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Regulation of digital currency in Pakistan: A critical analysis

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Abstract

Digital currency regulations in Pakistan have recently emerged as an important legal, economic, and technological issue. Digital currencies, cryptocurrencies, blockchain and other digital financial technologies have created opportunities and challenges for authorities and financial organizations. The lack of regulatory regime makes Pakistan vulnerable to problems such as money laundering, cybercrimes, taxation issues, financial instability, and others. For instance, the State Bank of Pakistan and Federal Investigation Agency have shown their concerns about illegal activities and risks of using digital currencies. At the same time, there are possibilities for Pakistan in terms of innovation and economic development in the context of digital currencies.

Keywords: challenges, historical context, laws, opportunities, theoretical context

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Introduction

Digital currencies have revolutionized the international monetary system through the implementation of decentralized modes of payment and investments using the technology of blockchain (Raza & Siddiqui, 2025). Decentralized cryptocurrencies such as Bitcoin and Ethereum have received global fame on account of their decentralized nature and secure transactions (Baloch et al., 2023). In Pakistan, the growing trend of digital currency use has resulted in numerous issues of a legal and regulatory nature for the authorities (Iqbal & Anwar, 2024).

The rapid development of digital currency exchange and blockchain-based financial services has created challenges for the traditional systems of banking and existing legislation (Rana et al., 2023). The legal

uncertainty prevailing in Pakistan has confused many investors, companies, and financial institutions about the legal aspects of digital currencies and their usage in business transactions (Saeed & Sial, 2023). The State Bank of Pakistan has been issuing warnings against unauthorized virtual currency transactions due to possible risks of fraud, terrorism financing, and money laundering (Momin et al., 2024).

However, there are many advantages that digital currencies provide to developing nations. The use of block chain technologies would increase transparency, reduce transaction costs and also make international payments easier (Sultan et al., 2023). However, the lack of regulations and technological awareness limits the ability of these digital currencies to be used effectively.

Literature Review

Regulation of digital currencies has become an interesting field of study for researchers in the realm of economics and law in view of the increasing adoption of cryptocurrencies and blockchain globally. Several studies have discussed the prospects of digital currencies and the fact that they could revolutionize financial systems in the sense that the need for banks could be reduced and transactions could become decentralized (Baloch et al., 2023). In Pakistan, researchers have concentrated on the legal uncertainties in cryptocurrency trading and the difficulties regulators face in monitoring digital financial transactions (Khan et al., 2024).

Many studies have analyzed the dangers posed by an unregulated cryptocurrency market environment. These studies have pointed out issues related to cybercrime, tax evasion, money laundering, and financing terrorism, which led many governments to adopt stringent regulations to control such markets (Haider & Akhtar, 2024). In Pakistan, the Federal Investigation Agency and the State Bank of Pakistan have expressed concerns over the existence of illegal crypto-trading websites and financial activities. Limited capacity and expertise in technology have made the task of enforcement of digital currency laws difficult in the country.

Besides, economists have highlighted the economic benefits of blockchain innovations and digital finance (Raza & Siddiqui, 2025).

Historical Context of Regulation of digital currency in Pakistan

The history of digital currency regulation in Pakistan has been highly connected with the rise of cryptocurrencies and the development of blockchain technology on the international level initially, digital currencies were not considered by the Pakistani regulatory bodies owing to limited use of technology and low levels of awareness among the population. However, when cryptocurrencies became widely traded around the world and the market for these assets grew rapidly, Pakistani stakeholders joined the digital asset market (Rana et al., 2023).

In 2018, the State Bank of Pakistan (SBP) issued a circular prohibiting banks and financial institutions from engaging in transactions involving digital currencies due to concerns related to money laundering and the financing of terrorist organizations (Iqbal & Anwar, 2024). This decision had a significant impact on the legal landscape governing digital asset trading and regulation in the country (Saeed & Sial, 2023). In recent years, the introduction of a comprehensive regulatory framework for digital currencies in Pakistan has become a subject of considerable discussion among policymakers and legal experts.

Theoretical Context of Regulation of digital currency in Pakistan

The theoretical framework of the regulation of digital currency is based on the theories that provide the explanation about the need for regulation to maintain financial stability and confidence (Momin et al., 2024). The regulatory theory stresses the need for state control in order to avoid any cases of financial crimes, to guarantee consumer protection and market transparency (Kalanauri, 2025). The theory of economic liberalization states that decentralized financial systems are a good way to encourage competition and innovation in the sphere and provide people with financial freedom (Rana et al., 2023).

On the contrary, risk management theory draws attention to the negative aspects of the absence of control of digital currency that include such problems as fraud, cybercrime, money laundering and market volatility. The technology acceptance theory helps to understand the role of public trust and awareness in terms of using digital financial systems and blockchain technologies. The institutional theory is also very important in terms of the study of the financial institutions and governments adaptation to new technologies (Khan et al., 2024; Momin et al., 2024).

Research Justification

It is important to study the regulation of digital currencies in Pakistan due to the increasing use of cryptocurrencies and blockchain-based financial systems in the country. The lack of comprehensive legislation creates ambiguity for investors, financial institutions, and consumers. Issues such as cybercrime, money laundering, fraud, and tax evasion require an in-depth analysis of existing laws and policies. With the emergence of the digital economy and the growth of the technology sector in Pakistan, it has become increasingly important to examine the regulatory frameworks governing digital currencies. This study will contribute to the development of appropriate legal frameworks by analyzing the economic, legal, and technological aspects of digital currency regulation.

Laws Regarding Regulation of digital currency in Pakistan

State Bank of Pakistan Circular, 2018: State Bank of Pakistan issued the circular not to allow virtual currency transactions in banks and financial institutions. The circular was designed to minimize the risks of money laundering, fraud and illegal financial activities in the context of cryptocurrencies.

1. **Prevention of Electronic Crimes Act, 2016 (PECA):** PECA is a bill that focuses on cybercrimes such as identity theft, online fraud, unauthorized digital transactions and hacking. There are legal avenues for investigating cybercrimes linked with digital currency businesses.
2. **Anti-Money Laundering Act, 2010:** This law plays a crucial role in the regulation of financial activities with digital assets. It aims to combat money laundering and financing of terrorism with tight suspicious activity monitoring and reporting rules.
3. **Foreign Exchange Regulation Act, 1947:** This is the act that regulates the foreign exchange transactions in Pakistan which may impact the cross-border cryptocurrency trading and transferring funds to foreign exchange with Pakistan.
4. **Federal Investigation Agency Cybercrime Regulations:** FIA Cybercrime Wing is responsible for the investigation of illegal use of cryptocurrencies and online scams or financial fraud in terms of digital assets. The aim of these regulations is to ensure the security of digital financial transactions and implementation of cyber laws in Pakistan.

Challenges for Regulation of digital currency in Pakistan

One of the biggest problems in the regulation of digital currencies in Pakistan is the lack of an appropriate legal framework. Uncertainty about whether trading of cryptocurrencies is legal in Pakistan leads to a lack of confidence among investors and businesses and results in the reluctance of foreign investors to engage in business. Uncertainty in the legal status of digital currencies is one of the main problems hindering the development of financial technologies.

One of the other problems is the danger of the use of digital currencies to commit crimes on the Internet including cybercrime, money laundering, and financing of terrorism. The problem here is that it is difficult to monitor illegal actions committed with the help of cryptocurrencies owing to lack of adequate technological knowledge in Pakistan.

The level of public awareness regarding digital currencies is low in Pakistan. In particular, many people engage in cryptocurrency investments not realizing the risks involved. Scams on the Internet related to cryptocurrencies have also been growing recently. Besides, there is insufficient coordination between the regulatory bodies, law enforcement agencies and policymakers.

Opportunities for Regulation of digital currency in Pakistan

There are substantial possibilities of economic modernization and technology advancement in the digital currency regulations in Pakistan. An effectively regulated cryptocurrency market can bring foreign investments, help in developing blockchain technology, and enhance digital economy in the country. Blockchain technology can help in improving transparency, efficiency, and security in financial transactions along with reducing cost for businesses and financial institutions.

Digital currencies can also play an important role in financial inclusion, by providing financial services to the people who do not have bank accounts, especially in the rural parts of the country. Mobile-based digital payment systems and blockchains can help in making transactions easy and quick and can increase participation in the formal sector. Digital financial systems, if regulated properly, can also help in making the process of sending money easier for overseas Pakistanis.

It is worth noting that additionally, the presentation of right laws and regulations related to digital currency will be helpful in creating more investor and client confidence. Proper sound regulations can help in reducing fraudulence and marketplace handling. The efforts of the government, financial institution and technologists will help in creating more secure and innovative digital fiscal environment.

Discussion

Nevertheless, public awareness campaigns about the creditworthy use of cryptocurrencies will likewise aid. On the other hand, digital up-to-datedness regulation in Pakistan is an example of the interplay between technology, financial security and legal mechanisms. Conversely, although digital currencies can be helpful for economic growth, financial inclusion and modernization, there is no denying the front of major risks, including the problem of cybercrime and financial instability. In contrast, uncertainty associated with regulation is still regarded as one of the major barrier for the safe use of digital currency in Pakistan. Financial organizations ilk the State Bank of Pakistan and the Federal Investigation Agency insist on the necessary of strict supervision and confirmation, but economic advantages that develop from block chain. Digital finance should also be taken into account by policymakers when develop regulation.

Conclusion

The attitude of Pakistan regarding the regulation of digital currencies is yet not open and is continuously changing. The rapid use of cryptocurrencies and blockchain engineering in the fiscal system is bringing opportunities but also challenges for policymakers, financiers and other interested parties. The threats of cybercrime, money laundering, fallacious activities and the general volatility of markets require adequate, sound regulation and financial supervision. Nonetheless, digital currencies may be useful in promoting economic development. Accordingly, therefore, the development of an appropriate, sound framework for the regulation of digital finance is required.

Recommendations

Nonetheless, a set of laws specific to digital currencies, block chain technologies and cryptocurrency trading must be created in Pakistan. There must be cooperation between regulatory agencies like the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan and the Federal Investigation Agency in creating policies for issuing licenses, tax, consumer protection and anti-money laundering requirements. Training program mustiness be created in order to provide law enforcement agencies, regulatory bodies and courts with sufficient technological cognition and capability for cybersecurity enforcement.

Moreover, Pakistan must promote groundbreaking use of block chain technology by promoting research and technological advancement through cooperation between universities, technology firms and banks. Pakistan can benefit from international cooperation through representation like the financial action task force in adopting best practices on how to regulate digital fiscal system.

Research Limitations

There exist various limitations that affect the research on the regulation of digital currency in Pakistan. Firstly, the availability of reliable and up-to-date information about the use of cryptocurrencies, digital assets, and block chain in Pakistan is very scarce. Secondly, because of the fast pace of technological advancement, it becomes hard for researchers to keep themselves updated legally and in terms of policies.

Thirdly, due to lack of regulatory policies and statistical information on the same, it becomes difficult to conduct empirical research. The political and economic environment of Pakistan may also impact the policymaking and legal interpretation process. Furthermore, the technology involved in cryptocurrency regulations poses another problem while making legal comparisons internationally.

Research Implications

There are diverse limitations that affect the enquiry on the regularization of digital currencies in Pakistan: foremost, the availability of true and up-to-date information about the use of cryptocurrencies, digital currencies, and blockchain in Pakistan is very scarce; secondly, because of the fast pace of technological advancement, it becomes difficult for researcher to keep themselves update legally and in terms of policies.

Nevertheless, thirdly, due to the lack of regulatory policy and statistical information on the same, it becomes difficult to conduct empirical research. The political and economic environment of Pakistan may also impact the policymaking and legal interpretation process. Moreover, the technology involved in

cryptocurrency regulation poses another challenge when making effective international comparisons.

Future Research Directions

Future research about digital currency regulations in Pakistan must be done on the basis of analyzing the economic, legal, and technological effects of the blockchain financial system. Comparative studies about the regulations followed in other countries can be helpful for Pakistani researchers. Empirical studies can be conducted to understand the adoption rate of cryptocurrencies, the behavior of investors and the cybersecurity threats related to the use of these technologies. Moreover, the research can also be done on the role of artificial intelligence, CBDCs, and DeFi in the future of the financial sector of Pakistan.

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