemic
2021	2.9	52	Record level and institutional entry
2022	1.1	43	Market correction, terra-Luna crisis
2023	1.7	46	Recovery phase
2024	2.4	48	Stable growth trend

Source: CoinGecko, 2024

The cryptocurrency market has become one of the fastest growing segments in the global financial system over the past decade. The table above shows that the cryptocurrency market exhibits high volatility and changeability in a short period of time. If in 2013 the total market capitalization of cryptocurrencies did not exceed 1 billion US dollars, then by the end of 2024 this figure was already approaching 2.4 trillion dollars. This is an increase of more than 2000 times in just eleven years. An increase in value on this scale in such a short period of time is considered to be an event that has virtually no analogues in the history of the global economy. The table data shows that the total market capitalization of cryptocurrencies decreased in the period 2017–2018, increased sharply in the period 2020–2021, decreased in 2022 and again showed a steady increase in 2023–2024. This indicates that the market is still in its development stage. This dynamic shows that cryptocurrencies are no longer a temporary financial phenomenon, but an asset class with a lasting economic impact. According to the International Monetary Fund's 2023 report, the total value of the global cryptocurrency market was approximately \$1.2 trillion, which is equivalent to 3% of the gross domestic product of developing countries. This already proves that the impact on the financial system is quantitatively significant (IMF, 2023a).

The main part of the cryptocurrency market is Bitcoin. Currently, Bitcoin accounts for about 48% of the market share. However, after 2017, currencies such as Ethereum, Tether, Binance Coin, Solana, XRP have also formed a serious competitive environment. This diversity shows that the crypto ecosystem is not based on a single currency and that digital assets are specializing in broad categories. The fact that the market capitalization reached \$ 2.9 trillion in 2021 is considered a turning point for the world economy. During this period, many corporations, including giant companies such as Tesla, PayPal, MasterCard and Square, began to hold crypto assets on their balance sheets or build payment systems with them. As a result, cryptocurrencies have become an asset class that moves in parallel on the stock exchange and in the real economy. One of the main indicators of the cryptocurrency market is the volume of trade turnover and the level of liquidity. In 2024, the daily transaction volume was \$ 105 billion (Chart 1). This is 25 times more than in 2017. The largest trading volume is carried out on exchanges such as Binance, Coinbase, Kraken and OKX.

Figure 1. Use of the global crypto market

Source: CoinGecko, 2024, Demandsage, 2024

Statistical indicators show that the crypto market is growing rapidly, the number of users and trading volume have increased. However, price fluctuations indicate that the market is decreasing in 2022, which highlights volatility and risk factors. The number of cryptocurrency users in the world reached 560 million people at the end of 2024. This is 2.5 times more than in 2022. The largest number of users was recorded in India, the United States, Vietnam, Nigeria and Brazil.

The market value of cryptocurrencies is seriously affected by both global economic events and political decisions. For example, the US Federal Reserve System raising interest rates or the European Central Bank tightening monetary policy drives investors away from risky assets. This directly leads to a decrease in the prices of cryptocurrencies. The development of the cryptocurrency market has also faced a number of problems at different stages. One of the main difficulties is the high volatility of prices, that is, the frequent occurrence of sharp drops and rises. In 2018, the value of Bitcoin fell by 80% in a single year, causing many investors to leave the market. Another important issue is energy consumption. Bitcoin consumes a huge amount of energy to confirm transactions. According to a 2023 report by the University of Cambridge, the Bitcoin network alone consumes 75 terawatt-hours of electricity per year (Cambridge, 2023). This figure is equivalent to the total energy consumption of some small countries. All these factors make it necessary to evaluate the history of the development of cryptocurrencies not only in a technological, but also in a social, economic and environmental context. Cryptocurrencies have become a symbol of innovation on the one hand, and of regulatory problems on the other. Thus, the history of the cryptocurrency market proves that this system is not just a technological innovation, but also a future model of economic management and financial stability. For its sustainable development, a balanced combination of technology, legislation and market mechanisms is essential.

Financial stability is a key indicator of the sustainability of any economic system. This stability is directly related to the effectiveness of monetary policy, the reliability of the banking sector and the management of capital flows. The emergence of cryptocurrencies has the potential to have both positive and negative effects on this balance. Their mechanisms of influence are complex and multifaceted, since this influence simultaneously encompasses monetary, fiscal, institutional and psychological components. The impact of cryptocurrencies on financial stability is due to their decentralized nature. In traditional monetary systems, central banks control inflation and economic growth by regulating the money supply. However, since cryptocurrencies operate outside of state control, this regulatory mechanism is weakened. For example, Bitcoin's limited supply model limits the flexible circulation of money and complicates the application of classical monetary instruments (Alpago, 2018). On the other hand, cryptocurrencies can have a certain positive effect on stability by increasing liquidity and capital flows in financial markets. Because these assets reduce intermediary

costs in cross-border payments, increase transaction speed and create new investment opportunities. Thus, cryptocurrencies can serve as an alternative channel for developing countries in terms of attracting capital. However, along with these positive effects, cryptocurrencies also increase market volatility. The prices of digital assets often change sharply in a short period of time. This creates unstable expectations among investors and strengthens the phenomenon called “psychological inflation” in financial markets. In addition, cryptocurrencies can also create conditions for the growth of the shadow economy and illicit capital flows. Because transactions are usually anonymous and in many cases remain unregulated. The Financial Action Task Force (FATF) has therefore introduced new transparency standards for crypto transactions in 2023 (FATF, 2023).

Another form of impact on financial stability is related to the transformation of the banking system. The growing popularity of cryptocurrencies can negatively affect the deposit base of commercial banks. If people prefer to keep their savings in digital assets, this reduces the lending capacity of banks and weakens the effect of the money multiplier. This situation creates economic behavior similar to the phenomenon of “deposit runs”. At the same time, cryptocurrencies can indirectly have a positive impact on stability by increasing financial inclusion. Especially in developing countries, cryptocurrencies create new opportunities for participation for the population group that does not have a bank account or is excluded from the financial system. This also helps to increase economic activity and ensure a certain level of social equality (Luchkin et al., 2024).

The price dynamics of cryptocurrencies are often formed on the basis of speculative expectations. This weakens the understanding of fundamental value and partially disconnects markets from real economic indicators. In such a situation, risk assessment becomes difficult for central banks and international organizations. Another important mechanism of influence is related to financial integration. Cryptocurrencies connect global markets more closely together, but this also creates risks. Thus, a cryptocurrency crisis in one region can quickly spread to other markets.

Inflation-related effects should also be considered. Since cryptocurrencies, unlike traditional money, circulate outside of central regulation, the state's control over the money supply is reduced. This weakens the effectiveness of monetary policy and can negatively affect price stability in the long term. Despite all this, some researchers believe that cryptocurrencies “reshape” financial stability rather than disrupt it (Senna, & Souza, 2023). As transparency in the digital money market increases, control over transactions increases, which can reduce problems such as corruption and tax evasion. A joint analysis conducted by the International Monetary Fund and the World Bank at the end of 2024 showed that cryptocurrencies combine both risk and opportunity components. If states can create flexible regulatory frameworks, these assets can become a new pillar of financial stability. The impact of cryptocurrencies on the financial market and its consequences are summarized and interpreted in the following table (Table 2).

Table 2.
Impact of the cryptocurrency market on the financial system.

Area of influence	Key findings	Brief analysis
Capital flows	Capital is shifting from traditional markets to cryptoassets	High income expectations lead to global liquidity redistribution
Banking sector	Banks’ role in payment systems is declining; new crypto services are emerging	Cryptocurrencies weaken banks’ competitive advantage in transnational payments
Monetary policy	Cryptoasset circulation reduces the effectiveness of monetary policy	Decentralization of issuance affects currency control; countries move towards CBDC
Financial stability	Volatility and regulatory gaps increase risks	Weak regulation of exchanges increases cyberattacks and fraud
Innovation and digital transformation	Blockchain and DeFi are creating new financial models	Transparency increases, transaction costs decrease, new business ecosystems form

All these factors once again show that the impact of cryptocurrencies on financial stability is not just a one-way process, but a multifaceted, dynamic and country-specific phenomenon.

Regulatory policy is one of the main factors determining the direction of the impact of cryptocurrencies on stability. The approaches of states to this market differ significantly from each other. Some countries support cryptocurrencies, considering them as an important element of innovation and the digital economy, while others consider them a potential financial threat and a threat to monetary stability and impose strict restrictions. While the cryptocurrency market is strictly controlled in the United States and the European Union, in some Asian countries this sector is either completely free or completely banned. This diversity prevents the formation of a single stability mechanism in the global market. From a technological perspective, the blockchain infrastructure behind cryptocurrencies offers advantages in terms of both security and transparency. The immutability of blocks in which transactions are recorded reduces the risk of fraud. However, threats such as technological failures or “51% attacks” add new technological risks to stability.

The US model – a free market and selective control approach

The US is one of the countries that has played a key role in the formation of cryptocurrencies in the world. Since 2013, a certain framework has been established in the US in terms of tax and legal status for cryptocurrency transactions. The US Securities and Exchange Commission (SEC) considers cryptoassets as “digital securities” and regulates them under certain conditions (US, 2024). In addition, the Financial Crimes Enforcement Network (FinCEN) requires cryptocurrency exchanges to be registered as “virtual money services”. This approach both protects the free market environment in the US and provides a certain level of control. For example, exchanges such as Coinbase, Kraken, Gemini are licensed by the state. However, since regulation in the US differs at the federal and state levels, a unified legislative framework has not yet been fully formed. However, investments in the cryptocurrency sector in the country exceeded \$ 200 billion by the end of 2024. This indicates that the US maintains its leading position in the digital finance market.

European Union – legal harmonisation and MiCA framework

The European Union (EU) has adopted a more systematic and legal harmonisation approach to regulating cryptocurrencies. The Markets in Crypto Assets Regulation (MiCA), which entered into force in 2023, regulates the use, trading and holding of cryptocurrencies in the EU with a single standard (EU, 2023). The main objective of this document is to protect market participants, reduce market manipulation and ensure financial stability. Under the MiCA regulation, all crypto issuers and exchanges must register with the European Securities and Markets Authority (ESMA). This is a major innovation in terms of transparency and accountability. The EU has also established special rules for “stablecoins”. Stable currencies such as “Tether” and “USDC” are only allowed to circulate in the EU market if they are backed by verified reserves. This step aims to strengthen the stability of the cryptocurrency market. The EU model also includes regulations on the environment and energy consumption. For example, the energy efficiency control mechanism of the “proof-of-work” mechanism will be implemented from 2024. This will guide digital markets towards “green technology” in line with the EU’s principles of environmental sustainability.

China – ban and national alternative approach

The People’s Republic of China is one of the countries that has demonstrated one of the strictest positions on cryptocurrencies. In 2017, cryptocurrency exchanges were banned, and in 2021, all “mining” activities were completely banned. The Chinese government justifies this decision by maintaining financial stability and preventing uncontrolled capital flows. However, this ban does not mean a rejection of the digital economy. On the contrary, China is implementing a national cryptocurrency project called the digital yuan (e-CNY) through its central bank. The e-CNY, which is in the testing phase in 2023, has already been tested by more than 300 million users. This project shows that China does not completely reject cryptocurrency technology, but simply implements it at the national level under state control. This can be called a “managed digital currency model”.

The results of the characteristics of cryptocurrency regulation and its impact on the financial system by country are analyzed in the table data below (Table 3).

Table 3.
International experience on cryptocurrencies.

Country / Region	Regulatory approach	Features of the impact on the financial system	Key results	Source
United States	Partial regulation; SEC and CFTC approach	Tight supervision of crypto exchanges	High innovation	SEC, CFTC (2022–2024)
European Union	MiCA single regulatory framework	Standardized risk requirements	Strengthening legal framework	European Commission (2023)
United Kingdom	FCA supervision; AML/KYC	Company registration is mandatory	Transparent market model	FCA Guidance (2023)
China	Cryptocurrency ban	CBDC – e-CNY is being developed	Digital yuan expands	People’s Bank of China (2023)
Japan	Legal recognition of crypto assets	High requirements for exchanges	Regular and secure market	Japan FSA Reports (2023)
South Korea	Real-name identification system	Bank integration is essential	Increased trust	Korean FSC (2023)
Singapore	MAS risk-based licensing	FinTech and Web3 support	Becoming a regional hub	MAS Publications (2023)
UAE (Dubai VARA)	Dedicated crypto regulatory body	Crypto and token services	Rapidly developing ecosystem	Dubai VARA (2023)

This table shows that crypto regulation in countries varies greatly. The US and Europe offer a more structured market, China imposes a ban, and Singapore and Dubai are open to innovation. These differences affect both investor behavior and the stability of the financial system.

Azerbaijan is still at an early stage in terms of legal regulation of the cryptocurrency market. Currently, transactions with cryptocurrencies in the country are neither prohibited nor fully legalized. However, the Ministry of Finance, the Central Bank, and the State Tax Service are working on a legal framework in this direction. In March 2024, the State Tax Service submitted a draft for public discussion on the tax bases of cryptocurrency transactions. The draft envisages that cryptocurrency income will be taxed as capital gains. At the same time, the Central Bank is conducting a preliminary technical assessment of the “digital manat” project. This project aims to create an alternative, state-controlled digital payment system to cryptocurrencies. Azerbaijan’s advantage is that the country has a rapidly digitizing economic model. Platforms such as “ASAN payment”, “e-gov”, and “AzerCard” create a technological basis for cryptocurrency integration. However, there are also risks, including the lack of legal regulation, low financial literacy, and the risk of manipulation of the crypto market. According to experts, the most suitable model for Azerbaijan is a system similar to the European Union's MiCA regulation, but more flexible and tailored to national characteristics. That is, a hybrid approach is needed that both encourages innovation and ensures transparent control (Imanov, 2022). International experience shows that the “complete ban” and “complete freedom” approaches to regulation do not produce effective results. The most stable results are observed in countries that apply balanced and transparent rules. The US prefers a free market and investor freedom, the EU focuses on legal structure and transparency, China prioritizes state control, and Azerbaijan is in the process of forming a national model by learning from these experiences. Although the economic structure of Azerbaijan is based on the oil and gas sector, the government's “Digital Development Strategy of the Republic of Azerbaijan” covering 2021–2030 has identified strengthening the digital economy as a priority (AR, 2025). This strategy includes the development of digital payment infrastructure, the expansion of e-commerce and the promotion of financial innovations. Cryptocurrencies can be considered as a potential part of this strategy. Currently, a number of citizens

in the country carry out cryptocurrency transactions through international platforms. Exchanges such as Binance, Bybit, OKX and Huobi are the main choices for Azerbaijani users. This indicates an increase in both economic activity and digital financial knowledge. However, the lack of official regulatory mechanisms leads to uncontrolled implementation of this activity. Looking at the potential of the market, Azerbaijan has a favorable environment for the development of cryptocurrencies. The main reasons for this are a strong technological infrastructure, wide internet coverage and a young population structure. More than 65% of the country's population is below the median age, which accelerates the adoption of digital technologies.

The economic benefits of the cryptocurrency sector for Azerbaijan can be manifested in several ways:

- reduction in the costs of cross-border money transfers;
- increase in financial inclusion;
- promotion of technological innovations.

These advantages can create new financial opportunities for small and medium-sized entrepreneurs. On the other hand, risks should also be taken into account. High volatility of the cryptocurrency market, speculative behavior and legal loopholes can negatively affect financial stability. At the same time, the risk of the spread of cases such as “crypto-fraud” and “pyramid schemes” threatens the financial security of citizens. In this regard, it is important to strengthen educational measures.

Azerbaijan's energy potential also creates interesting opportunities in this area. Since blockchain, and crypto-mining activities are characterized by high energy demand, the use of renewable energy resources can open up new economic opportunities in this direction. For example, there are favorable conditions for “green energy” projects using solar energy in the Nakhchivan and Karabakh regions. In addition, the expansion of the fintech sector in the country may develop in parallel with the formation of the cryptocurrency market. Currently, financial technology startups operating in Azerbaijan are working on digital payment systems. The formation of this ecosystem will allow the creation of blockchain-based national innovation centers in the future.

Increased financial inclusion is also one of the important outcomes. If the number of citizens using financial services through cryptocurrencies increases, this will strengthen the competitive environment of the banking sector. However, it is necessary for the Central Bank to modernize its regulatory tools to manage risks.

Azerbaijan's strategic position and regional role should also be taken into account. The country maintains an economic and technological leadership position in the South Caucasus region. If a clear legal framework is created for the cryptocurrency market, Azerbaijan can become a digital financial center in the region. Finally, the level of acceptance of cryptocurrencies is also increasing in terms of public relations. As interest in this topic increases among the population, the government's adaptation policies should be more flexible. State bodies, especially the Ministry of Digital Development and Transport, the Central Bank and the Tax Service, should act in a coordinated manner in this area. Thus, the formation of the cryptocurrency market for Azerbaijan is important both in terms of economic development and strategic sovereignty. If this process is managed in a planned and scientific manner, the country can become one of the leaders of digital finance in the region in the coming years. The results achieved in the context of Azerbaijan partially coincide with international experience, but the fact that the country's legal and institutional framework is at an early stage requires different approaches. If the US and the European Union focus on market freedom and transparent regulation, a “balanced regulatory model” is considered more appropriate for Azerbaijan. This model both promotes development without limiting innovation and allows for maintaining financial stability.

Various studies have noted that cryptocurrencies expand economic activity by increasing financial inclusion (Kesebir, & Günceler, 2019). Our study also confirms this idea and additionally shows that in order to strengthen the digital economy in developing countries like Azerbaijan, it is important to form a cryptocurrency infrastructure under state control.

The results of the study show that the integration of cryptocurrencies into the Azerbaijani economy can create significant advantages in the following areas:

1. Increasing financial inclusion - expanding the opportunities for citizens who do not have access to banking services to use digital payment systems;
2. Promoting innovation - giving impetus to the development of local fintech companies, startups and technology parks;
3. Liberalizing capital flows - creating new tools to attract international investments;
4. Increasing economic transparency - making transactions traceable and secure with the application of blockchain technology.

However, risk factors should not be forgotten. If the regulation of the cryptocurrency market is delayed, this may lead to the expansion of informal markets, tax evasion, and the emergence of speculative “bubbles” (Güleç & Aktaş, 2019). Therefore, the most appropriate strategy for Azerbaijan is a “balanced regulatory model” that does not restrict innovation, but at the same time provides legal control.

According to scientific recommendations, the following measures are necessary in this direction:

- Adoption of legislation on cryptocurrency and the establishment of a “Digital Assets Regulatory Center” under the Central Bank;
- Clarification of tax bases – official recognition of cryptocurrency income as capital gains;
- Awareness and education programs – teaching “digital finance” and “blockchain technology” subjects at universities;
- Support for technological infrastructure – establishment of mechanisms for incubation and financing of local blockchain projects.

If these steps are implemented, Azerbaijan can take a more solid place in the global digital economy. The country can become not only a consumer, but also a producer of crypto infrastructure and an exporter of innovation. Consequently, although cryptocurrencies pose short-term risks, they should be viewed as an important opportunity for economic transformation, financial inclusion, and technological development in the long term. If this process is managed scientifically and in a planned manner, the cryptocurrency market will become an important pillar of digital economic growth for Azerbaijan.

Conclusion

In the modern era, cryptocurrencies act as a phenomenon that creates radical changes in the structure of the financial system, having a multifaceted impact from both technological, economic and legal points of view. The conducted research shows that the development of the cryptocurrency market means not only the digitalization of money circulation, but also the transformation of the financial system, the emergence of new economic relations and alternative forms of investment. Cryptocurrencies, challenging the principle of operation of classical financial institutions, give rise to the formation of a decentralized, transparent and technology-based economic ecosystem. This feature makes them one of the main pillars of the financial architecture of the future. However, at the same time, this market is still accompanied by serious volatility, speculative risks, illegal financial transactions and legal loopholes. World experience shows that there is no single model for regulating cryptocurrencies. The USA prefers a more liberal and open approach to innovation, the European Union applies a balanced model based on legal harmonization and transparency, and China relies on strict control and the concept of a national digital currency. Azerbaijan, taking into account these experiences, is at the stage of forming its own national model.

In view of Azerbaijan's economic realities and strategic priorities, the introduction of cryptocurrencies should be assessed in terms of both risk and opportunity. The development of digital payment systems, the application of blockchain technology, and digital literacy should act as key priorities in this direction. The establishment of coordinated regulatory mechanisms at the state level is a fundamental condition for the transparent and safe development of the cryptocurrency market.

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