

PROSPECTS FOR THE DEVELOPMENT OF THE CURRENCY CONTROL SYSTEM IN THE INTERNATIONAL DIGITAL ECONOMY MARKET

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Abstract. *The relevance of research topic lies in complexity of creating an interconnected, coordinated unified system of currency regulation and currency control due to complex nature of relations under consideration. Especially in the era of digital economy, a systematic approach to state regulation of currency relations in the field of import-export relations plays a significant role in connection with foreign investments. The experience of foreign countries in the field of currency regulation and control in the era of digital economy shows that development of foreign exchange relations and domestic foreign exchange market occurs only with participation of state as an active regulator and presence of effective control over the currency. The effectiveness of the system of currency regulation and foreign exchange control is one of the most important factors in ensuring the stability of national currency, the stability of financial and credit system and the financial market, the formation of investment environment in the country, as well as the development of international economic integration.*

Research method - during the study, general theoretical methods were used, such as analysis and synthesis, summarizing scientific literature, theoretical modeling, and comparison methods. This article discusses the advantages and economic benefits of export-import operations, taking into account exchange control in the international market of the digital economy. **The scientific results** obtained in solving this problem include the study of the conceptual foundations of foreign economic activity in the era of the digital economy, which is emerging both at the global level and in the national economy.

Keywords: currency control, currency regulation, balance of payments, digital economy, export-import operations, investments

JEL: G15, H25, H54, M31, O33, Q10, R10

UDC: 657.6:336.74

Introduction. In the context of large volumes of foreign trade activities of domestic enterprises, one of the main functions of the country in terms of ensuring economic security is to ensure security in the field of foreign exchange relations. At the same time, the key vector of protecting state interests in the field of foreign exchange relations remains foreign exchange control over residents' compliance with the law in the process of fulfilling obligations under foreign trade contracts.

The complexity of creating an interconnected, coordinated unified system of currency regulation and currency control is due to the complex nature of the relations under consideration. Especially in the era of the digital economy, the lack of a systematic approach to state regulation of currency relations in the sphere of import-export relations plays a significant role in the emergence of certain problematic situations related to foreign investment.

The experience of foreign countries in the field of currency regulation and control in the era of the digital economy shows that the development of currency relations and the domestic currency market occurs only with the participation of the state as an active regulator and the presence of effective control over the currency. actions of authorized bodies. The effectiveness of the currency regulation and currency control system is one of the most important factors in ensuring the stability of the national currency, the stability of the financial and credit system and the financial market, the formation of the investment environment in the country, as well as the development of international economic integration. In addition, in the modern era, when waves of global and regional financial crises are often repeated, the issue of improving control over important instruments of economic regulation, currency transactions, especially import-export transactions, digital currencies has become relevant. and improving its mechanisms. In such a situation, the relevance of research devoted to the problems of improving currency control over currency transactions increases significantly.

Literature review. The issues related to the definition and implementation of the digital money sphere are particularly relevant in the territory of Azerbaijan. The phenomenon of digital money has been on the agenda in countries around the world before, and despite the fact that it has become an important object of trade, in the last few years this issue has become relevant in Azerbaijan. Even central banks of many countries have begun to implement legislation related to the regulation of digital money. In Azerbaijan, digital money trading is still being discussed at the level of believe it or not. In such conditions, it is very important to conduct research on this topic. There are many studies on digital money in foreign literature. Li and Wang (2017) conducted a theoretical empirical study to determine the exchange rate (against the US dollar) of digital currencies, taking into account both technological and economic factors. Within the framework of the topic, research works of foreign and domestic scientists were systematically studied and a number of conceptual provisions contained in these works were used.

Research methodology. The purpose of the article is to develop proposals and recommendations for improving the system of currency regulation and

mechanisms for its implementation based on a comprehensive study of the theoretical and practical aspects of the formation and development of currency control in the context of the development of the digital economy. The theoretical and methodological basis is the fundamental and applied concepts of the research topic presented in the scientific works of scientists of the republic and the world, relevant decrees, resolutions and orders adopted by the President of the Republic of Azerbaijan and the Cabinet of Ministers, ministers in this area and other regulatory economic and legal acts. The article used such methods as synthesis, comparative analysis, statistical analysis and grouping, induction, deduction, system-situational approach, etc.

Main results. The direction and form of the currency policy implemented by the Central Bank depend on the domestic economic situation of Azerbaijan and its place in the world market. The Central Bank usually applies two main forms of monetary policy: accounting and exchange rate. Accounting policy is conducted not only to change the terms of refinancing of local commercial banks, but is also aimed at regulating the exchange rate and balance of payments. The Central Bank, when buying or selling foreign currencies (exchange rate), influences the change in the exchange rate of the national currency in a certain direction (exchange rate policy). Such operations are called "currency intervention". Receiving state currency at the expense of official gold and foreign exchange reserves, it increases demand, and ultimately the exchange rate. The intensive development of the banking system in the republic, and especially the introduction of progressive payment systems, the development of electronic interbank transactions, the increase in the use of plastic cards, the establishment of POS terminals played the role of an additional incentive to increase the ability of the banking system to create money. In the last decade, the world has been rapidly changing under the influence of digital technologies. Monetary relations were no exception. Units are one of the main economic categories, so the digital economy has a direct impact on them.

Technical changes are the reality of today. The most famous of them are: acceleration of financial transactions; availability of financial services for the general population through mobile and Internet technologies; emergence of non-bank payment systems.

We can expect further improvement of existing services and new ones on an ongoing basis. New services make financial more accessible; increase the number of subscribers and gradually form a new quality. Digital technologies also cause controversial phenomena, such as a reduction in employment in many sectors of the economy (including the financial sector), cryptocurrencies, vulnerability of payment systems and banking functions to cybercrime. Fundamental changes in the monetary system are manifested gradually, and their impact on economic processes requires detailed study. In the near future, the decisive issue of the theory of money will be determining the impact on monetary relations of those global changes that are now observed in the economy. These are changes caused by the formation of the economy of the new century - the digital economy. Firstly, this is the appearance of digital money. The vast majority of monetary theories proceed from

the fact that money is issued centrally, and its circulation is regulated by the state and central banks. In this regard, all digital currencies are fundamentally different from any fiat money. They have no external or internal administrator. This makes it impossible to influence the money circulation or confiscate it by tax authorities, judicial authorities, other government agencies and traditional banks. Digital currency makes it possible to form completely anonymous transactions. This is both an advantage and a disadvantage. Money owners always strive for greater confidentiality, but such confidentiality can be used both to evade taxes and to finance criminal activities, including terrorism. Cryptocurrencies are often called "quasi-money" due to their unusual format and limited functions.

In our opinion, the confrontation between fiat money and digital currencies has just begun. The currency system is a set of currency and credit relations that have developed on the basis of the internationalization of economic life and the development of the world market, reflected in international treaties and state and legal norms. This objective reality is understood and reflected in legal norms and international treaties. Thus, the currency system can be defined as a set of economic relations related to the activities of the currency and the forms of its organization. As the internationalization of economic relations increases, national, regional and global currency systems are formed. Initially, the national currency system was created. This is a form of organization of the country's currency relations, which has developed historically and is reflected in national legislation.

The national currency system is determined by the currency legislation of the country. But at the same time, the national currency system is relatively independent and goes beyond national boundaries. Its main features are determined by the level of development, the state of the country's economy and foreign economic relations. The national currency system is inextricably linked with the world currency system. Within the country, the national currency acts as the currency of that country. When, for various reasons (foreign trade, capital export, etc.), the national currency goes beyond the country, it acquires a new quality - it acts as a currency.

According to their status, currencies are divided into the following types: national (a monetary unit determined by the legislation of the country, legal tender in the territory of the country where it is issued); foreign (banknotes, coins and claims denominated in the currencies of other countries, having legal tender in the territory of other countries); international convention (ICC); regional (euro).

Foreign currency circulates on currency markets, is used in international settlements, is kept in bank accounts, but is not legal tender in the territory of the specified state (except for periods of strong inflation). The category "Currency" ensures interaction between the national and global economies. Countries keep their liquid assets in reserve currency and use these assets to cover the negative deficit of the balance of payments. Currently, the currencies of only a number of industrially developed countries have complete freedom of circulation; most other countries have some restrictive measures on foreign exchange transactions. According to the method of convertibility, that is, depending on how freely a

particular currency can be exchanged for the currencies of different countries, the following types of currencies are distinguished:

- 1) **Freely floating currencies (FFC).** These currencies have unlimited internal and external circulation and can be used to form foreign exchange reserves. According to the new version of the IMF Charter (1978), this concept was replaced by the concept of "freely usable currency". According to IMF recommendations, such currencies include the US dollar, euro, British pound sterling, Swiss franc and Japanese yen. In essence, freely floating currencies include the currencies of those countries that are mainly industrialized and do not have currency restrictions on current balance of payments transactions.
- 2) **Relatively convertible currencies.** These currencies are subject to currency restrictions and are not exchangeable for all foreign currencies.
- 3) **Closed (non-revolving) currencies.** These currencies are valid only within one country and are not exchanged for other currencies on the world currency market. The exchange rate is the price of a unit of currency of a certain country, expressed in a unit of currency of another country or in units of the currency of international settlements. The basis of the exchange rate (especially in the enhanced mode) is the exchange rate parity. One of the important issues of the functioning of the currency system is the exchange rate regime. There are two opposite exchange rate regimes, on the basis of which it is possible to form an exchange rate regime in different options: a fixed exchange rate regime and a floating exchange rate regime. In the fixed rate regime, the exchange rate of the national currency of the country is determined by law, and in general very minor deviations are allowed (within a certain corridor). The fixed exchange rate regime means maintaining an unchanged national currency of the country in relation to a freely floating foreign currency. That is, the peculiarity of the fixed exchange rate is that it remains stable for a long period of time (months or years). To maintain a stable exchange rate, the Central Bank balances supply and demand in the foreign exchange market through active purchase and sale operations. When using the "floating" rate regime, the exchange rate is formed on the basis of the influence of supply and demand on the currency and changes daily and frequently.

According to the calculation method, exchange rates are actual and parity (determined based on the PPP of the currencies of the compared countries). Parity exchange rates in practice often do not coincide with the actual calculation, and differ from it in one direction or another. Taking into account inflation, it is necessary to distinguish between nominal (NM) and real (RM) exchange rates. In addition, a distinction is made between the nominal effective exchange rate and the real effective exchange rate. The real effective exchange rate is the nominal exchange rate calculated taking into account price changes.

The foreign exchange market is a general term for the worldwide institutions that exist to exchange or trade currencies of different countries. It is conventionally divided into two levels: the retail level and the wholesale level. The retail level is where small agents buy and sell foreign exchange. The wholesale level is an informal, geographically dispersed network of about 2,000 banks and foreign

exchange brokerage firms that deal with each other and with large corporations. The foreign exchange market is open 24 hours a day across three time zones. Foreign exchange trading begins each day in Sydney and moves around the world as the business day begins in each financial center, first in Tokyo, London, and New York. Exchange rates are constantly displayed on computer screens around the world. A trader enters a price for the US dollar to Swiss franc exchange rate on his computer, and can then receive messages from anywhere in the world from people willing to match that price. He doesn't care whether the counterparties are sitting in London, Singapore, or, for that matter, Buenos Aires. The foreign exchange markets are the largest of all the financial markets in the world. A typical transaction in US dollars is about 10 million (a "ten bucks" in dealer jargon). The latest triennial survey by the Bank for International Settlements (BIS) in April 2022 estimated that average daily trading volume in the foreign exchange market — spot, forward and swap — was approaching \$7.5 trillion, up 13% from April 2019.

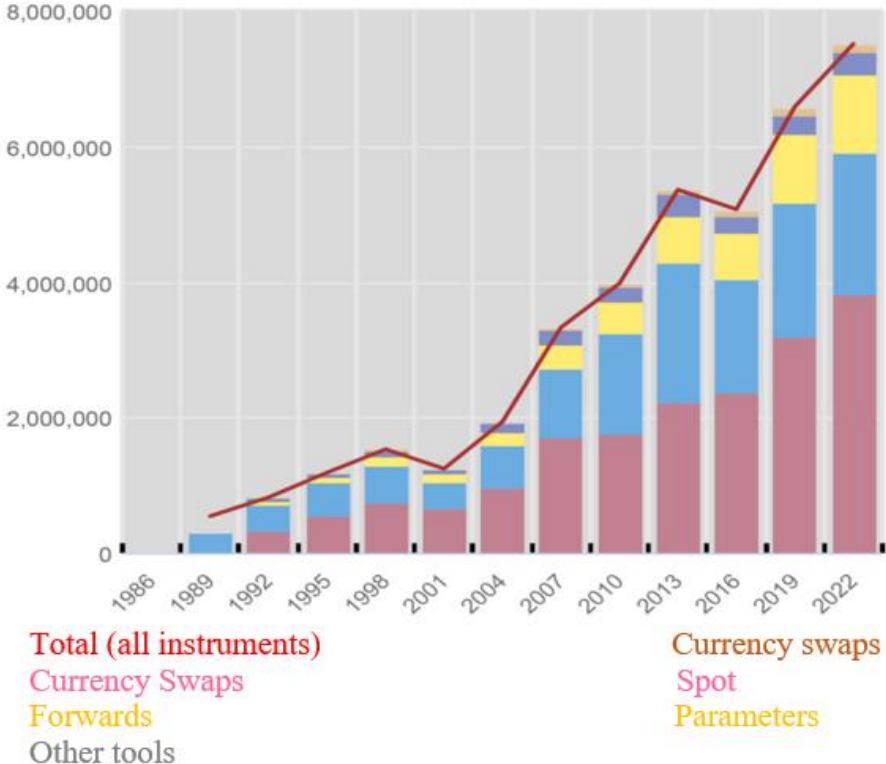


Figure 1. Foreign exchange market growth (1986-2022)

Source: <https://bcs-express.ru/>

In April 2022, the main markets were London with 38% of daily volume, New York (19%), Singapore (9%), Hong Kong (7%) and Tokyo (4%). Zurich, Frankfurt, Paris and Amsterdam are smaller players. The main currency traded was the US dollar, which accounted for 88% of transactions, followed by the euro (31%) and the yen (17%). USD/EUR was the most traded currency pair in 2019 and captured 23% of global turnover, followed by USD/JPY with 18% and

USD/GBP with 9%. In 2022, local currency trading in emerging markets accounted for about 18% of foreign exchange transactions.

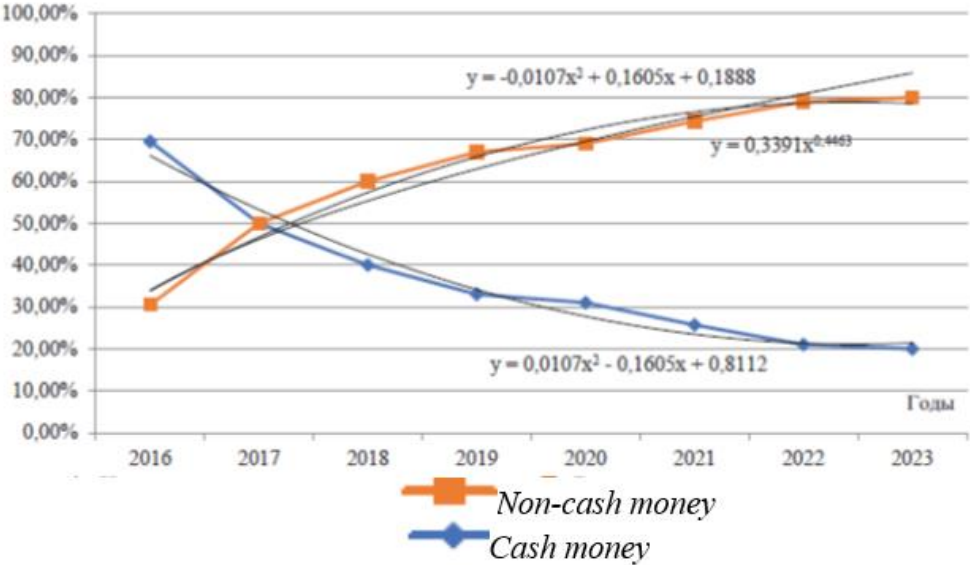


Figure 2. Dynamics of changes in the share of non-cash payments in the trade balance of Azerbaijan, in %

Source: Elaborated by the authors based on data from The State Statistical Committee of the Republic of Azerbaijan

It should be noted that as the share of non-cash money increases, the Bank's influence on the process of money creation and circulation decreases significantly. In this regard, the introduction of central bank digital currencies (CBDC), including the digital manat, increases the Bank's involvement in the process of money issuance and circulation. Since 2021, a requirement has been introduced for commercial banks to provide information to the Central Bank on transfers between individuals (Lagarde, 2017). Thus, the state is strengthening control over the financial system with the help of new technologies.

Given the international nature of the market, the majority (62%) of all foreign exchange transactions involve cross-border counterparties. This highlights one of the main issues in the foreign exchange market: counterparty risk. At the wholesale level, no real money changes hands. There are no messengers flying around the world with bags full of cash. All transactions are conducted electronically using an international clearing system. SWIFT (Society for Worldwide Interbank Financial Telecommunication) operates the primary clearing system for international transactions. SWIFT is headquartered in Brussels, Belgium. SWIFT has global routing computers located in Brussels, Amsterdam, and Culpeper, Virginia, USA. The electronic transfer system works very simply. Two banks involved in a foreign exchange transaction will simply transfer the bank deposits through SWIFT to settle the transaction. Players in the currency markets include speculators, corporations, commercial banks, currency brokers, and central banks. Corporations

enter the market primarily as hedgers; however, corporations can also speculate. Central banks are usually speculators, meaning they enter the market without closing their positions. Commercial banks and currency brokers primarily act as intermediaries, but at various times they may also be speculators, arbitrageurs, and hedgers. All parties in the currency market communicate through traders or dealers.

Commercial banks account for the largest share of total trading volume. In 2019, the BIS reported that more than 90% of all foreign exchange transactions were conducted either in the interbank market (39%) or with other financial institutions, including hedge funds, mutual funds, investment houses, and securities firms (53%). Only 9% of trades were between banks and non-financial clients, such as large corporations. The large volume of interbank trading is partly due to the geographically dispersed nature of the market and the price discovery process. The objectives of these national and international institutions are to support a crisis-free, safe regime for the development of international monetary, credit, and financial relations and to restructure it.

Discussion and conclusions. The digital economy affects all components of socio-economic life. Monetary relations are also changing rapidly due to the introduction of digital technologies. There are many reasons for these changes. They are different in different countries - they are influenced by both the internal environment of the country and the processes of globalization. The digital economy needs changes in the monetary system, and a person generates these changes himself.

In particular, as a result of the author's work, the following main results were obtained:

1. digital currencies of central banks are not an alternative to cryptocurrencies or non-cash money, the issue is carried out by central banks centrally;
2. the main difference between digital currency and cryptocurrency is the ability to perform all the functions of money;
3. digital currency (digital ruble) is a fiat currency determined and guaranteed by the state represented by the Central Bank;
4. the only property that unites digital currency and cryptocurrency is the use of distributed ledger technologies - blockchain networks;
5. the difference between CBDC and electronic money is in the mechanisms of movement and storage location.

Despite the lack of an established regulatory framework and potential difficulties in the process of building a CBDC system, it can be concluded that the socio-economic effect of using a digital currency can outweigh the risks associated with it, and this is obvious. Creating opportunities for developing cross-border trade with the SCO and Southeast Asian countries.

In the course of work, the main provisions on the need for the development and digital transformation of financial institutions through the issuance of a state digital currency of the central bank as a basis for stabilizing the national economy in the digital environment, as well as the processes of establishing digital customs in the context of the development of a "smart" economy.

Conclusions regarding state control over digital currencies: Digital currencies will be deeply integrated into the legal reality; requirements for investor qualifications, compliance requirements, taxation, combating money laundering, insider trading and market manipulation will be explained in detail; Judicial practice will continue to develop actively. Perhaps, as an experiment, the Central Bank will allow traditional financial institutions to use virtual currencies (at the moment, there is a positive international legal position on this issue, including recommended risk ratios).

Key findings from this study: Why are digital currencies becoming more popular? In the case of the traditional financial system, the system fails if the currency is manipulated. The money will have no real value and investors will not get a return on their investment, which is naturally demotivating. In times of constant inflation, cryptocurrency (such as Bitcoin) can be considered a hedge. In the pre-COVID scenario, high inflation affected the stability of fiat currency. After COVID-19, the adoption of blockchain technology has increased significantly. In a hyperinflationary state, people are looking for a larger safety net to protect the impact of wealth and purchasing power. Since March 2020, digital currency has grown eightfold. In 2020, the Covid-19 pandemic disrupted economies around the world, forcing them to impose strict lockdowns for a significant period of time. It also had devastating effects on the global economy, causing asset prices to fall significantly. Growing concerns have created an extreme environment for cryptocurrency adoption.

How are countries reacting to digital currencies? The overall reaction from central banks around the world is lukewarm. While some countries are very supportive of digital currencies, other central banks are cautious due to the extreme level of volatility. Capital controls and tax issues have raised concerns and responses. However, many major banks are looking forward to the development of CBDC to match the modernized financial system and speed up payments. At the recent Federal Open Market Committee meeting held on September 22, 2021, the Chairman said that the Fed is evaluating whether it should become part of the mainstream society and create a central bank digital currency (CBDC). In September 2021, the PBOC (People's Bank of China) declared all cryptocurrency-related transactions illegal. Therefore, financial institutions cannot deal with cryptocurrencies. It has taken an aggressive stance against cryptocurrencies. The ECB (European Central Bank) aims to complement the existing financial system with digital currency, not replace it. Next, the Italian payment giant is said to be making a contribution to the ECB for the expected CBDC. Thus, it has taken a defensive stance.

How can digital currencies benefit the economic world? No middleman is required to exchange digital currencies. This leads to increased transaction speeds. The absence of middlemen reduces transaction costs. Lower transaction costs mean exchange efficiency and increased transaction volumes. There is less need for a

physical structure where people will come and transact. Fixed costs are lower because there are no salaries, rent, or utility bills required. There are even traders without a minimum deposit criterion. Also, there are no geographical barriers for digital currencies. So, there is no centralized authority to control transactions. This facilitates easy and fast trading for corporations. One Bitcoin is selling for \$59,150 as of November 2021. Most people will not be able to buy even one Bitcoin! Therefore, you can buy fractions of the cryptocurrency, which further increases the volume and feasibility of transactions. Digital currencies can become common currencies between economies, facilitating the expansion of trade.

Digital Currencies for Global Financial Inclusion:

1. Especially in developing countries, digital currencies help to buy resources and provide financial services due to their quick access. This thus accelerates the economic and social development of the global economy.
2. The system is decentralized, i.e., it is not under the control of a single person or body. Therefore, neither corporations nor individuals can exploit it, unlike the traditional financial system. This, in turn, reduces the likelihood of fraud.
3. Digital currencies are very useful for developing economies as they can enhance their economic and social status.

The digital economy has already changed and continues to change all spheres of socio-economic life. However, it is almost impossible to predict further developments due to the multifactorial nature, lack of systematicity of changes and their non-linearity. But today, having access to large volumes of information, it is possible to assess the opportunities and risks of the digital economy, including in the sphere of monetary relations.

The Central Bank conducts analyses in the following areas in relation to the Digital Currencies of the Central Bank:

- Indication of the policy, goal and objectives of the application of the digital currency;
- Involvement of stakeholders in the process;
- Analysis of the legislative framework;
- Potential for using new generation technologies;
- Level of market readiness.

A framework for cooperation with other central banks and international think tanks was also created to study the possibilities and prerequisites for the application of central bank digital currencies. A special working group was created in the Central Bank to effectively coordinate research work related to central bank digital currencies.

The digital payment infrastructure has been developed in Azerbaijan, the range and range of electronic payment services provided by banks has been expanded. On the other hand, the coronavirus pandemic and self-isolation measures have increased interest in remote banking services and e-commerce, which has led to a significant increase in digital payments.

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