

**OPPORTUNITIES AND IMPORTANT DIRECTIONS FOR THE
DEVELOPMENT OF DIGITAL CURRENCY PRACTICES IN THE
FINANCIAL SYSTEM OF UZBEKISTAN**

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Abstract. *Currently, settlements with digital assets have a high level of risk, they are carried out outside any jurisdiction. This significantly limits their widespread use. However, the potential demand for these assets by business entities is closely related to the popularity of electronic money. On the one hand, electronic money, which is used as a non-cash means of payment in the process of transition from a traditional economy to a digital economy, is becoming an integral part of centralized systems.*

Keywords: *digital currency, national payment system, cryptocurrency, central bank digital currency (CBDC), financial innovations.*

In the process of transitioning from a traditional economy to a digital economy, electronic money, which is used as a non-cash means of payment, is becoming an integral part of centralized systems. Although their operating principle is similar to that of electronic banking systems, on the other hand, they have their own specific features.

The main advantages of electronic money are:

- High speed of calculations and the ability to instantly reflect transactions;
- Quick verification of the authenticity of financial products;
- Convenience and simplicity of billing processes;
- The absence of territorial and time restrictions on the movement of digital assets;

- Low commission fees and high level of transaction splitting;
- Available only in electronic form;
- Advanced data storage and transmission technology;
- Availability of the possibility of automating accounting and operations.

These features can expand the scope of application of digital assets and contribute to their further popularity in the future. Previously, like digital assets, electronic money served settlement operations that were outside the scope of legal regulation and statistical reporting. However, over time, their advantages were recognized by regulators, and electronic money became an integral part of the national payment system of Uzbekistan. Initially, these financial instruments were offered not by credit institutions, but by innovative financial technology companies.

With the adoption of legal norms, clear rules were established for operators of electronic money systems. According to them, the status of organizations that have the right to make money transfers without opening bank accounts and performing traditional banking operations was determined. At the same time, Uzbek banks were required to notify regulators about the start of activities in this area.

The digital currency system is one of the areas that requires constant attention in terms of cybersecurity and data protection. These systems can be exposed to various cyberattacks, and it is important to constantly strengthen protective measures in this regard.

The priority areas for the introduction of digital currencies in Uzbekistan are:

- **Improving the legal framework.** It is necessary to develop legislation related to digital currencies, make appropriate amendments and additions to existing documents. In this process, it is important to take into account international experience and national characteristics.

- **Development of technological infrastructure.**It is necessary to introduce modern digital payment systems, improve blockchain technology, and modernize telecommunications networks.
- **Increasing financial literacy.**It is necessary to inform the population and entrepreneurs about digital currencies, their advantages and risks, and develop special training programs.
- **Strengthening international cooperation.**It is important to study best practices, participate in international projects, and attract technical and expert assistance.

Advantages of digital currencies

Digital currencies can lead to the following positive outcomes:

1. Increasing the efficiency of payment systems and reducing costs.
2. Expanding access to financial services.
3. Encourage financial innovation.
4. Improving the money transfer system.
5. Accelerating the digital transformation of economic processes.

Risks associated with digital currencies

At the same time, it is important to consider a number of risks associated with digital currencies:

1. Possible impact on financial stability.
2. Cybersecurity issues.
3. Risks related to privacy and personal data protection.
4. Impact on the banking system.
5. The problem of technological dependence.

The role of the central bank and the step-by-step approach

The role of the central bank may also change significantly as digital

currencies are introduced. It will have to perform not only the tasks of conducting traditional monetary policy, but also the tasks of managing and supervising the digital currency system.

The most appropriate approach for Uzbekistan is a phased development strategy. At the initial stage, it is advisable to form a regulatory framework and implement pilot projects, and at subsequent stages, expand and improve the system.

In essence, the regulator equated electronic money with cash, but emphasized its prepaid nature and excluded it from insurance coverage. The scope of transactions concluded with electronic money is also limited:

- Operators are not entitled to allocate credit or pay interest on electronic account balances;
- The capabilities of anonymous electronic payment instruments are significantly limited;
- Starting from September 13, 2021, it is allowed to top up non-personalized electronic accounts only from a bank account, with the exception of cases provided for in certain legislative acts;
- Money transfers in favor of other individuals are limited;
- There is no possibility to cash out funds.

Today, there is not enough complete and accurate statistical information for free use in the electronic money market. For example, there is no approved register of officially operating electronic money systems in Uzbekistan, their rating is not maintained, and detailed information about bank payment agents and subagents is not provided. It is also difficult to determine from reliable sources which organization is an electronic money operator.

Also, the lack of points of sale that accept electronic money as a means of payment hinders their popularization and expansion of the customer base. Nevertheless, despite the obstacles to increasing customer trust and attracting new users, the volume of the electronic money market is growing year by year.

Settlements with crypto-assets have a high level of risk and are often carried out outside the framework of the country's legal regulation. This significantly limits their ability to gain official status. However, the demand for crypto-assets is directly related to their popularity. In the process of transition from a traditional economy to a digital economy, digital money, acting as a non-cash means of payment, has formed an important element of centralized systems.

The ability to verify the authenticity of financial products as quickly as possible and the principles of their operation are similar to digital banking systems, with their own unique features:

- Instantly reflect calculations in electronic accounts,
- Low commission fees and high divisibility,
- Ease of calculations, lack of time and space constraints,
- The development of data transmission and storage technology,
- Improvement of accounting operations and automated accounting system.

Considering that the emergence of payments via bank cards occurred after electronic money was given official status, it is highly likely that cryptocurrencies will develop in the same direction.

The following factors are influencing the popularization of electronic money in Uzbekistan:

- Further improvement of the national payment system,
- Reduction in cash flow,
- The development of virtual businesses and retail payment services,
- Innovation and advancement of technology,
- Increased confidence in cashless payments,
- Expanding Internet access,

- Increasing the speed and reliability of payment systems.

Like digital assets, electronic money previously served settlement operations that were outside of legal regulation and statistical reporting. Over time, their advantages were recognized by regulators, and electronic money became an integral part of the national payment system of Uzbekistan.

Initially, these financial products were offered not by credit institutions, but by financial technology companies. Later, clear rules were established for electronic money system operators on the basis of legislation. Accordingly, credit institutions began to form that had the right to carry out transactions without opening a bank account and were operating in this area on the territory of Uzbekistan. Although electronic money is officially equated to cash, the mechanism of their operation is based on replenishing the account by making a deposit in advance. At the same time, electronic money is not accepted as an object of insurance. The capabilities of anonymous electronic payment instruments are also significantly limited. Operators do not have the right to issue loans or pay interest on the balance of the electronic wallet. As of March 13, 2024, non-personalized electronic wallets can only be replenished by depositing funds through a cash desk with the opening of a bank account. With some exceptions specified in the legislation, however, transfers, withdrawals and use of funds in favor of other persons are limited.

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