

## **CRYPTOCURRENCIES IN UZBEKISTAN: LEGAL REGULATION AND DEVELOPMENT PROSPECTS**

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### **ABSTRACT**

The article presents a comprehensive analysis of the legal regulation of cryptocurrencies and crypto assets in the Republic of Uzbekistan. The study covers the main regulatory legal acts governing the turnover of cryptocurrencies, the activities of crypto exchanges and mining . Particular attention is paid to the analysis of the Presidential Decree No. PP-3832 and subsequent regulations that form the legal basis for the development of the crypto market in the country. The issues of taxation of transactions with crypto assets , mechanisms for combating money laundering through cryptocurrencies , as well as the specifics of licensing and supervision of market participants are considered . Based on the study, practical recommendations were developed to improve legislation in the field of crypto assets and the prospects for the development of this sector in Uzbekistan were determined.

### **KEYWORDS**

cryptocurrency, blockchain, crypto assets, mining, legal regulation, digital economy, Uzbekistan, crypto exchanges, digital finance, national legislation, tokens , smart contracts, digital sum

In the era of rapid digitalization of the global economy, Uzbekistan demonstrates a progressive approach to the regulation of cryptocurrencies and blockchain technology . In recent years, the country has taken significant steps to form a comprehensive legal framework for operations with crypto assets , which reflects the global trend towards the transformation of the financial sector. Uzbekistan seeks to take a leading position in the region in the implementation of innovative financial technologies, creating a favorable environment for the development of the cryptocurrency industry.

cryptocurrency regulation in Uzbekistan began with the adoption of the landmark Resolution of the President of the Republic of Uzbekistan No. PP-3832 dated July 3, 2018 "On measures to develop the digital economy in the Republic of Uzbekistan" [1]. This document became a turning point in the development of the country's digital economy, laying the foundation for the legalization of cryptocurrency activities. The resolution defined the key areas of development of blockchain technology and outlined the strategic priorities of the state in the field of digital assets. The document provided for the creation of a legal framework for the implementation of blockchain technologies in all areas of socio-economic activity of the Republic of Uzbekistan.

Another important document in this area is the Regulation on the procedure for licensing the activities of service providers in the field of crypto-asset turnover, approved by the order of the Director of the Agency dated July 14, 2022 No. 32. [2] This document established clear rules and licensing procedures for all market participants providing services related to the turnover of crypto -assets . According to the Regulation, in order to carry out activities to provide services in the field of crypto-assets turnover, it is necessary to obtain an appropriate license. The following types of activities are subject to licensing:

- Organization and conduct of trading in crypto assets (creation and management of crypto exchanges )
- Provision of custody services (storage and management of crypto assets )
- Mining crypto assets
- Consulting and information services in the field of crypto assets turnover

The National Agency for Prospective Projects (NAPP) acts as the main regulator, implementing licensing, control and supervision of the activities of

service providers in the crypto market . The Regulation defines comprehensive requirements for license applicants, the procedure for obtaining them, as well as the grounds for suspending or revoking licenses. Thus, the Regulation on licensing service providers in the field of crypto-asset turnover has become an important element of the comprehensive regulatory system for the cryptocurrency industry in Uzbekistan, ensuring transparency and accountability of the activities of all market participants.

Particular attention was paid to the development of public-private partnerships in the field of blockchain technology development , training of qualified personnel in the field of development and use of blockchain technologies , as well as comprehensive cooperation with international and foreign organizations in the field of crypto assets.

In development of the provisions of this resolution, in 2024, the Law of the Republic of Uzbekistan "On Amendments to Certain Acts" was adopted <sup>[3]</sup>, which became the cornerstone in regulating the circulation of cryptocurrencies in Uzbekistan and defined liability for violating the legislation in this area. This regulatory act for the first time at the legislative level defined key concepts and terms in the field of crypto assets , established the legal status of digital currencies and regulated the procedure for carrying out activities with them. The law established clear rules of the game for all market participants, which contributed to increasing the transparency and security of transactions with cryptocurrencies.

As mentioned above, today Uzbekistan has developed a comprehensive system for regulating cryptocurrencies , which covers all aspects of the functioning of this market. The central link of this system is the National Agency for Prospective Projects (NAPP) <sup>[4]</sup>, which acts as the main regulator of the country's cryptocurrency market. NAPP carries out thorough work on licensing cryptocurrency exchanges, constantly monitors their activities and monitors compliance with established requirements. The Agency also actively participates in the development of new regulations aimed at improving the regulation of the crypto market . Thanks to the activities of NAPP, a transparent and effective system for overseeing cryptocurrency transactions has been created in the country.

Furthermore, the taxation system for cryptocurrency transactions established by the Tax Code of the Republic of Uzbekistan <sup>[5]</sup> deserves special attention. The legislation provides for a special tax regime for various types of cryptocurrency activities. It is noteworthy that mining income is temporarily exempt from taxation until 2026, which creates favorable conditions for the development of the mining industry in the country. At the same time, cryptocurrency purchase and sale transactions through licensed exchanges are taxed at special rates, which ensures a balance between the interests of the state and market participants. In the field of combating money laundering, Uzbekistan adheres to high international standards. In accordance with the FATF recommendations <sup>[6]</sup>, the country has implemented a strict system for combating the legalization of proceeds from crime and the financing of terrorism. All cryptocurrency companies are required to conduct thorough customer identification, store transaction data for at least five years and promptly report suspicious transactions to the relevant authorities.

the cryptocurrency industry infrastructure in Uzbekistan . An important event was the launch of the first licensed crypto exchange " UzNEX " <sup>[7]</sup> in 2021. This platform provided citizens of the country with the opportunity to legally carry out transactions with cryptocurrencies within the established legal framework. The exchange implements all necessary measures to ensure the security of customer funds and compliance with the requirements of legislation in the field of combating money laundering.

The mining industry has also received a significant boost to development thanks to government support. In 2019, the country created the first legal mining pool <sup>[8]</sup>, which was an important step in the development of the industry. The state created favorable conditions for miners by providing them with preferential electricity tariffs and simplifying the registration procedure for mining companies. In addition, the tax holidays introduced for mining enterprises contributed to attracting investment in this area.

Despite significant progress in the development of the cryptocurrency industry, Uzbekistan faces a number of significant problems and challenges. One of the main technical limitations is the insufficient bandwidth of Internet

channels, which can create difficulties for the effective functioning of cryptocurrency platforms and mining enterprises. Periodic power outages also pose a serious problem for the mining industry, which requires a stable power supply.

A significant challenge is the limited availability of specialized mining equipment . This is due to both the global shortage of the relevant equipment and the logistical difficulties of its delivery to Uzbekistan. This situation may hinder the development of the mining industry in the country and requires finding effective solutions. There are also certain regulatory issues that require attention. Further work is needed to harmonize national legislation with international standards in the field of cryptocurrency regulation . Particularly relevant is the issue of creating effective mechanisms to protect consumer rights when carrying out transactions with crypto assets.

crypto assets appearing on the market deserves special attention . The rapid development of technologies and the emergence of innovative financial instruments require constant improvement of the regulatory framework to ensure adequate regulation of new forms of digital assets.

Analyzing the current situation and trends in the development of the cryptocurrency industry in Uzbekistan, we can highlight several key areas for further development of the industry. In the regulatory sphere, it is planned to introduce innovative regulatory mechanisms, including the creation of a regulatory sandbox for fintech projects. This will allow testing new financial products and services in a controlled environment, minimizing potential risks for the country's financial system. It is also planned to further improve the licensing system for cryptocurrency activities and develop taxation mechanisms for transactions with digital assets. Particular attention will be paid to creating a more flexible and effective system for supervising the activities of crypto market participants .

In the technological aspect, the priority direction is the development of the national blockchain infrastructure. It is planned to create conditions for the wider implementation of smart contracts in various sectors of the economy. In addition, work is underway to create a national cryptocurrency , which could become an important step in the development of the country's digital economy.

Uzbekistan also seeks to expand international cooperation in the field of cryptocurrencies and blockchain technologies. The country is interested in participating in international blockchain projects and attracting foreign investment in the development of the national crypto industry . An important area is also the harmonization of national legislation with international standards in the field of regulation of crypto assets.

Uzbekistan demonstrates a systematic and progressive approach to regulating cryptocurrencies , creating favorable conditions for the development of this promising industry. The adopted regulations form a clear legal framework that facilitates the legalization and development of the crypto market . At the same time, the country does not stop there and continues to work on improving the regulatory environment and developing the necessary infrastructure.

Despite the existing challenges related to technical limitations and the need for further development of the regulatory framework, the prospects for the development of the cryptocurrency industry in Uzbekistan look promising. The consistent policy of the state to support this sector, combined with the growing interest of market participants and international investors, creates good preconditions for the further development of the industry.

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[1] Resolution of the President of the Republic of Uzbekistan No. PP-3832 dated 03.07.2018 "On measures to develop the digital economy in the Republic of Uzbekistan"

[2] Regulations on the procedure for licensing the activities of service providers in the field of crypto-asset turnover (reg. No. 3380 dated August 15, 2022), approved by order of the Director of the Agency dated July 14, 2022 No. 32

[3] Law of the Republic of Uzbekistan, dated 19.01.2024 No. ZRU-899

[4] Regulations on the National Agency for Prospective Projects under the President of the Republic of Uzbekistan

[5] Tax Code of the Republic of Uzbekistan (new edition)

[6] Law of the Republic of Uzbekistan "On combating the legalization of proceeds from criminal activity, the financing of terrorism and the financing of the proliferation of weapons of mass destruction" Law of the Republic of Uzbekistan, dated 26.08.2004 No. 660-2

[7] <https://isrs.uz/ru/page/pdf/v-uzbekistane-otkrylas-kriptobirza-uznex>

[8] Order of the Director of the National Agency for Promising Projects of the Republic of Uzbekistan, registered on 20.03.2024, reg. number 3507