

Cryptocurrency Volatility and Its Impact on National Currency Stability: A Secondary Analysis of Macroeconomic Evidence.

ABSTRACT

Cryptocurrencies have emerged as a significant component of the global financial system, offering new opportunities for digital transactions and financial innovation while raising concerns about their high price volatility and its implications for national economies. This study examines the impact of cryptocurrency volatility on national currency stability through a secondary analysis of existing macroeconomic literature. A systematic literature review was conducted using peer-reviewed journals, institutional reports, and credible academic sources to evaluate the relationship between cryptocurrency volatility and key macroeconomic indicators, including exchange rates, inflation, monetary policy, financial stability, and economic growth. The findings indicate that the macroeconomic effects of cryptocurrency volatility vary across countries depending on financial development, institutional quality, and regulatory frameworks. While cryptocurrencies promote financial innovation and cross-border transactions, they also pose challenges for monetary authorities and policymakers. The study concludes that the impact of cryptocurrency volatility is context-dependent and highlights the need for further empirical research, particularly in developing economies and emerging digital asset markets.

Keywords: Cryptocurrency, Bitcoin, Volatility, National Currency Stability, Macroeconomics, Financial Stability.

Chapter 1: INTRODUCTION

1.1 Background of the Study

Cryptocurrencies have emerged as one of the most significant financial innovations of the twenty-first century, transforming the way individuals perceive and exchange value in the digital age. The foundation of this transformation was laid with Bitcoin, designed as "a purely peer-to-peer version of electronic cash" that would allow online payments to be sent directly between parties without a financial institution (Nakamoto S., 2008). Since its introduction, the cryptocurrency ecosystem has expanded considerably with Ethereum's smart contract functionality and numerous alternative cryptocurrencies, evolving from a niche technological experiment into a globally recognized asset class.

Cryptocurrencies are characterized by exceptionally high price volatility compared to traditional financial assets, driven by speculative trading, market sentiment, regulatory developments, and the young nature of these markets. Bitcoin's price volatility is almost ten times higher than that of major exchange rates (Baur D. & Dimpfl T., 2021). This has attracted both investors seeking high returns and researchers studying the broader economic implications of cryptocurrency markets.

The growing influence of cryptocurrencies is increasingly extending into national economies. Bitcoin trading tends to increase when domestic currency values become unstable (Di Casola P. et al., 2025), suggesting cryptocurrencies play a larger role during periods of economic uncertainty. Market capitalization has grown rapidly amid large bouts of volatility, almost tripling in 2021 to an all-time high of \$2.5 trillion (IMF, 2021), underscoring the increasing integration of cryptocurrencies into the global financial system.

1.2 Problem Statement

Researchers continue to disagree on the overall economic role of cryptocurrencies. Some evidence suggests Bitcoin appreciates in response to inflation shocks, supporting its claimed inflation-hedging property, while other findings suggest Bitcoin behaves nothing like gold in response to economic shocks, rejecting the "safe haven" narrative (Choi S. & Shin J., 2022). These contrasting interpretations illustrate the lack of consensus in the literature.

The broader macroeconomic consequences of cryptocurrency adoption also remain uncertain. Widespread substitution of central bank currency for cryptocurrencies would effectively create parallel currencies, creating risks to monetary policy effectiveness, financial stability, and growth (Claeys G., Demertzis M. & Efstathiou K., 2018). For cryptocurrencies to replace official currencies, they would need to overcome a triple challenge: acting as an instrument that affects the economy, responding to liquidity crises as a lender of last resort, and establishing accountability to society the last of which is structurally difficult given their automatic, privately-issued nature (Claeys G. et al., 2018).

Government and regulatory responses also vary widely across jurisdictions. Because the extent of crypto-asset use differs by country, financial stability risks could escalate rapidly, underscoring the need for timely, preemptive policy evaluation and cross-border cooperation (Financial Stability Board, 2022). Crypto-asset activity is a global phenomenon but remains modest relative to GDP for most countries, and is higher in countries with greater ICT adoption and reliance on remittances, while remaining relatively limited in lower- and middle-income countries (Feyen E. et al., 2022). These differences reinforce the need for further research into cryptocurrencies' impact on national currency stability.

1.3 Research Objectives

This study synthesizes existing macroeconomic literature on cryptocurrency volatility and national currency stability, examining the associated risks and benefits particularly exchange

rate fluctuations, inflation, monetary policy effectiveness, financial stability, and cryptocurrencies' role as alternative financial assets. It further compares how these effects differ across developed and developing economies to identify similarities, differences, and broader patterns.

1.4 Research Question

How does existing macroeconomic literature explain the impact of cryptocurrency volatility on national currency stability across different economic contexts?

1.5 Scope of the Study

The study focuses on the volatility of Bitcoin, Ethereum, and Cardano among the most widely studied and influential digital assets and their effects on macroeconomic indicators including inflation, GDP, exchange rates, interest rates, monetary policy effectiveness, financial stability, and capital flows. It adopts a global perspective, comparing evidence from developed and developing economies, and is based exclusively on existing academic literature, institutional reports, and published empirical studies rather than primary data collection.

CHAPTER 2: LITERATURE REVIEW

Conrad et al. (2018) find that long-term Bitcoin volatility is significantly influenced by U.S. stock market volatility, volatility risk premiums, and global economic activity, indicating close links between Bitcoin and broader financial conditions.

Almeida et al. (2022), reviewing cryptocurrency volatility research from 2009–2021, found that advanced models, particularly Markov-switching and hybrid machine learning

approaches are most effective for forecasting volatility and managing risk, and that leverage effects and persistent volatility improve predictability.

Panigrahi (2023) concludes that increased cryptocurrency investment significantly reduces India's financial stability, while its impact on economic growth is relatively limited, emphasizing that financial stability is essential for sustainable growth.

Sukomardojo et al. (2023) find that cryptocurrencies can significantly influence macroeconomic stability, including inflation and exchange rates, with effects that can be positive or negative depending on adoption, volatility, and regulation.

Buthelezi (2024) finds that U.S. monetary policy shocks, particularly interest rate increases, reduce both cryptocurrency prices and volatility, as tighter policy raises the opportunity cost of holding crypto relative to interest-bearing assets.

Guo et al. (2024) find that Bitcoin weakens the dominance of traditional fiat currencies by responding to monetary policy divergence and exchange rate fluctuations, and recommend that central banks develop digital currencies and strengthen international regulatory cooperation.

Rasheed et al. (2025) examine debates on whether cryptocurrencies meaningfully affect national exchange rates or whether their influence is overstated.

Chapter 3: RESEARCH METHODOLOGY

3.1 Research Design

This study adopts a systematic literature review, a method for synthesising scientific evidence transparently and reproducibly while appraising the quality of included evidence (Lame, G., 2019). Unlike primary research, it identifies, evaluates, and integrates findings from

previously published studies an approach well suited to a topic examined from multiple economic, financial, and policy perspectives, where synthesizing evidence from diverse sources helps identify recurring themes, disagreements, and gaps.

A systematic review differs from a narrative review, which offers general, qualitative background but does not follow a reproducible methodology or answer specific quantitative questions. A systematic review, by contrast, is "a well-planned review to answer specific research questions using a systematic and explicit methodology to identify, select, and critically evaluate results of the studies included" (ET Rother, 2007), making it more appropriate for this research.

3.2 Source Selection Criteria

The study primarily relies on peer-reviewed literature from reputable publishers (SAGE, MDPI, Springer, Elsevier, Taylor & Francis, Wiley), supplemented by theses, working papers, and institutional reports from organizations such as the IMF, BIS, FSB, World Bank, and central banks, which provide insight into contemporary policy debates. Blogs, opinion pieces, social media, and other non-scholarly sources were excluded for lacking academic rigor and empirical validation.

3.3 Inclusion & Exclusion Criteria

Included literature examined the relationship between cryptocurrencies and macroeconomic variables inflation, exchange rates, interest rates, GDP, monetary policy, financial stability, and currency dynamics with emphasis on Bitcoin, Ethereum, and Cardano, and studies offering cross-country comparisons or policy discussion. Excluded were studies focused purely on blockchain technicalities, cryptographic protocols, or software/mining engineering, as these fall outside the macroeconomic scope. The review primarily covers literature

published after 2015, reflecting the modern era of cryptocurrency markets shaped by Ethereum's emergence, institutional participation, and wider adoption.

3.4 Data Extraction Approach

Selected literature was organized into thematic categories volatility, macroeconomic impacts, exchange rate dynamics, inflation and monetary policy, financial stability, regulatory challenges, and CBDCs. For each study, objectives, methodology, data sources, geographical focus, and key findings were recorded, with particular attention to how volatility was linked to macroeconomic variables. Findings were then compared to identify patterns, agreements, and contradictions, forming the basis for the critical synthesis in later chapters.

3.5 Analytical Framework

The analysis combined thematic, comparative, and critical-synthesis approaches. Thematically, studies were grouped by topic to enable structured comparison. Comparatively, findings were examined across developed and developing economies and varying levels of adoption, financial development, and regulatory oversight to understand how outcomes differ by jurisdiction. Critically, rather than simply summarizing sources, the study evaluated and interpreted conflicting conclusions particularly regarding inflation hedging, financial stability, exchange rate movements, and monetary policy effectiveness to build a more comprehensive understanding of the field and highlight areas needing further research.

Chapter 4: EVOLUTION OF THE CRYPTOCURRENCY ECONOMY

4.1 Growth and Adoption Trends

Crypto-asset adoption in emerging market economies has risen steadily, offering some users an alternative to limited investment and savings instruments and, for others, a perceived

haven against volatile domestic currencies (BIS, 2024). As cryptocurrency exchanges expanded access to digital asset markets, market capitalization grew significantly amid large bouts of volatility, almost tripling in 2021 to an all-time high of \$2.5 trillion (IMF, 2021).

Institutional and traditional financial-sector interest has grown alongside this expansion. Digital assets including crypto-assets, stablecoins, and DeFi have increased exponentially, with rising institutional investment and product supply transforming the business models and risk profiles of traditional finance (OECD, 2022). This growing institutional involvement has strengthened legitimacy and global influence for the asset class.

4.2 Role in Financial Systems

Although Bitcoin was introduced as a peer-to-peer alternative to institution-based payments (Nakamoto S., 2008), its role has evolved beyond this original payment function toward investment. Analysis of Bitcoin transaction data shows that Bitcoin is used mainly as a speculative investment rather than as an everyday medium of exchange (Baur, Hong & Lee, 2018), with prices largely driven by investor sentiment and trading activity rather than commercial use.

Despite this speculative predominance, cryptocurrencies remain important for cross-border transactions and remittances, particularly where formal banking access is limited. Crypto activity tends to be higher in countries with greater ICT adoption and reliance on remittances (Feyen et al., 2022), and cryptocurrencies have gained relevance in parts of the informal economy as an alternative to restricted conventional banking infrastructure.

4.3 Market Characteristics

Cryptocurrencies operate through decentralized, peer-to-peer blockchain networks without a central authority managing the money supply or clearing transactions (Nakamoto S., 2008;

European Central Bank, 2012). This borderless, decentralized structure makes cryptocurrencies inherently difficult to regulate directly, contributing to both their adoption and the challenges they pose for governments.

Cryptocurrency markets also combine high volatility almost ten times that of major exchange rates (Baur & Dimpfl, 2021) with a fragmented global regulatory environment, since cross-border crypto-asset activity raises significant regulatory, supervisory, and enforcement challenges (Financial Stability Board, 2022). Unlike traditional exchanges, cryptocurrency markets trade continuously, 24/7 (Bozzetto, 2023), increasing liquidity and accessibility but also meaning significant price movements can occur at any hour.

Chapter 5: THEORETICAL FOUNDATIONS OF CRYPTO VOLATILITY

5.1 Chaos Theory

Chaos Theory studies complex nonlinear systems whose behaviour is highly sensitive to initial conditions, the "butterfly effect" making long-term prediction difficult despite underlying deterministic patterns. This is relevant to cryptocurrency markets because of their decentralization, rapid information flow, and sensitivity to sentiment: small events such as regulatory announcements or social media activity can trigger disproportionately large price movements. Empirical studies have found nonlinear, chaotic dynamics in major cryptocurrencies, suggesting prices evolve in complex, difficult-to-predict ways rather than purely at random.

5.2 Fractal Market Hypothesis

The Fractal Market Hypothesis (FMH), developed as an alternative to the Efficient Market Hypothesis, views financial markets as complex systems whose price movements display self-similar patterns across different time horizons under magnification, patterns repeat in

ways qualitatively similar to the overall structure (Anderson, N. & Noss, J., 2013). FMH assumes markets consist of heterogeneous investors distinguished mainly by investment horizon (Kristoufek, L., 2012); market stability depends on the interaction of these groups and available liquidity. When one group dominates activity or liquidity concentrates narrowly, markets become more susceptible to prolonged volatility a dynamic especially visible in cryptocurrency markets, where speculative trading and rapidly shifting investor behaviour drive recurring cycles of turbulence.

5.3 Adaptive Market Hypothesis

The Adaptive Market Hypothesis (AMH), proposed by Andrew W. Lo (2004), builds on the Efficient Market Hypothesis's idea that prices incorporate information rationally, but argues that market efficiency is dynamic rather than constant: investors continuously learn, adapt strategies, and respond to changing conditions, so efficiency evolves as competition, innovation, and regulation reshape markets. This is particularly relevant to cryptocurrency markets, which remain in an early stage of financial evolution marked by rapid innovation, shifting regulation, and changing sentiment. Empirical studies show cryptocurrency market efficiency changes over time, with periods of inefficiency creating both abnormal-return opportunities and higher volatility making AMH a fitting framework for their dynamic behaviour.

5.4 Complexity Theory

Complexity Theory treats cryptocurrency markets as complex adaptive systems in which numerous participants, technologies, and external forces interact continuously, rather than moving toward equilibrium. Research shows digital asset markets exhibit varying degrees of disorder, with price behaviour ranging from near-random to more structured. Because prices are shaped by sentiment, media attention, regulation, innovation, and macroeconomic

conditions interacting nonlinearly, small events can trigger outsized reactions; global financial stress and investor sentiment are among the most important drivers of volatility, reflecting cryptocurrencies' growing integration with the global financial system and the resulting difficulty of prediction.

Chapter 6: DRIVERS OF CRYPTOCURRENCY VOLATILITY

6.1 Market-Based Drivers

Cointegration testing shows that Bitcoin's price and Google search interest move together, with rising global interest in Bitcoin typically preceding price increases (Johansen, 1988). Liquidity also plays a crucial role: markets with lower liquidity are more susceptible to large price swings, since relatively small trades can significantly move prices.

Historical financial bubbles, the 1840s railroad bubble, the 1920s stock boom, the dot-com bubble, and the 2008 financial crisis have often involved misinformation, false accounting, manipulation, and fraud (Griffin & Shams, 2020). Given cryptocurrency markets' relatively limited regulation and transparency, similar risks may contribute to excessive volatility and price distortion.

6.2 Behavioural Drivers

Fear and greed are primary psychological drivers of cryptocurrency prices; extreme fear and extreme greed regimes show significantly higher spreads than neutral periods an "extremity premium" (Farzulla, 2026). Investors also exhibit intentional herd behaviour, following others' transactions rather than independent analysis (Aydin et al., 2021). Cryptocurrency markets frequently overreact to news, with Bitcoin found to react positively to both favourable and unfavourable news during speculative bubble periods.

6.3 External Drivers

Cryptocurrency values often respond aggressively to major policy changes (Ni et al., 2020), and Bitcoin's market became more volatile immediately after the introduction of Bitcoin futures (Kim W. et al., 2019), showing that major macro-financial announcements and regulatory shifts can sharply increase volatility.

Social media and influential public figures are also powerful drivers of price movements: news shared on platforms like X, Reddit, and YouTube spreads rapidly, and influencer endorsements have on several occasions triggered substantial buying or selling activity, amplifying market reactions and speculative trading.

6.4 Comparative Insights

Cryptocurrencies show significantly higher exchange rate volatility than fiat currencies (Sterniński R., 2018), since crypto values are driven mainly by demand, sentiment, and speculation, while fiat currency supply is regulated by central banks through monetary policy and FX intervention. Cryptocurrency markets also react almost immediately to new information because of continuous trading, whereas fiat currencies are moderated by institutional mechanisms and policy decisions that help contain excessive volatility, a stabilizing capacity that decentralized cryptocurrencies largely lack.

Chapter 7: MACROECONOMIC LINKAGES

7.1 Exchange Rate Dynamics

Cryptocurrencies may serve as a better store of value than domestic currency in countries with high inflation and depreciating exchange rates, prompting a shift from local currency to crypto as domestic currency weakens (Di Casola, P. et al., 2025). Capital may also flee

toward digital assets during political or economic instability, pressuring exchange rates by increasing local currency supply in FX markets and reducing confidence in domestic institutions; this risk is particularly acute in emerging market and developing economies with low financial development and unstable fiat currencies (Di Casola et al., 2025), where currency-specific shocks are associated with higher cryptocurrency trading volumes.

7.2 Inflation and Monetary Policy

Many investors viewed Bitcoin as an inflation hedge during the COVID-19 pandemic, when unprecedented monetary stimulus and rising inflation drove interest in assets seen as capable of preserving purchasing power, given Bitcoin's decentralization and limited supply (Choi, S. & Shin, J., 2022). Although opinions on its effectiveness as a hedge remain divided, this perception has significantly influenced adoption and investment decisions.

Widespread cryptocurrency use can also weaken a central bank's control over money supply. Because cryptocurrencies are created and exchanged through decentralized networks outside direct monetary authority, greater reliance on them could reduce central banks' influence over monetary conditions and complicate efforts to maintain price stability.

7.3 GDP and Economic Growth

Adoption of digital assets and blockchain applications could yield significant potential gains (Budish E. & Sunderam A., 2026) by improving transaction efficiency, reducing costs, and encouraging innovation attracting investment and supporting long-run GDP growth, though the extent of these benefits depends on appropriate regulation and sustainable integration into existing financial systems.

At the same time, rapid cryptocurrency growth raises financial stability concerns: each 1% increase in cryptocurrency investment is estimated to reduce financial stability by

approximately 5% (Panigrahi S., 2023), with exchange rate volatility and inflation compounding the effect. Such instability may disrupt investor confidence and hinder sustainable growth, particularly in developing economies with more fragile financial systems meaning cryptocurrencies' contribution to innovation and inclusion must be weighed against the risks their uncontrolled growth poses to macroeconomic stability.

7.4 Interest Rates and Financial Stability

Growing cryptocurrency adoption outside the traditional banking system may weaken the interest rate transmission mechanism central banks use to influence economic activity, gradually diminishing their control over money supply and the effectiveness of conventional monetary policy channels.

The Financial Stability Board warns that any loss of confidence in crypto-assets could have implications exceeding the actual size and direct interconnectedness of crypto markets (FSB, 2022): even if crypto markets remain relatively small, rapid retail adoption and growing links with traditional finance could amplify shocks and affect the real economy, increasing systemic risk to overall financial stability.

Chapter 8: EMPIRICAL EVIDENCE FROM EXISTING STUDIES

8.1 Bitcoin Volatility Studies

Bitcoin remains the largest cryptocurrency by market capitalisation (Auer R. et al., 2022) and, owing to its first-mover advantage and trading volume, serves as the primary benchmark and focus of academic research on cryptocurrency markets.

Several studies find that Bitcoin volatility spills over into traditional stock markets: one-way spillovers running from Bitcoin to equity markets have been documented (Malhotra N. &

Gupta S., 2019), and a significant two-way spillover exists between cryptocurrencies and ASEAN stock indices, with Bitcoin's influence stronger than Ethereum's (Komarudin K. & Magfiroh D., 2024). These effects are not uniform globally; differences in financial market development, regulation, and adoption levels mean some economies see significant volatility transmission from Bitcoin to equities while others see little to none, reflecting country-specific conditions.

8.2 Ethereum and Cardano Insights

While Bitcoin was designed primarily as a decentralized currency, Ethereum introduced smart contract functionality enabling decentralized applications and DeFi, becoming more closely tied to broader financial activity. Bitcoin has emerged as relatively stable and less sensitive to monetary policy shifts, functioning as a speculative hedge, while Ethereum shows greater sensitivity to liquidity and interest rate variables due to its DeFi linkages (Lassoued M. et al., 2025), demonstrating that the two assets exhibit distinct volatility patterns.

Research on Cardano remains comparatively limited given its more recent emergence, though its research-driven development and proof-of-stake mechanism have drawn growing attention. Cardano is more volatile than Ethereum and lags behind in growth (Johnson J., 2021); despite smaller market capitalization, its expanding ecosystem suggests its macroeconomic relevance is likely to grow as further research develops.

8.3 Cross-Country Analysis

Crypto-asset activity is a global phenomenon but remains modest relative to GDP for most countries (Feyen E. et al., 2022), with adoption patterns varying by economic and institutional conditions. In developed economies, stronger financial systems, technological infrastructure, and financial access have enabled more structured integration; adoption there

appears to be a byproduct of sophisticated financial environments and higher education levels rather than a direct response to gaps in financial inclusion (Magazinno C., Gattone T. & Horky F., 2025).

In developing economies, by contrast, higher inflation, lower banking penetration, and favourable regulatory environments are associated with significantly higher adoption (Onowakpo EA & Onyenuforo UL, 2025), as cryptocurrencies serve as alternative instruments amid weaker domestic financial systems. Transparent, supportive regulation and institutional trust are also linked to higher adoption (Rana HA, Audi M. & Ali A., 2025), showing that governance and legal quality, alongside economic conditions, shape cryptocurrency's relationship with national economies.

8.4 Volatility Spillovers

Cryptocurrency markets are increasingly connected to traditional equity markets: adverse crypto-market shocks can transmit to equities, raising volatility and uncertainty, with these effects generally moderate and short-lived but strengthening during periods of financial stress. Volatility also affects foreign exchange markets, particularly in macroeconomically unstable countries, as investors shift funds between domestic currencies and digital assets — though the magnitude varies with regulatory frameworks and adoption levels. Volatility spillovers and market interconnectedness tend to intensify during crises and periods of heightened uncertainty, reducing the diversification benefits cryptocurrencies may offer under normal conditions and raising concerns about financial contagion for investors, policymakers, and regulators monitoring systemic risk.

Chapter 9: IMPLICATIONS FOR NATIONAL CURRENCY STABILITY

9.1 Exchange Rate Instability

As noted above, Bitcoin trading tends to rise when domestic currencies become unstable (Di Casola P. et al., 2025), which can reduce confidence in domestic currency, increase capital outflows, and heighten exchange rate fluctuations. Exchange rate volatility and inflationary pressure further deteriorate a country's financial stability (Panigrahi S., 2023), suggesting rising cryptocurrency adoption may amplify macroeconomic vulnerabilities, especially in developing economies with fragile financial systems.

A related phenomenon is "cryptoization" the substitution of domestic currency by crypto-assets for payments and savings. As confidence in national currencies declines, households may increasingly prefer cryptocurrencies for transactions and wealth preservation, and macroeconomic instability itself may spur greater crypto-asset usage (Di Casola P. et al., 2025), potentially weakening monetary sovereignty and complicating long-term currency stability.

9.2 Loss of Monetary Sovereignty

The emergence of cryptocurrencies challenges the traditional monopoly of official, central bank-controlled currencies (Claeys G. et al., 2018). As digital assets gain wider acceptance for payments and savings, governments may see a gradual decline in control over the money supply. Substitution of central bank currency for cryptocurrencies would effectively create parallel currencies, creating risks to monetary policy effectiveness, financial stability, and growth (Claeys G. et al., 2018) potentially limiting the impact of tools such as interest rate adjustments and liquidity management, and making it harder for policymakers to respond to inflation, downturns, and crises.

9.3 Capital Flow Volatility

Crypto-assets have grown into a significant instrument for payments and speculative investment in some countries (He D. et al., 2022). Their decentralized, borderless nature enables capital to move quickly across jurisdictions with minimal friction, reducing the effectiveness of traditional monitoring and making periods of optimism or uncertainty more likely to trigger sudden capital inflows or outflows.

This dynamic can also affect foreign exchange reserves: faster, more decentralized international transfers may reduce demand for domestic currency and increase outflows into crypto-assets, pressuring the reserves central banks use to stabilize exchange rates and meet external obligations a risk that intensifies during periods of financial uncertainty, complicating governments' ability to maintain adequate reserves and respond to currency crises.

9.4 Role as Alternative Currency

In emerging markets, crypto-assets offer benefits but can accelerate cryptoization and help circumvent exchange and capital controls (IMF, 2021), consistent with Bitcoin trading rising after currency-specific depreciation shocks (Di Casola P. et al., 2025). This reinforces cryptocurrencies' role as an alternative to national currencies during depreciation and uncertainty, but also presents challenges for banking systems and monetary authorities: as reliance on decentralized assets grows and central bank currency risks being substituted by parallel currencies, the effectiveness of conventional banking channels, monetary management, and long-term currency stability may all be affected (Claeys G. et al., 2018).

Chapter 10: POLICY DEBATE – CRYPTOCURRENCIES VS CBDCS

10.1 CBDCs as Policy Response

The rapid growth of cryptocurrencies has prompted central banks worldwide to explore Central Bank Digital Currencies (CBDCs): 86% of surveyed central banks are now exploring their benefits and drawbacks (Boar C. & Wehrli A., 2021). CBDCs aim to modernize payment systems, promote financial inclusion, provide a secure digital alternative to privately issued cryptocurrencies, and preserve monetary sovereignty amid increasingly digital economies.

10.2 Stability Comparison

CBDCs offer a stable digital alternative to cryptocurrencies because their value is backed by monetary authorities rather than market speculation (Investopedia, 2025). While CBDCs aim to provide a secure, stable, widely accepted medium of exchange under central bank oversight, cryptocurrencies offer innovation, privacy, and financial autonomy but remain volatile and regulatorily uncertain (Luca C., 2026). A CBDC represents a digital form of fiat currency issued by a central bank, backed by the full faith and credit of the government (Dionysopoulos et al., 2023), which enhances public confidence and legal assurance in ways decentralized cryptocurrencies cannot replicate.

10.3 Regulatory Challenges

Because digital assets cross borders without a central institution's involvement, monitoring and supervision are difficult, and crypto-assets' cross-border nature raises significant regulatory, supervisory, and enforcement challenges (Financial Stability Board, 2022). Fragmented national approaches complicate international cooperation and create loopholes for market participants.

Taxation is a related concern: the tax treatment of crypto-asset transactions remains at an early stage and is determined individually by jurisdictions rather than through coordinated

global standards (Parsons S., 2023), and cryptocurrencies' anonymous, decentralized properties pose substantial challenges to tax enforcement (Boas H.F. & Barake M., 2025), making compliance and enforcement difficult for regulators and taxpayers alike.

10.4 Future Monetary Systems

The future of the global monetary system is likely to involve coexistence between cryptocurrencies and CBDCs rather than the replacement of one by the other. Long-term coexistence appears viable provided challenges are addressed through ongoing collaborative efforts between policymakers, financial institutions, and technology developers (Weinberg A.I. et al., 2025). This may encourage hybrid financial models combining cryptocurrencies' efficiency and innovation with CBDCs' stability and oversight though achieving this balance will require continued attention to consumer protection, cybersecurity, financial inclusion, and cross-border regulation.

Chapter 11: CONCLUSION AND RESEARCH GAPS

11.1 Summary of Findings

This study examined cryptocurrency volatility's impact on national currency stability through a systematic review of macroeconomic literature. The findings show that this impact is significant but neither uniform nor universal; it depends on a country's economic conditions, financial development, institutional quality, and regulatory framework, rather than being inherently beneficial or detrimental. Cryptocurrencies have evolved from experimental payment systems into important components of the global financial system, with volatility driven by speculation, investor behaviour, liquidity, technology, and regulatory uncertainty. Theoretical frameworks Chaos Theory, the Fractal Market Hypothesis, the Adaptive Market Hypothesis, and Complexity Theory collectively explain this persistent volatility, while

empirical evidence links it to exchange rates, inflation, monetary policy effectiveness, capital flows, and financial stability, with effects differing substantially between developed and developing economies.

11.2 Synthesis of Literature

There is no universal consensus on cryptocurrencies' macroeconomic consequences. Some researchers present them as innovative assets offering diversification, cross-border payment efficiency, and potential inflation or depreciation hedges; others emphasize that speculation, extreme volatility, and growing interconnectedness with traditional markets may undermine monetary policy and amplify instability and systemic risk. Across the literature, one finding is consistent: context matters more than theory alone. Differences in financial development, banking access, institutional quality, and regulatory effectiveness mean stronger financial systems generally integrate cryptocurrencies with less disruption, while economies facing inflation, exchange rate instability, or limited financial inclusion are more vulnerable to crypto-driven capital movement and currency substitution meaning cryptocurrencies' macroeconomic effects cannot be generalized globally.

11.3 Research Gaps

Cryptocurrency markets remain young relative to conventional financial markets, limiting long-term empirical evidence across multiple economic cycles. Research also remains heavily concentrated on Bitcoin, with Ethereum receiving growing but still limited attention and Cardano even less; developing economies where adoption often occurs amid inflation and weak banking penetration remain underrepresented relative to developed economies. Much existing literature also examines macroeconomic variables in isolation rather than as an interacting system, indicating a need for more integrated analytical approaches.

11.4 Recommendations for Future Research

Future research should prioritize longer-term empirical analysis as markets mature, and expand coverage beyond Bitcoin to Ethereum, Cardano, stablecoins, and other emerging digital assets. Greater focus on developing economies through comparative studies incorporating regulation, institutional quality, infrastructure, and financial inclusion would clarify how cryptocurrency markets affect national currency stability across diverse settings. Advances in artificial intelligence, machine learning, and real-time macroeconomic modelling also offer opportunities to improve volatility forecasting, identify systemic risks, and support evidence-based policy. As cryptocurrencies continue to evolve alongside the global financial system, future research should increasingly integrate economics, finance, technology, and public policy.

Concluding Remark

Cryptocurrencies have transformed from an experimental digital innovation into an increasingly influential component of the global financial system, creating opportunities for financial innovation alongside challenges for monetary authorities, regulators, and policymakers. Cryptocurrency volatility is neither inherently beneficial nor inherently detrimental to national economies; its effects depend on the broader economic, institutional, and regulatory environment. As digital finance evolves, a balanced understanding of cryptocurrency markets will remain essential for preserving national currency stability, promoting sustainable financial innovation, and shaping the future of the global monetary system.

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