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Legal Framework for Cryptocurrency in Pakistan: Economic Potential vs. Regulatory Challenges

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Abstract

The transmogrification of cryptocurrencies has impacted global financial systems in the past two decades. It has created vast economic opportunities, and it also comes with vast regulatory complexities. Currently, cryptocurrency remains a subject of debate in Pakistan because there are no standard laws governing its use, which could provide robust support for its role as an economic enabler. In this regard, this paper first discusses the legal framework encompassing cryptocurrency in Pakistan. The primary goal of this research is to examine the potential of cryptocurrencies to grow and develop the Pakistani economy through the areas of financial inclusion, foreign investment attraction, and the development of a digital economy. The paper also addresses key challenges surrounding cryptocurrency in Pakistan, including the high probability of money laundering, terrorist financing, tax evasion, and the unpredictability of the price of cryptocurrencies; cross-border challenges, including the enforcement of rules in different jurisdictions, and the possibility of illicit activities performed through cryptocurrency. A doctrinal methodology was employed within this research. It involved analysing statutory materials, including statutes, journals, policy documents, and international best practice, to identify if integration of cryptocurrencies into the formal financial system of Pakistan could be feasible. Lastly, the paper suggests some recommendations that aim at enhancing the future of cryptocurrency and protecting the

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emerging digital economy from cyber threats.

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Introduction

Digital decentralised currencies known as cryptocurrencies now transform worldwide financial practices since they work autonomously from conventional banking institutions. The origin of cryptocurrency can be traced back to the 20th century, when attempts were first made to develop digital cash systems. Meanwhile, in the 1990s, an American cryptographer, David Chaum, launched his company DigiCash and introduced a digital money known as "eCash." Companies such as Microsoft were interested in eCash, but by 1998, DigiCash had run out of money. The eCash project, however, encouraged more advancements in the blockchain field (World, 2023). This paved the way for the success of cryptocurrency. Following this, the rise of cryptocurrency started in 2009 when Bitcoin was first launched. Bitcoin established a new era of financial transactions by offering a peer-to-peer electronic cash system that allowed decentralised transactions free from intermediary involvement. The cryptocurrency market exhibited rapid expansion between 2010 and 2021, until its maximum market capitalisation reached $2 trillion (Tambe & Jain, 2023). By January 2025, the cryptocurrency market is expected to reach a market capitalisation of $3 trillion (Binance News, 2025). Several important elements have caused the rapid market expansion. Through decentralisation, transactions became self-governing, thus financial independence from central institutions like financial institutions and governments became possible. The combination of security and transparency has advanced because blockchain technology delivers permanent transaction histories, which decrease fraud and strengthen trust.

Moreover, financial inclusion reached a notable improvement because blockchain technology provided banking infrastructure to unbanked global markets, especially developing economies worldwide. Trading, combined with investment, has fueled greater cryptocurrency acceptance since investors from retail and institutional backgrounds are drawn to the prospect of huge returns (Hodula, 2025). The advantages of cryptocurrencies have led to new regulatory obstacles that threaten their operational stability. The potential for businesses to engage in money laundering, terrorist financing, fraud, and tax evasion concerns governments and financial regulators.

Policymakers throughout the world work towards creating legal structures that protect innovation, together with security risk management techniques to ensure cryptocurrencies bring value without their safety risks.

Cryptocurrency makes a powerful impact that exceeds its financial role as it pushes governments to redefine economic regulations throughout various regions worldwide. El Salvador became one of the first nations to accept Bitcoin as an official legal tender because it seeks to improve financial access and attract new investments (Beyer, 2024). Meanwhile, financial stability and capital outflows compelled the Chinese government to maintain an absolute prohibition against cryptocurrency trading activities (Library of Congress, 2021). The European Union, along with the United States, chose to regulate digital assets by implementing structured frameworks known as the Markets in Crypto-Assets (MiCA) Regulation and the Biden Administration's Executive Order on Digital Assets (Krause, 2025). This shows that cryptocurrency regulation is making strides worldwide.

In terms of economics, cryptocurrency systems have both advantages and disadvantages. Central banks lose authority over monetary policies because cryptocurrencies operate independently from their management, which threatens conventional financial stability. However, the capability of cryptocurrencies to let people do transactions across borders enables remittance payments to occur with smaller fees, thus benefiting emerging economic regions. This is one of the major prospects of cryptocurrency for developing countries like Pakistan. Most governing bodies experience difficulties with taxation enforcement because cryptocurrencies operate as decentralised financial systems that remain anonymous to tax regulators. For this purpose, the worldwide patterns emphasise the necessity to establish formal regulatory standards for cryptocurrency, as they allow for maximum benefit while reducing potential risks.

Pakistan has not established clear regulatory standards for cryptocurrency operations. In 2018, the State Bank of Pakistan (SBP) issued a blanket ban on all cryptocurrency transactions by financial institutions (State Bank of Pakistan, 2018). However, this has not stopped the adoption of cryptocurrency in Pakistan, especially by young investors and freelancers. According to Chainalysis' 2024 Global Crypto Adoption Index data, Pakistan is ranked 9th worldwide, which shows high levels of crypto adoption in Pakistan (Chainalysis, 2024). The growing interest in cryptocurrency by Pakistani freelancers stems from their need to accept cryptocurrency payments because international payment gateways like PayPal remain out of reach. Additionally, citizens turn to cryptocurrency to protect against the devaluation of the Pakistani Rupee because of high inflation rates and currency depreciation (Fakunle, 2025). Due to the lack of appropriate legislation being developed and passed in Pakistan, there have been many serious security issues and problems related to the use of cryptocurrencies. As an example, Pakistan has a significant risk related to money laundering and terrorist financing because it must comply with all recommendations made by the FATF to effectively monitor financial transaction flows (FATF, 2022). Likewise, the lack of regulatory mechanisms in place has caused some of the Pakistani investors in the space to become victims of Ponzi schemes and fraud due to the lack of legislative oversight on how to regulate cryptocurrency (Hassan, 2022). Additionally, the FBR does not have clear guidelines regarding the taxation of cryptocurrency, which also creates barriers towards incorporating digital currency into the economic environment of Pakistan.

Although there are several obstacles facing the incorporation of cryptocurrency into the formal economy of Pakistan, the federal government has announced its intention to create regulatory frameworks for the same. In order to achieve this goal, the Federal Government of Pakistan established the Pakistan Crypto Council (The Express Tribune, 2025) as part of this effort. The PCC will serve as a bridge between crypto professionals and blockchain supporters. They will work together to foster and implement a consistent regulatory framework for cryptocurrency.

In this regard, this paper answers the following research questions:

(1) What is the current regulatory framework for regulating cryptocurrency in Pakistan?

(2) What steps need to be taken to ensure the compliance of the Pakistani crypto regulatory framework with global regulatory standards?

(3) How can cryptocurrencies help Pakistan's economy by fostering financial inclusion, attracting foreign investment, and creating a digital economy?

(4) What are the primary legal obstacles preventing Pakistan from adopting cryptocurrencies?

(5) Which policy and legislative recommendations could promote innovation and minimise financial risks in Pakistan?

To answer these questions, this study uses the doctrinal methodology. The primary sources are the rules, directives and statements issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP). The sources provide the limitations of digital currencies in the country, which form the quintessence of this analysis. The secondary sources involve the works of scholars, strategic analysis, monetary analysis and media coverage. It also incorporates international guidelines and recommendations of organisations such as the Financial Action Task Force (FATF), International Monetary Fund (IMF), Bank of International Settlements (BIS) and the World Economic Forum (WEF).

Literature Review

El Hajj and Farran (2024) also concentrate on the contribution that cryptocurrencies make to financial access and fiscal empowerment in developing countries. Their study has shown that well-constructed policies are important towards enhancing socioeconomic development, particularly in nations with poor financial infrastructure, such as Pakistan.

FATF (2019) uses a risk-based strategy to regulate virtual assets and intermediaries. It gives instructions on how to verify customers and prevent fraud. Through this guideline, the FATF aims to discourage illegal practices like the hiding of finances and financing of extremism and advancing technology. Such guidelines are indispensable in emerging markets, which give the cryptocurrency market a lot of much-needed guidance.

Blandin et al (2019) give a comprehensive review of cryptocurrency regulations in the world. They based their study on the research performed by the Cambridge Centre of Alternative Finance. Their findings show the diverse approaches employed by different nations to regulate the cryptocurrency market. A unique regulatory structure is required in different nations because the management and classification of crypto assets differ. Pakistan's need for an evolving regulatory structure depends on its ability to understand the cryptocurrency trends prevailing globally. Their approach prompts policymakers to derive knowledge from international financial models to develop security-focused economic development systems.

Neti (2022) explores the practical impacts of Bitcoin implementation in developing countries. The author reveals how decentralised currencies destabilise standard financial models in regions with irregular traditional banking infrastructure. The author also explains how cryptocurrencies help financial inclusion, but it also emphasises the importance of adequate regulatory measures to prevent financial instability and fraud. Digital currencies could serve as economic protection methods for Pakistan under controlled regulation since the nation deals with both inflation-related challenges and currency value declines.

The World Economic Forum (2023) offers a global perspective through its report on pathways to the regulation of crypto-assets. The document presents unified crypto regulation concepts based on international jurisdictions' lessons, which developing countries can use as regulatory models. The report advocates both international teamwork and standardised regulatory requirements. This worldwide perspective recommends that Pakistan should link its national policies to international frameworks to achieve international credibility and foster borderless dealmaking.

The Legal Status of Cryptocurrency in Pakistan

In June 2019, the FATF updated its Recommendations and defined the term Virtual Assets as follows: *"A virtual asset is a digital representation of value that can be digitally traded or transferred and can be used for payment or investment purposes. Virtual assets do not include digital representations of fiat currencies, securities, and other financial assets that are already covered elsewhere in the FATF Recommendations"* (FATF, 2019). The regulatory view of cryptocurrency in Pakistan continues to evolve because of financial bodies, including the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP). No formal laws govern crypto transactions in Pakistan. Yet financial entities shape digital asset norms with the help of rules and advisories (State Bank of Pakistan, 2025). The existing legal framework splits into two: the State Bank of Pakistan's restrictive policies (State Bank of Pakistan, 2018) and the regulatory actions of the Securities and Exchange Commission of Pakistan (Securities and Exchange Commission of Pakistan, 2020).

The State Bank of Pakistan and Cryptocurrency

As the monetary regulator, the SBP continues to express its negative stance on crypto trading, which is based on the risks to financial stability, the risks of illicit finance, and the risks to consumers. The negative stance by the SBP discourages banks and people from participating in crypto trading (State Bank of Pakistan, 2018).

A comprehensive ban on crypto trading was introduced through the SBP's Circular Number 03/2018, issued in April 2018, which banned all financial institutions from participating in crypto trading. Under this circular, the SBP outlined a complete ban against it because these digital currencies lacked any legal status or authority from the government. The SBP categorically stated that *"Virtual Currencies (VCs) like Bitcoin, Litecoin, Pakcoin, OneCoin, DasCoin, Pay Diamond, etc., or Initial Coin Offerings (ICO) tokens are not legal tender, issued or guaranteed by the Government of Pakistan. SBP has not authorised or licensed any* *individual or entity for the issuance, sale, purchase, exchange, or investment in any such Virtual Currencies/Coins/Tokens in Pakistan*" (State Bank of Pakistan, 2018). Moreover, the SBP also prohibited all Pakistani financial institutions from handling cryptocurrency transactions or maintaining crypto accounts, as well as stopped them from facilitating any form of crypto trading. The government of Pakistan did not impose penalties on those who used cryptocurrencies, yet warned users that these transactions are not protected by the laws of Pakistan. Hence, they cannot get legal protection in case of fraud or losses.

In January 2022, the SBP and the Ministry of Information Technology and Telecommunications submitted a proposal to ban cryptocurrencies formally throughout Pakistan. The Sindh High Court received a proposal from the State Bank of Pakistan about cryptocurrency risks, which included capital flight alongside tax evasion and financial regulation avoidance (Mahmood, 2024). The State Bank of Pakistan maintained that digital currencies pose risks regarding money laundering and terrorist financing, which makes it hard for regulatory bodies to detect illegal financial flows. Following this recommendation, the Sindh High Court ordered the government to establish a regulatory framework for cryptocurrency, but the government has yet to pass legislation for an all-out ban (The Express Tribune 2021), so legal status remains unclear.

The SECP and Cryptocurrency

The SECP does not follow a restrictive approach to regulating cryptocurrency, like the SBP. The SECP has chosen to analyse the possibility of establishing regulatory standards for digital assets instead of completely banning them. The SECP presented its position paper about digital asset trading platform regulation in November 2020 (Securities and Exchange Commission of Pakistan, 2020). In the position paper, the SECP discussed the potential categorisation of digital assets into security tokens, utility tokens, and commodity-backed tokens. The SECP established the need for a risk-based regulatory system that enables digital assets to enter Pakistan's financial framework with proper supervisory control.

The position paper evaluated worldwide regulatory models, particularly the European Union’s Markets in Crypto-Assets (MiCA) rule, alongside the U.S. Securities and Exchange Commission’s (SEC) crypto asset regulations, to help Pakistan develop a regulated system. The SECP also highlighted cryptocurrency risks such as market fluctuations, investor fraud, and cyber safety threats. However, it is recommended to implement regulatory controls to manage these threats and allow Pakistan to derive advantages from financial developments. Due to SBP’s restrictive approach and concerns raised by financial oversight agencies, no regulatory framework has been implemented so far.

Pakistan Crypto Council

Despite regulatory ambiguities, the Federal Government has taken a thought-provoking initiative by establishing the Pakistan Crypto Council (PCC). Meanwhile, the PCC, a state-supported initiative, aims to oversee, advance, and weave blockchain and crypto innovations into Pakistan’s fiscal and economic fabric (Sherani, 2025). The PCC is led by Finance Minister Muhammad Aurangzeb. Entrepreneur Bilal Bin Saqib now serves as his top advisor (Dawn, 2025). It also includes the Governor of the State Bank of Pakistan, the Chairman of the SECP, and the federal law and IT secretaries. This unique regulatory oversight, financial stability, and technological advancement are dedicated to diversifying the leadership spectrum so that regulatory oversight, financial stability, legal frameworks, and technological advancement can augment the country's crypto ecosystem (The Express Tribune, 2025). The PCC aims to develop policies, promote innovation, and make crypto adoption in Pakistan safe. It also aims to encourage responsible innovation by engaging closely with key industry players, including fintech startups, investors, and blockchain developers. The council intends to develop clear regulatory guidelines for crypto adoption, set it up with crypto and blockchain organisations around the world, or at least in key jurisdictions, and engage with international crypto and blockchain organisations that have laid down best practices or standards to be strictly adhered to in such a rapidly evolving and innovative sector (Hussain, 2025).

From the above analysis, it is evident that there is a contradiction among the regulatory bodies for the regulation of cryptocurrency, and this is due to the lack of formal legislation regarding cryptocurrency. The SBP has been otherwise very careful, warning about the threats posed by virtual currencies and not encouraging financial institutions to engage in cryptocurrency transactions. However, in comparison, the SECP has shown openness by rolling out consultation papers to contemplate potential regulatory methods for digital assets. Such divergence in views has resulted in a fragmented regulatory set-up. For instance, in December 2020, the Khyber Pakhtunkhwa provincial government passed a resolution for legalising cryptocurrency and mining, even though it is not in accordance with the SBP's stricter view (Khyber Pakhtunkhwa Provincial Assembly, 2020). Such contradictions lead to confusion among market participants and stop the formation of a single national policy regarding cryptocurrencies. Furthermore, the Federal Board of Revenue (FBR) has not put actionable tax policies in place to resolve crypto earnings; hence, people and businesses do not know their tax obligations.

Similarly, the Prevention of Electronic Crimes Act (PECA) 2016, which is in force, governs digital fraud and cybercrimes, but does not explicitly mention cryptocurrency, leaving it unclear how such acts can be pursued if they relate to cryptocurrency scams.

Why Do These Gaps Exist?

While the world is moving toward crypto adoption, Pakistan is continuing to grow on the crypto curve. There are several reasons for this delay.

Lack of Legislative Priority

One of the regulatory priorities that has not been legislatively addressed is cryptocurrencies. As a result, parliamentary and regulatory organisations have shifted their focus to macroeconomic stability, debt management, and traditional banking sector reforms. In contrast to nations such as South Korea and Canada, which have adopted legislative acts to include digital assets in their financial systems, Pakistani authorities have yet to improve their legislative efforts to implement crypto legislation.

Regulatory Hesitation Due to Financial Risks

One reason authorities have been cautious about approving cryptocurrency legislation is the perceived risk of financial instability. The SBP has expressed concern about capital flight, illicit financial transactions, and speculative trading, all of which have the potential to undermine exchange rate stability (Tax Net, 2022). However, there is no regulation, and the prospect of crypto operations going underground only provides a shroud of trusted secrecy to those responsible for them, making supervision more difficult.

International Compliance Pressures (FATF and IMF Conditions)

International institutions such as the Financial Action Task Force (FATF) and the International Monetary Fund (IMF) heavily regulate Pakistan's financial legislation. The two major organisations emphasise the stringent anti-money laundering (AML) and counter-terrorism financing (CTF) requirements that have prompted Pakistani regulators to be wary about legalising cryptocurrency without compliance. However, Singapore and the UAE have demonstrated that governments can establish a truly efficient AML / CTF framework that still enables authorised cryptocurrency markets (MAS, 2023).

Absence of a Dedicated Regulatory Body for Digital Assets

Although the SECP has expressed an interest in digital asset regulation, there is presently no single regulatory entity in Pakistan that is responsible for overseeing cryptocurrency. The SECP is in charge of financial markets, while the Federal Board of Revenue (FBR) is in charge of taxation, but neither of them is particularly tasked with regulating cryptocurrency. The gap has resulted in inconsistent policies and regulatory stagnation.

Regulatory initiatives are indeed important, but to analyse cryptocurrency's full potential in the financial sphere of Pakistan, it is important to consider the underlying economic implications of cryptocurrency and the difficulties that regulators need to resolve to ensure financial stability. Despite the absence of a legal framework, cryptocurrency in Pakistan holds a bright future once regulated. Hence, the focus of the paper now shifts towards the economic implications of cryptocurrency to analyse the economic potential cryptocurrency holds for Pakistan. The section also focuses on the economic risks associated with the regulation of cryptocurrency in Pakistan.

Economic Implications of Cryptocurrency Regulation in Pakistan

The fiscal consequences of cryptocurrency laws are challenging in developing nations like Pakistan. The proper development of a regulatory framework has various advantages, including increased financial inclusion, foreign investment acquisition, and digital economic progress. On the other end of the spectrum, an uncontrolled market not only has vulnerabilities such as market instability, monetary policy risk, and the expansion of money laundering, but it also serves as a platform for money laundering. The following are the positive implications of cryptocurrency in Pakistan:

Financial Inclusion

In Pakistan, there is a large unbanked population who do not have access to traditional financial services. Being decentralised, cryptocurrency provides an alternative means for financial inclusion. An individual can participate in financial inclusion processes without relying on conventional banking infrastructure. Digital wallets and blockchain technology can help with the execution of safe and low-cost transactions, which are frequently used by marginalised people to jumpstart the economy. For instance, the introduction of the Chivo digital wallet in El Salvador by its government aimed at achieving financial inclusion by enabling users to undertake transactions in cryptocurrency through a user-friendly platform (Neti, 2022). Pakistan can also make such arrangements and promote financial inclusion on a large scale.

Foreign Investments

Pakistan can become an attractive destination for foreign investment and fintech innovation with a clean and supportive regulatory environment for cryptocurrencies. The country can become more certain about crypto legal matters and bring in international crypto exchanges, blockchain start-ups, and venture capital, which contribute to the development of a thriving ecosystem in the field of technological advancement. An influx of this amount of investment may result in the creation of jobs, knowledge transfer, and integration into the digital global economy. Given that cryptocurrencies have become more accepted by these countries, international investors have turned their attention to other countries offering stable and predictable markets. If digital assets are accepted as a legitimate asset class among regular financial markets, they will be able to capture institutional investors, and consequently, the overall market diversification can be enhanced (Catalini & Wu, 2023). In the United States and Canada, regulatory transparency has been a key factor enabling various crypto ETFs (exchange-traded funds) to be launched; thus, retail and institutional investors have a way to participate in the crypto economy securely. Such initiatives can also be taken by Pakistan to enlarge its investment landscape.

Growing Digital Economy

The regulation of cryptocurrencies can inspire the growth of Pakistan’s digital economy by endorsing the technology used in blockchain. Blockchain technologies are used in supply chain management, secure voting systems, and transparent public records. They are popularly used to facilitate digital currencies. The adoption of a regulatory framework that allows innovation, while ensuring major stakeholders such as consumers are protected, may promote progress on several fronts: on efficiency, transparency, and more generally, society. Furthermore, the integration of cryptocurrencies in the existing digital payment ecosystem will most certainly lower transaction costs and likewise shorten the period to complete cross-border remittances, and this is good for private and corporate purposes (El Hajj & Farran, 2024). The Bank for International Settlements (BIS), in a report, urged that digital currencies, upon sound integration into the economy, can enhance the efficiency of digital payments and support the transition towards a cashless economy (Bank for International Settlements, 2022). UAE and Singapore have continually joined blockchain-based payment solutions and are direct contributors to the improvement of transactional productivity and the promotion of economic growth. If Pakistan frames unambiguous laws, it can use the same benefits and ensure consumer protection.

Start-ups using Digital Ledger

Cryptocurrencies have a major role to play in the development of start-ups that are working on blockchain technology. Pakistan has a good tech talent pool, so legal clarity around the usage of cryptocurrency will provide a nurturing environment for budding entrepreneurs to build blockchain applications in smart contracts, supply chain management, and decentralised finance (DeFi). Dubai's pro-crypto regulations have made it a global blockchain hub, attracting a bunch of startups and foreign investments. Singapore's Monetary Authority (MAS) has also supported blockchain in many ways. It has also developed a framework under its "Project Guardian" for comprehending the design alternatives to enable the trade of digital assets across networks and liquidity pools (Monetary Authority of Singapore, 2023). Such initiatives can also be taken by Pakistan to enlarge its investment landscape.

Cybersecurity and Transparency in Digital Transactions

The technology behind cryptocurrencies, such as Blockchain, provides higher security, transparency, and immutability in the transaction records. Thus, by establishing a regulatory crypto environment, Pakistan can leverage the security of blockchain in fighting financial fraud, corruption, and cybercrime. In a report, the World Economic Forum indicated that blockchain-based financial systems can minimise fraud risks as the digital ledger of transactions cannot be compromised (World Economic Forum, 2023). A regulatory framework that encourages integration of blockchain in the country's financial services can help Pakistan to fortify its cybersecurity and mitigate risks from financial misconduct.

Risks of an Unregulated Cryptocurrency Market

While cryptocurrency offers many economic benefits, its unregulated nature in Pakistan brings difficulties and risks. Although there have been strides in legalising cryptocurrency in Pakistan, as the newly appointed CEO of Pakistan Crypto Council (PCC) highlighted, Pakistan is working on a legal framework to legalise cryptocurrency trading to attract international investment. He quoted that *"Pakistan is done sitting on the sidelines; we want regulatory clarity and a legal framework that is pro-business"* (Bloomberg, 2025). This journey is not easy, and it comes with its risks. The following are the key risks related to Pakistan's unregulated crypto market.

Market Volatility & Investor Risks

The price of cryptocurrency in any market is prone to massive fluctuation. This usually happens due to speculative trading and technological progression, or other news. In unregulated markets, investors are at risk of losing a substantial amount of money due to the lack of investor protections, taking into account schemes of fraud and sudden market crashes. Losing savings is particularly difficult for retail investors who are not tech-savvy and do not have the skills to assess risks. In like manner, one of the many concerns, though, remains the impact of crypto markets on the monetary policies of the nation and financial stability, as they are very unpredictable and not very secure.

Threats to Monetary Policy

Cryptocurrencies, being decentralised, do not come under the control of central banks. Hence, it is not possible for them to implement monetary policies. In a situation like the one in Pakistan, where inflation and devaluation of currency are already major problems to control, cryptocurrencies will only add to the instability of the financial market. The growing trend of people taking up cryptocurrencies for their transactions and savings, on the other hand, could render traditional measures like increasing interest rates and money supply controls ineffective. Besides the issues related to monetary policy, cryptocurrencies are already a means of financing illicit activities since they lack proper regulatory supervision, and users can remain pseudonymous.

Illicit Financial Activities

In particular, the unregulated cryptocurrency markets are highly risky given that they give rise to issues like tax evasion, fraud, and, more devastatingly, financial crimes like money laundering and terrorist financing. The anonymity associated with digital assets helps individuals and legal entities evade conditions of financial reporting, which makes it difficult for the authorities to keep track of illegal activities. The loopholes in these laws have been exploited by criminals to acquire money from countries with weak anti-money laundering (AML) measures (Schwarz et al., 2021). Fraud and illegal practices are prevalent in such countries. These dangers explain why there is a need to have a clear regulatory framework that will go a long way in ensuring a balance in terms of innovation and financial security, as well as economic stability.

Key Regulatory Challenges in Pakistan

Based on the contemporary regulation system of cryptocurrency in Pakistan, there exist several obstacles for policymakers to attain financial stability, legality, and consumer safeguards. If we keep in mind the current international trends of establishing a balanced regulatory framework in cryptocurrencies, Pakistan appears to have a divided and, most importantly, an incomplete regulatory framework. This leads to several legal grey areas, intricacies in compliance and financial risks. In this specific section, this paper will address some of the regulatory issues that Pakistan is experiencing that can be seen as financial crime risk, legal inconsistencies, cybersecurity risks, taxation issues, economic risks, and political instability.

Money Laundering and Terrorist Financing Risks

From a practical standpoint, one of the most pressing issues with cryptocurrency legislation in Pakistan is the risk of money laundering and terrorist financing. The fact that cryptocurrencies are decentralised and anonymous by pseudonym opens the door to a slew of criminal financial activity for those attempting to avoid authorities. Without effective control measures, bad actors can more easily use digital assets for nefarious purposes (United Nations Office on Drugs and Crime, 2023). In Pakistan, there is a huge gap in anti-money laundering regulations concerning cryptocurrency, which causes financial loss to consumers.

Gaps in Anti-Money Laundering frameworks

Pakistan's attempts to tighten its anti-money laundering (AML) framework are admirable, as it has taken major leaps in boosting the same over the last decade or so, given the pressure from the FATF. Financial crimes are legally prosecuted under the Anti-Money Laundering Act of 2010 (AMLA), which has undergone significant revisions after its first introduction. Traditional financial institutions lack power over bitcoin transactions since they operate outside their monitoring scope, making it impossible to discover or report questionable activity (International Monetary Fund, 2023). The Financial Monitoring Unit (FMU), as the entity in charge of detecting money laundering cases, is facing difficulty in efficiently tracking cryptocurrency operations due to insufficient monitoring resources and experience (Atlantic Council, 2021). Because conventional banking transactions lack such criteria, regulators find it difficult to supervise digital asset transfers through decentralised exchanges (DEXs) and peer-to-peer (P2P) networks.

Compliance with the Financial Action Task Force's (FATF) recommendations

As a member state, Pakistan must observe FATF regulations and implement stringent AML and Know Your Customer (KYC) guidelines for cryptocurrency exchanges in accordance with the FATF standards. Pakistan has improved its AML compliance as per the FATF standards, although it still requires official digital asset regulation. The FATF Travel Rule mandates virtual asset service providers (VASPs) to collect client information when making transactions. Moreover, they are obligated to disclose such information to the appropriate authority (FATF, 2019). However, due to the lack of explicit regulations in Pakistan, most cryptocurrency users use foreign exchange platforms to make use of unregulated crypto services. Hence, the lack of proper cryptocurrency laws in Pakistan prevents the country from tracking financial crimes carried out using digital assets.

International legal challenges

Due to the pseudonymous nature of cryptocurrencies, they are not tied to national boundaries. This makes it strenuous for state authorities to successfully implement cross-border enforcement. Although Pakistan is still a developing country, it strives to preserve the security and transparency of financial activity and align local laws with international standards. It is important to note that several developed countries have different policies in place when it comes to enforcing cryptocurrency regulations. The use of Bitcoin is still entirely banned in China, even though the United States and the European Union have established extensive legal frameworks. The UAE implemented friendly cryptocurrency policies in order to attract foreign investment. The regulatory position of the State Bank of Pakistan (SBP) on the financial institutions dealing with cryptocurrency operations since 2018 has been an issue of uncertainty (Freeman Law, 2023). All of this makes the regulation of cryptocurrencies extremely uncertain and onerous.

Enforcement Difficulties in International Transactions

Although the SECP takes a different position compared to the policy of the State Bank of Pakistan (SBP), the SECP still considers several possible regulatory frameworks of digital assets. The financial regulators in Pakistan do not work in synergy, and this presents confusion to the investors and companies that are keen on investing in cryptocurrency-related activities. Since blockchain networks operate as completely decentralised systems, Pakistani law enforcement agencies are unable to access transactions made through them. Law enforcement agencies have a daunting task trying to hunt down criminals and trace illegal money in an attempt to probe criminal activities arising from financial fraud. This is further compounded by the lack of legal cooperation agreements between Pakistan and foreign partners. The foreign platforms, such as Binance and Coinbase, are finding it difficult to impose high standards of security and compliance among Pakistani users since they are not under the supervision of Pakistani local regulators. As a result of the absence of any explicit agreements with foreign regulatory authorities, over the past decades, Pakistan could hardly hold individuals accountable when it comes to international bitcoin transactions.

Absence of a consistent worldwide framework

The major problem that leads to the regulatory issues of cryptocurrencies is the absence of a clear international legal framework. The World Economic Forum and the International Monetary Fund demanded harmonised legislation, but regulatory bodies' implementation is still dispersed. Regulatory uncertainty in the cryptocurrency sector in Pakistan is associated with the global differences in cryptocurrency laws. The lack of common laws that regulate cryptocurrency activities makes it hard to develop laws that meet the national financial stability criteria and, at the same time, maintain international industry standards. Due to the regulatory vagueness, Pakistani investors are not willing to venture into this market, as this stifles the development of the digital economy in this country.

Concerns Regarding Cybersecurity and Consumer Protection

New security threats and issues regarding consumer protection emerged as cryptocurrencies were becoming popular. There is a need to have a strong regulatory presence that would protect both consumers and investors against cybersecurity risks such as hacking and online fraud.

Danger of Hacking and Digital Fraud

The Bitcoin environment is seriously threatened by cyberattacks. Billions of dollars have been lost by digital wallet users and Bitcoin exchange operators as a result of hacking (Elliptic, 2025). Due to its inadequate infrastructure, Pakistan's cybersecurity vulnerability exposes the nation to such damaging cyberattacks. Investors in cryptocurrencies in Pakistan are frequently the target of fraudulent cryptocurrency schemes that deceive them with promises of profitable investments, leading to unsuccessful investments. As

Pakistan lacks sufficient crypto regulations, victims of cryptocurrency fraud have no legal recourse. Even though regular financial markets have sufficient monitoring systems, Pakistan's cryptocurrency market is unable to address investor protection issues due to the absence of a specialised regulatory body like the SECP.

Legal Liability in Case of Financial Losses

Cryptocurrency transactions provide no banking protection, which sets them apart from traditional banking due to the lack of commercial bank insurance (Kruppa, 2022). Due to a lack of legal recourse, investors cannot recover lost funds resulting from cryptocurrency hacks, exchange failures, or misplaced keys. Investors in Pakistan have significant financial risks because there are no explicit laws on investor protection. The current situation means that crypto users have to develop their protective strategies since no regulatory protection exists, and they are susceptible to more malicious cyberattacks (Blandin et al., 2019). A regulatory body should introduce cryptocurrency transaction compensation plans or insurance policies as a way of improving market confidence.

Ensuring Consumer Rights in Digital Asset Transactions

In the case of cryptocurrency users, the protection encompasses elements more than financial security. Users should be safeguarded against not only shady business activities but also deceptive advertisements, as well as fake crypto offers. Pakistan Competition Commission (CCP) performs market regulation over the conventional financial framework in the country; nevertheless, no comparable institutions exist to control digital resources. Crypto-related disputes are not addressed properly by Pakistan, making it harder to protect consumers. To gain trust among the cryptocurrency market in Pakistan, it is necessary to establish a law that demands transparent disclosures and fair terms in the contract, and reliable conflict resolution mechanisms.

Unclear taxation policies

Pakistani regulators are concerned about the proper taxation of bitcoin transactions. In the absence of appropriate rules, the Pakistani government reduces the possible tax revenue, and the cryptocurrency community experiences uncertainty because of revenue matters. The Federal Board of Revenue (FBR) and other tax authorities in Pakistan are still developing taxation guidelines on cryptocurrency. The existing regulatory stance on cryptocurrency transactions allows users to experience tax-free transactions as no capital gains tax or any other tax is levied on them. A lack of clarity regarding the taxation of cryptocurrency transactions weakens taxpayer compliance, which leads to a tax evasion environment. In short, the cryptocurrency regulation in Pakistan is subject to a number of operational problems. New rules are, therefore, necessary since money laundering, conflicting laws, and cybersecurity issues create an urgent need to create a systematic legal structure. The establishment of clear regulatory frameworks will help Pakistan to establish a new balance to deal with financial and security challenges. Thus, in the final section, the paper has proposed some of the key reforms by conducting a comparative analysis with its neighbour country, India, which can be considered to guarantee a bright future of cryptocurrency in Pakistan.

Recommendations and Policy Proposals

In order for the country to have legal control over businesses, investors, and financial institutions, it needs to make a complete cryptocurrency law. The law should include definitions of digital assets, categories of cryptocurrencies (such as usable tokens, secure tokens, and stablecoins), and rules for crypto companies that follow the law. The Indian government has put forward the Cryptocurrency and Regulation of Official Digital Currency Bill to keep an eye on private cryptocurrencies while looking into the possibility of using a central bank digital currency. Pakistan should implement similar regulatory measures to combat financial crime and promote innovation.

Regulatory oversight should arrange the integration of cryptocurrency enterprises into financial institutions in order to manage operations and ensure stability. The proposed solution involves subjecting crypto exchanges to regulation by both the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). The Indian government requires all virtual asset service providers (VASPs) operators in the country to enrol with the Financial Intelligence Unit FIU and follow AML standards. The RBI Report 2023 discloses that Indian authorities are aiming to incorporate UPI into their digital currency framework (Reserve Bank of India, 2023). To combat illegal financial market operations, the Pakistani government should issue licenses to crypto firms and link them to the country's banking system.

Pakistan needs to make its enforcement and compliance procedures stronger to get rid of the risks of money laundering and funding terrorism. The country needs to better control cryptocurrency transactions by following the rules set by the Financial Action Task Force (FATF) for strong KYC and AML capabilities. India's Finance Act 2022 added Section 115BBH to the Income Tax Act. This section taxes income from the sale of virtual digital assets at a flat rate of 30%. Section 194S, on the other hand, requires 1% TDS on transfer consideration to make sure that transactions can be tracked and taxes are paid (Ministry of Finance, 2022). To curb cryptocurrency dealings and prevent illegal activity, Pakistan should establish a tax system like other nations. The IMF, the World Bank and other international regulatory bodies can assist Pakistan in formulating better policies by providing it with technical assistance.

The increase in cryptocurrency fraud and cybercrime makes it necessary for Pakistan to enact strong laws in order to protect people and businesses online. Chainalysis says that scammers used impersonation, social engineering, and AI to trick more people, which led to the loss of almost $17 billion in cryptocurrency in 2025. Likewise, scams that used AI made 450% more money than regular scams, and impersonation scams alone saw a 1,400% year-over-year increase (Chainalysis, 2026). According to the Indian regulatory code, cryptocurrency firms are required to implement multi-factor authentication in structured risk assessment methodologies to safeguard the assets of the user. The Pakistani government must enact laws to ensure the exchanges maintain insurance reserves, utilise sophisticated fraud prevention systems, and perform security checks regularly to protect the assets of consumers. With a clear regulatory framework in place, the compliance process will be streamlined, regulatory confusion will be eradicated, and there will be more confidence for the investor. India has given authority to multiple agencies, like its central bank, the Reserve Bank of India (RBI), as well as the Securities and Exchange Board of India (SEBI), to regulate different parts of the crypto legislation (Reuters, 2024). A similar structure can be created by Pakistan if the SECP manages securities-related digital assets, the SBP manages financial stability, and the FBR regulates taxation. Cooperation with international regulators would also be easier because a centralised regulatory authority would mean that Pakistan's crypto policies would come in line with global standards. Additionally, jurisdictions could have mechanisms ensuring good oversight to resolve jurisdictional disputes and promote cross-border financial crime investigations. Furthermore, governments could adopt procedures for assuring appropriate oversight in order to settle jurisdictional conflicts and boost cross-border financial crime investigations.

Pakistan's goal in developing a central bank digital currency (CBDC) is to increase financial inclusion and reduce dependency on volatile private cryptocurrencies (Raza & Siddiqui, 2025). As previously indicated, a CBDC might result in a government- backed digital currency that ensures transactional transparency, increases monetary policy efficiency, and eliminates the need for cash-based transactions. Fairly, countries such as India and China have taken the lead in this area, introducing the digital rupee experiment in 2022 (Press Information Bureau, Government of India, 2022). Pakistan, for example, may create a digital rupee on its blockchain, increasing transaction transparency, lowering remittance costs, and providing greater control over monetary policy. A CBDC could also be an effective instrument for bringing Pakistan's large unbanked population into the official financial system and providing them with access to safe digital financial services.

The main problem with Bitcoin adoption is that neither the general public nor institutional investors are aware of what is going on. Because there is so much business, many people in Pakistan are practising cryptocurrency trading, but they are unaware of the hazards involved, and they are easily duped into fraud and speculative losses. Indian regulators such as SEBI and RBI have also begun educating people about the dangers of investing in cryptocurrencies (IMPRI, 2024). Digital campaigns and collaboration with schools and universities may help Pakistan foster a financial literacy culture. It also encompasses state-sponsored training of regulators, police, and financial experts in order to get acquainted with blockchain technology and deal with digital assets. When the citizens and regulators of Pakistan are more aware of bitcoin, they will be able to contribute to a safer and more accountable economy.

Conclusion

The use of cryptocurrency in Pakistan has both challenges and opportunities, as on one hand, there is financial development of the country, and on the other hand, there are discrepancies in the regulations. The paper has examined how Pakistan, along with other developing economies, is not only facing the increasing role of digital assets but also of digital currencies in general. The worldwide surge of crypto acceptance, including the notion of Central Bank Digital Currencies by more than 130 countries and the trillions of dollars' worth of digital finance flows, has pushed Pakistan to take robust measures to join the digital financial revolution. The absence of a solid legal framework is the main cause of any attempt at progress being stalled. To operate in the market of cryptocurrencies, the lack of regulation or the regulatory gap leads everyone involved to operate with uncertainty, thereby deterring institutional investment and making users very vulnerable to the risks that are not controlled.

The contradictory crypto policies maintained by the SECP and the SBP, as well as other regulatory bodies, caused major problems in the regulatory system. Therefore, it is the lack of clear regulations that is the main reason for the failure of the establishment of official crypto businesses and fintech innovation. The Indian government has progressed toward separate yet stringent cryptocurrency laws, thereby positioning itself as Asia's top crypto surveillance regulator.

The cryptocurrency market in Pakistan is extremely risky because of the absence of governmental regulations and the harsh economic situation. The intended cryptocurrencies are associated with enormous risks that might render the functioning of the monetary policy difficult, the flow of capital challenging, and harm the national consumer rights. Pakistan has just come off the FATF grey list, so financial activities that are not carried through official channels are still big problems in Pakistan and around the world. The establishment of robust AML and CTF compliance and the enhancement of international regulatory collaboration are not only necessary as per the law to Pakistan but also would assist the nation in maintaining a positive image globally. Whatever the advantages may be, the issues related to the use of these strategies should be considered quite carefully. Cryptocurrencies based on blockchain technologies will allow individuals without bank accounts access to money and become part of the formal economy.

This will also help Pakistan to attract international investments in financial technologies that are required to expand the digital economy. Pakistan must pass a crypto law, set up a cryptocurrency regulatory authority overseeing the PCC, and put in place safety measures in order to make its way in the crypto world. Moreover, the introduction of a formal banking system, tax liability procedures and CBDC review processes can contribute to the increased visibility of a digital economic transformation. Managing technology is only one part of Pakistan’s modern financial future. Hence, to survive in this modern world, all the stakeholders in Pakistan's economy must devise a new strategy to ensure that the digital economy expands. The tasks that are forthcoming will be difficult, but they will be rewarded in the long term.

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