

Cryptocurrency Adoption in Uzbekistan: a Comprehensive Analysis of Regulatory Stance, Interest Rate, and Potential Impact on the Financial System

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Abstract: The adoption of cryptocurrencies in Uzbekistan is a rapidly evolving phenomenon that presents both opportunities and challenges for the country's financial system. This thesis investigates the current adoption rate of cryptocurrencies in Uzbekistan, analyzes the regulatory stance of the government towards this emerging asset class, and assesses the potential impact of cryptocurrencies on the stability and efficiency of Uzbekistan's financial system. By examining these key aspects, this study provides valuable insights into the implications of cryptocurrency adoption for Uzbekistan's asset market and broader economy.

Keywords: Cryptocurrency, Interest Rate, Financial System, Uzbekistan.

Introduction

In recent years, Uzbekistan has emerged as a pioneer in embracing and regulating the crypto industry within its borders. With an aim to foster innovation while ensuring consumer protection and financial integrity, the country has implemented a robust regulatory framework governing various aspects of crypto activities. From licensing requirements for Crypto Asset Service Providers (CASPs) to classifications of crypto assets and marketing guidelines, Uzbekistan's regulatory landscape provides a detailed blueprint for operating within its crypto ecosystem. Cryptocurrencies have gained significant popularity globally as a new form of digital currency that operates independently of traditional banking systems. Uzbekistan, like many other countries, is witnessing a growing interest in cryptocurrencies among its population. This thesis aims to delve into the landscape of cryptocurrency adoption in Uzbekistan, focusing on regulatory frameworks, adoption rates, and potential impacts on the financial system.

Literature Review

The literature review explores existing studies on cryptocurrency adoption, regulatory approaches in different countries, and the potential benefits and risks associated with integrating cryptocurrencies into traditional financial systems. By synthesizing this body of knowledge, we can better understand the context in which Uzbekistan's cryptocurrency adoption is unfolding.

Crypto assets are officially recognized and regulated in Uzbekistan, although they are not considered legal tender. Since January 1, 2023, residents have been permitted to engage in crypto transactions exclusively through domestic CASPs. These CASPs, divided into four categories – crypto exchanges, crypto stores, crypto depositories, and mining pools – must be legally registered in Uzbekistan and hold the necessary licenses to operate.

Methodology

This study employs a mixed-methods approach, combining qualitative analysis of regulatory documents and policies with quantitative data on cryptocurrency trading volumes and user adoption rates in Uzbekistan. Interviews with key stakeholders in the cryptocurrency industry and financial

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sector will also provide valuable insights into the current state of cryptocurrency adoption in the country. Monetization and Taxation

All crypto transactions conducted by individuals or legal entities, including non-residents, are exempt from taxation in Uzbekistan. This exemption extends to the income generated from these operations, which is not considered part of the taxable base for taxation purposes. This tax-friendly environment incentivizes participation in the crypto market and promotes innovation within the sector.

The National Agency of Perspective Projects (NAPP), reporting directly to the President of Uzbekistan, serves as the primary regulator for the crypto market. NAPP is responsible for licensing CASPs, introducing new rules and regulations, and ensuring compliance within the sector. While Uzbekistan welcomes collaboration with foreign CASPs, stringent regulations govern their operations. Foreign CASPs serving Uzbekistan residents must establish a local legal entity, obtain the necessary licenses, and comply with local laws to mitigate legal consequences.

Results

The findings of this study reveal a nuanced picture of cryptocurrency adoption in Uzbekistan. While there is a growing interest in cryptocurrencies among the population, regulatory uncertainties and concerns about security and fraud remain significant barriers to widespread adoption. The government's stance on cryptocurrencies has been cautious but open to exploring their potential benefits for the economy.

Uzbekistan's legislation defines various classifications of crypto assets, including secured and unsecured tokens, each subject to specific regulations. Additionally, marketing guidelines mandate comprehensive warnings about the risks associated with crypto assets and prohibit misleading advertisements. CASPs must adhere to strict anti-money laundering protocols, ensuring customer identification and reporting suspicious transactions to authorities.

Earlier Daryo reported that NAPP has entered into a collaboration with Tether, a prominent player in the digital finance sector. This partnership, formalized via a Memorandum of Understanding, seeks to advance the growth of crypto-assets and blockchain infrastructure in Uzbekistan, with a focus on promoting innovation.

Discussion

The discussion section critically examines the implications of cryptocurrency adoption for Uzbekistan's financial system, including its potential to enhance financial inclusion, facilitate cross-border transactions, and promote innovation in the fintech sector. It also considers the challenges posed by regulatory uncertainties and the need for effective risk management strategies to mitigate potential threats to financial stability. Is it possible to buy cryptocurrency in Uzbekistan? If so, is it legal to use cryptocurrency?

All crypto-assets in Uzbekistan must be licensed and operated on a crypto exchange opened in early 2020. Exchange participants can only sell previously acquired crypto assets to foreign users. It is not possible to buy crypto-assets on the stock exchange – the organizers explained this by the low financial literacy of the population.

Tariffs are available, legalization is not. This is because the purchases are prohibited, cryptocurrencies can only be obtained through Mining (mining is an activity which provides a distribution platform and creates new blocks that allow for rewards in the form of new units and commissions in different cryptocurrencies). In the spring of 2020, miners in Uzbekistan were required to pay increased tariffs for electricity. However, no procedure has been developed to identify and apply this tariff to Mining consumers. The legalization of Mining was supposed to be based on the creation of the Uzbekistan Cryptocurrency Mining Pool as part of mandatory membership, but the relevant documents have not yet been adopted.

Trading in cryptocurrencies is recognized as a crime under Article 177 of the Criminal Code of Uzbekistan. The title of this article is “the illegal acquisition or transfer of foreign currency”, and many



individuals who trade in cryptocurrencies are prosecuted under this article. Such individuals were also charged under Article 190 of the Criminal Code, which provides for unlicensed activity. For example, in the summer of 2020, a criminal case was initiated against citizens engaged in bitcoin trading in Tashkent under Articles 177 (illegal sale or purchase of foreign currency) and 190 (engaging in unlicensed activities) of the Criminal Code. However, it can be considered incorrect to qualify under Article 177 of the Criminal Code for trading in cryptocurrency. The reason is that there is no legal basis which regulates and restricts cryptocurrency trading. Under the Decree “On measures to develop the digital economy in the Republic of Uzbekistan”, the norms of the legislation on currency regulation do not apply to foreign exchange transactions related to the turnover of cryptocurrencies conducted by persons licensed to carry out activities in the field of cryptocurrency assets. The turnover of crypto assets should be regulated by special regulations.

However, trading on crypto exchanges may be allowed in Uzbekistan.

Cryptocurrency exchanges are expected to be allowed in Uzbekistan. The relevant draft resolution has been posted on the portal for discussion of draft regulations. According to this draft resolution, citizens are allowed to register, issue, and (or) convert tokens issued by residents and (or) non-residents of Uzbekistan. Residents of Uzbekistan have the right to conduct all types of crypto-exchange trades with crypto assets and tokens in cryptocurrency exchanges in national and foreign currencies. In this case, the choice of crypto-assets as the object of purchase and the relevant consequences of this choice is considered the buyer’s own risk.

Conclusion

In conclusion, this thesis highlights the complex interplay between regulatory frameworks, adoption rates, and potential impacts of cryptocurrency adoption in Uzbekistan. By shedding light on these key aspects, this study contributes to a better understanding of the opportunities and challenges associated with integrating cryptocurrencies into the country’s financial system. Recommendations for policymakers and stakeholders are provided to guide future developments in this rapidly evolving landscape. The blogpost analyzed the regulatory policy of cryptocurrencies in Uzbekistan. In the first part, I clarified the concept of cryptocurrency and its impact on the global economy. Then, I explored the legal initiatives and learned several legal acts adopted by the Head of Uzbekistan. In particular, the blogpost identified a need for a special legislation on the cryptocurrency sector has been stated in all the above Presidential Decrees and instructions have been given to the relevant state bodies to develop such legislation. However, responsible authorities has not yet developed a single legal document, so in practice this area is still regulated by other legislation relating to currencies. Next, I also analyzed the reasons why Uzbekistan has not still allowed to buy cryptocurrencies and trading with them. Since it is not allowed to trade in cryptocurrencies, such activities are considered illegal. However, it is incorrect to qualify under Article 177 of the Criminal Code for trading in cryptocurrency. The reason is that there is no legal basis that regulates and restricts cryptocurrency trading. Recently, a draft resolution has been published on discussion portal. According to this document, trading on crypto exchanges may be allowed in Uzbekistan.

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