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# Digital Currencies and Money Circulation

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**Abstract:** In recent years, digital currencies, including cryptocurrencies and central bank digital currencies (CBDC), have become an important element of the financial system. This work is devoted to the analysis of the impact of digital currencies on monetary circulation and financial stability. The main characteristics of digital currencies, their advantages and disadvantages, as well as potential risks associated with their implementation are considered.

Special attention is paid to regulatory and security issues, as well as the impact of digital currencies on traditional banking services. The article examines examples of successful implementation of digital currencies in different countries and their impact on the economy. In conclusion, it is concluded that digital currencies can become an important tool for improving the efficiency of monetary circulation, but require a careful approach to regulation and control to minimize risks.

**Keywords:** international organizations, crypto assets, distributed ledger technology, block chain, classification of crypto assets, virtual currencies, crypto currencies, stable coins, global stable coins, global stable coin agreements, digital tokens, investment tokens, utility tokens, non-interchangeable tokens, initial token placement, decentralized finance, regulation of the turnover of crypto assets.

## Introduction

In recent decades, the world of finance has undergone significant changes caused by the development of technology and changing consumer preferences. One of the most noticeable and discussed phenomena is the emergence of digital currencies, which are significantly different from traditional forms of money. Cryptocurrencies such as Bitcoin and Ethereum have become a symbol of a new financial era, offering decentralized and anonymous ways to exchange value. At the same time, central banks in many countries are beginning to explore the possibility of introducing central bank digital currencies (CBDCs), which opens up new horizons for money circulation and the financial system as a whole.

Digital currencies are not only innovative tools for making payments, but can also potentially change the very nature of money circulation. They can increase the speed and efficiency of transactions, reduce transfer costs and provide access to financial services to a wider range of people. However, along with these advantages, serious challenges arise, such as security, regulation and impact on financial stability.

In this study, we will consider the key aspects of the impact of digital currencies on money circulation, their role in the modern economy, as well as the potential risks and opportunities associated with their implementation. Understanding these issues is an important step in adapting traditional financial institutions to new realities and ensuring sustainable development of the monetary system in the context of digitalization.

## Literature review

Digital currencies, including cryptocurrencies and central bank digital currencies (CBDCs), have

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become the subject of active study in recent years. The development of blockchain technologies, increasing interest in decentralized financial systems, and the need for traditional financial institutions to adapt to new conditions have contributed to the growth of academic publications and research in this area.

Cryptocurrencies such as Bitcoin and Ethereum were the first examples of digital currencies that attracted significant interest from both researchers and practitioners. The works of Salaev R. [1] and other authors consider the basics of blockchain technology and its potential for creating decentralized financial systems. Research shows that cryptocurrencies can change traditional models of money circulation by offering faster and cheaper ways to conduct transactions [2].

However, cryptocurrencies also come with risks, such as high volatility, lack of regulation, and potential security threats. Research [3] considers how these factors may affect the adoption of cryptocurrencies as a means of exchange and store of value.

With the development of cryptocurrencies, central banks have begun to consider the possibility of introducing their own digital currencies. Research [4] highlights that CBDCs can improve financial stability and increase the efficiency of payment systems. They can offer safer and more accessible alternatives to cash and traditional banking services.

Some studies [5] also highlight that the introduction of CBDCs can lead to changes in monetary policy, including issues of control over the money supply and interest rates.

Research shows that digital currencies can significantly change the dynamics of money circulation. For example, the work [6] examines the impact of electronic money on the velocity of money and inflation. Other studies [7] highlight that the digitalization of financial services can lead to a more efficient allocation of resources and improved access to finance for the population.

With the increasing popularity of digital currencies, there is a need for their regulation. Work [8] discusses the challenges associated with the regulation of cryptocurrencies, including issues of anonymity and money laundering. Regulation of CBDCs is also an important topic for research, as it must take into account the balance between innovation and consumer protection [9]. Digital currencies represent a promising area for further research. Existing works highlight their potential to change money circulation and the financial system as a whole, and also focus on the risks and challenges associated with their implementation. Future research should focus on developing effective strategies for the regulation and implementation of digital currencies to ensure their safe and sustainable use in the economy.

**Research methodology**

A set of economic research methods was used to analyze the data using a systems approach to studying the problem. The study used systems, chronological and competence approaches.

The methodological basis of the study is formal logic, methods of historical, statistical and comparative analysis, systematization, classification and expert assessment, grouping, comparative method and content analysis, methods of graphical interpretation and others.

**Analysis and results**

Digital currencies, including cryptocurrencies and central bank digital currencies (CBDCs), are becoming an increasingly important element of the modern financial system. Their impact on money circulation, financial stability and economic policy requires detailed analysis. In this section, we review the main results of research conducted in this area and discuss their implications.

One of the key results is the change in the dynamics of money circulation. Research shows that the introduction of digital currencies can increase the velocity of money, which in turn can contribute to

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economic growth. For example, the work of Catalini and Gans (2016) emphasizes that decentralized technologies can reduce transaction costs, making financial transactions more accessible and efficient.

However, on the other hand, the high volatility of cryptocurrencies can lead to uncertainty in money circulation. Research by Cheah and Fry (2015) indicates that the speculative characteristics of cryptocurrencies may limit their use as a medium of exchange and store of value.

Central bank digital currencies (CBDCs) represent an answer of traditional financial institutions to the challenges posed by cryptocurrencies. Research findings suggest that CBDCs can improve financial stability and increase the efficiency of payment systems (Mancini-Griffoli et al., 2018). For example, the introduction of CBDCs can reduce transaction costs and speed up their processing.

However, there is a risk that widespread adoption of CBDCs could lead to a run on deposits from commercial banks, which could negatively affect their liquidity and ability to lend to the economy. This creates a dilemma for central banks: how to balance the interests of financial stability and maintaining the traditional banking system.

Regulation of digital currencies is an important aspect of their integration into the financial system. Research by Zohar (2015) highlights the need to develop effective regulatory frameworks for cryptocurrencies in order to combat money laundering and protect consumers. At the same time, excessive regulation can stifle innovation and slow down technological development.

In the context of CBDCs, it is also important to ensure a balance between innovation and protecting the interests of users. Kahn et al. (2020) note that central banks should consider the potential risks associated with the implementation of digital currencies, including privacy and data security issues.

Despite significant progress in digital currency research, many open questions remain. For example, a deeper understanding of how digital currencies may affect monetary policy and financial stability in the long term is needed. It is also important to examine the social and economic implications of the widespread implementation of CBDCs in different countries.

Analysis of current research shows that digital currencies have the potential to significantly change money circulation and the financial system as a whole. However, their implementation is associated with a number of risks and challenges that require careful analysis and the development of appropriate regulatory measures. Future research should focus on creating sustainable models for integrating digital currencies into the economy that take into account the interests of all financial market participants.

Digital currencies can play an important role in increasing financial inclusion, especially in developing countries. Research shows that access to digital currencies can facilitate access to financial services for people who were previously excluded from the traditional banking system. For example, the use of mobile wallets and cryptocurrencies can help unbanked people make transactions and store funds (Narayanan et al., 2016).

However, there is a risk that a lack of digital literacy and access to technology could exacerbate inequality. Not all groups in the population can easily adapt to new technologies, which requires additional training and resource provision.

Digital currencies could also significantly disrupt the international remittance market. Traditional methods of transferring money often come with high fees and long processing times. Cryptocurrencies and CBDCs could significantly reduce the time and cost of such transactions (Peters & Panayi, 2016).

However, it should be noted that the introduction of digital currencies into international remittances could raise regulatory and tax issues. Countries may face difficulties in monitoring transactions and enforcing laws.

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As cryptocurrencies become more popular, questions about their environmental impact are growing. Mining some cryptocurrencies, such as Bitcoin, requires significant energy resources, raising concerns about sustainability (Krause & Tolaymat, 2018). This creates a need to develop more environmentally friendly technologies and approaches to mining.

In the context of CBDCs, it is also important to consider sustainability and environmental impact. Central banks may consider using green technologies to power their digital currencies.

User psychology plays an important role in the adoption of digital currencies. Research shows that risk perception, trust in technology, and level of understanding can significantly influence people's willingness to use digital currencies (Baur & Dimpfl, 2018). Understanding these factors can help develop strategies to increase the adoption and use of digital currencies.

Digital currencies are a complex and multifaceted phenomenon that requires a comprehensive analysis. Their impact on money circulation, financial stability, inclusion, and the environment highlights the need for further research and the development of effective regulatory measures. It is important to consider both the potential benefits and risks associated with the introduction of digital currencies in order to create a sustainable and inclusive financial system of the future.

One of the key issues surrounding digital currencies is the need for regulation. Different countries approach this issue differently: some actively develop legislation to support innovation, while others impose strict restrictions or even bans. Effective regulation can help prevent fraud, money laundering, and other illegal activities, but it is important not to stifle innovation.

Some countries, such as Singapore and Switzerland, have created a favorable environment for the crypto industry, attracting startups and investors. At the same time, China has introduced tough measures against cryptocurrency transactions.

Digital currencies are facilitating the emergence of new financial services and products. For example, decentralized finance (DeFi) offers an alternative to traditional financial institutions by allowing users to obtain loans, earn interest on their assets, and exchange currencies without intermediaries.

DeFi can reduce transaction costs and increase financial inclusion. However, DeFi also carries risks, such as vulnerabilities in smart contracts and a lack of consumer protection.

Digital currencies could change the way central banks approach monetary policy. For example, the introduction of CBDCs could give central banks more tools to control inflation and manage the money supply. It could also change the mechanisms for transmitting monetary policy, making them more effective.

Digital currencies can impact not only the economy, but also culture and social relations. For example, the use of cryptocurrencies can help create new communities and new norms of behavior around money.

Communities around cryptocurrencies often become a place for sharing knowledge and experiences, which can help develop digital literacy.

The future of digital currencies remains uncertain, and much will depend on how societies and governments adapt to these changes. There may be scenarios where digital currencies become the primary means of exchange, as well as scenarios where they coexist with traditional currencies. We may see the integration of digital currencies with traditional banking systems, allowing for hybrid models.

Digital currencies are an important element of the modern financial landscape. Their development requires careful analysis and a balanced approach to regulation in order to maximize their potential and minimize risks. These issues will continue to be discussed in the future as technology and social norms continue to evolve.

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**Conclusion and suggestions**

Digital currencies represent a significant step forward in the evolution of monetary systems and financial technologies. Their implementation changes traditional approaches to money circulation, opening up new opportunities for users and businesses. Digital currencies, including both cryptocurrencies and central bank digital currencies (CBDCs), can improve transaction efficiency, reduce costs and improve financial inclusion.

However, these benefits also come with risks, such as volatility, security and the need for regulation. Effective management of these risks requires cooperation between governments, financial institutions and technology companies.

In the future, digital currencies can change not only economic models but also social relations, creating new forms of interaction and exchange. However, to achieve sustainable and secure development of digital currencies, it is necessary to continue to study their impact on money circulation and adapt existing regulatory frameworks.

Thus, digital currencies open a new chapter in the history of finance, and their further development will be determined by both technological innovations and society's response to emerging challenges.

Digital currencies are a powerful tool that can change the financial landscape. Their development requires careful attention to regulation and security to ensure sustainable and safe growth. It is important to monitor trends and adapt to new conditions to make the most of the benefits they offer.

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