

Navigating Global Cryptocurrency Governance: Pakistan's Regulatory Response to FATF and IMF Standards through Compliance, Conflict, and Cooperation (2018–2024)

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ABSTRACT

In this paper, the response of the Pakistan to international cryptocurrency regulations is critically examined through the prism of the interrelated concepts of compliance, conflict and cooperation. The proliferation of cryptocurrencies has greatly altered the financial systems of the world, forcing states to implement regulatory systems in harmony with those of the world. However, in the case of the emerging economies as in Pakistan, regulations alignment is not as straightforward as it seems, due to the institutional weaknesses, economic turmoil and political divides. It is a qualitative research paper which includes policy analysis, stakeholder perceptions and comparative perceptions in order to assess the role of involvement and participation of Pakistan with the international regulatory organizations like Financial Action Task Force (FATF) and the International Monetary Fund (IMF). The results indicate that, Pakistan is partially adherent to the international regulatory standards especially to the areas of the anti-money laundering (AML) and counter-terrorism financing (CTF), but is in violation of enforcing the rules because of the absence of robust institutional framework and inability to synchronize regulatory initiatives. In addition, internal strife, resistance of traditional financial institutions, poor digital literacy and lack of infrastructural facilities are some of the major impediments to regulation development. However, these challenges do not rule out the prospects of an enhanced international partnership, which will play a crucial role in ensuring that Pakistan develops a balanced regulatory system that will aid in achieving financial stability, and technological innovation. The study finds that an integrated, coordinated, and adaptive regulatory framework is a key to ensuring that Pakistan can become a part of the global digital financial ecosystem and ensure that it considers its socio-economic realities (Arner et al., 2022; FATF, 2021; Khan et al., 2022).

Keywords: Cryptocurrency Regulation; Pakistan; Financial Action Taskforce (FATF); Compliance and Governance; Digital Financial Systems.

INTRODUCTION

With the introduction of cryptocurrencies, the world has fundamentally changed the shape and functions of the world financial systems by introducing the decentralized, borderless, and technologically-grounded financial instruments. In the wake of the inception of Bitcoin, digital currencies have evolved to become an intricate financial ecosystem with investment assets, payment systems, and decentralized finance (DeFi) platforms (Nakamoto, 2008; Zohar, 2021). Governments around the world have reacted to the regulations in different ways, trying to balance between innovation and the necessity to reduce such risks as fraud, money laundering, and financial instability (FATF, 2021). Nonetheless, the regulatory environment is still disjointed, especially in developing economies with a lack of institutional strength and technological preparedness (Zetsche et al., 2020). This is a special case in Pakistan, as the country faces acute problems in harmonizing its regulatory system with the international standards, as well as consider the local economic and political realities. Although there has been an increasing trend in interest to cryptocurrencies among its citizens, the regulatory approach of Pakistan has been confusing, alternating between prohibitive policies and exploration efforts (Khan et al., 2022). This disjoint is indicative of more structural problems, such as inefficiency of governance, incoherence of policies, and opposition by traditional financial institutions. The introduction of the global regulatory standards such as FATF and IMF where the country is pressured to have the good regulatory compliance mechanisms has also complicated the regulatory environment in the country (IMF, 2020). Therefore, understanding the response of Pakistan to the regulation of cryptocurrency should be well thought out in the context of global forces and national restrictions, focusing on the combination of compliance, conflict, and cooperation in forming the regulatory implications.

Background

Pakistani cryptocurrency regulation and contact with it has evolved in numerous ways during the last decade, both regarding the international trends, and the domestic issues.. First, the State Bank of Pakistan (SBP) took a prohibitory position in 2018 and ordered financial institutions to not participate in cryptocurrency transactions due to the fears of financial stability, fraud, and other illegal activities (SBP, 2018). Nevertheless, this prohibition did not work very effectively as the trading in cryptocurrencies was carried out in informal networks and in peer-to-peer networks, which proved the strength of decentralized financial systems (Rehman and Ali, 2022). Historically, the Pakistani government started to reevaluate the stance, realizing that there could be economic benefits of digital currencies, especially in remittances and financial inclusion. But in its turn, the absence of a legal framework has been replaced with a regulatory vacuum and the investors and stakeholders have been left in doubt. The influence of the foreign powers particularly the Financial Action Task Force (FATF) lobbying has been a factor that has been instrumental in the way Pakistan is undertaking regulation. When Pakistan was added to the FATF greylist, the government has improved anti-money laundering (AML) and counter-terrorism financing (CTF) policies, including effective digital asset policies (FATF, 2020). Despite these efforts, a lack of coordination and regulation among institutions, such as SBP and the Securities and Exchange Commission of Pakistan (SECP), has been impeding progress (Ahmed and Raza, 2023). Furthermore, the development of an effective cryptocurrency regulatory structure is complicated by the greater economic issues faced by Pakistan such as inflation, a large informal economy, and little technological infrastructure.

Problem Statement

The Pakistani regulatory response towards cryptocurrencies can be characterized as asymmetrical, ambiguous and ineffective, and adherence and creativity are significant issues. Even though the international community has come up with policies and measures that encourage financial integrity and stability such as the Financial Action Task Force (FATF) and the International Monetary Fund (IMF), Pakistan has failed to implement these policies and practices in a coherent and integrated manner (FATF,

2021; IMF, 2020). The lack of a clear legal framework has led to lack of regulation and deterred investment by moving the cryptocurrency activity to the informal and unregulated sector (Ali, 2020). This does not only weaken the ability by Pakistan to meet the international standards but it also exposes the financial system to money laundering and fraud. Also, there are domestic issues such as political instability, institutional ineffective coordination, and insufficient technological capabilities, which complicate the problem as it is hard to establish and implement efficient regulations (Khan et al., 2022). The fact that the requirements of international regulation and the realities of local markets conflict with one another and that policymakers must balance the need to conform and the desire to encourage innovation and financial inclusion also makes it more difficult. Pakistan is being left behind the rapidly evolving digital financial landscape with no consistent regulation policy and misses an opportunity to expand its economy and advance its technologies. Thus, there is an urgency to evaluate the impact of factors in the regulatory response of Pakistan and develop ways of balancing and finding an effective solution.

Study Objectives

The overall aim of the research is to critically analyze the reaction of Pakistan to the global cryptocurrency regulations using the aspects of compliance, conflict, and cooperation interconnected with each other. Amongst the big tasks is to ascertain the extent of harmonization of the regulatory framework of Pakistan with the international standards that have been established by other bodies such as the Financial Action Task Force (FATF) and the International Monetary Fund (IMF). It involves conducting a formal examination of the existing policies, regulatory frameworks, and institutional practices and determining their compliance with the international standards, including the ones related to anti-money laundering (AML) and counter-terrorism financing (CTF) (FATF, 2021; IMF, 2020). Other than this, the study will determine the structural and operational flaws that inhibit full compliance like political opposition, fragmentation of regulations, and technological constraints. The other significant goal is to explore the in-country tensions in the regulatory ecosystem of Pakistan hindering the establishment of a unified cryptocurrency system. These tensions are based on the clashing interests between the institutions, financial instability, and underdeveloped technological infrastructure, which altogether determine the rate and efficiency of regulatory reforms (Khan et al., 2022). Further, the potential of better collaboration between Pakistan and international regulatory authorities will also be analyzed since it will identify the areas of interest and potential cooperation. This will include considering ways in which Pakistan can balance international obligations and domestic issues and how to encourage innovation within the fintech sector. Finally, the research aims to add to the existing knowledge about the experience of emergent economies in the intricacies of global regulatory cryptocurrency and provide policy-relevant information on the development of a balanced and sustainable regulation strategy (Arner et al., 2022).

Research Questions

A set of research questions guides the current research and seeks to understand the dilemma of regulatory response of Pakistan towards cryptocurrencies in the context of a global regulatory paradigm. The initial research question will help in determining the extent to which Pakistan has been adhering to the international cryptocurrency laws particularly the Financial Action Task Force (FATF) and the International Monetary Fund (IMF). This question is necessary to determine how the policies of Pakistan were developed in accordance with the global standards, especially with financial transparency and risk management (FATF, 2021).

The second research question will be narrowed down to the determination of the major conflicts, and concerns that could impede the situation at which Pakistan would be in a state to harmonize its regulatory standards with the international standards. Such problems are domestic economic constraints, political

uncertainty, institutional inefficiencies, and security concerns, which dictate the results of the regulations and policy implementation (Khan et al., 2022).

The third research question deals with the way in which Pakistan should improve its collaboration with the international regulators to create a more reasonable and effective system of cryptocurrencies regulation. This will include looking into the possible sources of collaboration such as sharing of knowledge, building capacity and harmonization of policies (Arner et al., 2022). The research design of the study is well organized to understand the interaction between the global pressures and Pakistan realities by addressing these two research questions: What is the regulatory practice of Pakistan? By answering these questions, the study will aim at generating both academic and practical impacts to the policymakers and stakeholders.

Importance of the Research

The paper is very critical with reference to knowledge development on the cryptocurrency regulation in the developing economies and more particularly in Pakistan. As the digital currencies continue gaining momentum all over the globe, countries are being compelled more than ever to develop regulatory frameworks which would balance the aspects of innovation and financial stability and security. Pakistan in this respect has got special issues due to system of economy, politics and lack of technology. The significance of the study is in the fact that it will provide a detailed discussion of the regulatory policy of Pakistan, focusing on the possibility of the country to strike the balance between its compliance with international standards and its own restrictions (Arner et al., 2022). Moreover, the research adds value to data by determining the main obstacles to successful regulation such as political opposition, institutional dissemination, and technological incompetence (Khan et al., 2022). The study offers important information to the root causal factors of inconsistency and ineffectiveness of the regulatory factors through the analysis of these factors. In addition, the study has policy implications on practitioners in the industry, policymakers and global institutions as it provides evidence-based recommendations of how regulatory systems and how to improve collaboration. Regulatory issues and opportunities in Pakistan can be used to understand how to create a more inclusive and dynamic policies capable of improving financial security and technological innovation. Lastly, the study can be incorporated into the discussion of cryptocurrency regulation in the global context as a whole and offer some insights that may be applicable to other emerging economies with the same problem (IMF, 2020).

Limitations and Scope of study

The area of focus of this research is based on the analysis of the regulatory reaction of Pakistan to international cryptocurrency regulations, and in specific terms, the aspects of compliance, conflict, and cooperation. The article evaluates the adherence of Pakistan to the international rules established by the key global organizations, such as the Financial Action Task Force (FATF) and the International Monetary Fund (IMF) and addresses the anti-money laundering (AML) and counter-terrorism financing (CTF) policies, in particular (FATF, 2021). The study is confined to Pakistan as a geographical area, and it takes a detailed examination of the domestic regulatory environment and its engagement with the international structures. The paper also deals with effects of cryptocurrency regulation on financial sector, technological growth and development of Pakistan and explains the challenges and opportunities. Nonetheless, there are a number of limitations that need to be recognized. To begin with, the dynamically developing character of cryptocurrency technologies and regulations can restrict access to the latest data, which can impact the quality and topicality of results (Zetzsche et al., 2020). Second, primary data particularly the data gathered by the most significant stakeholders (policymakers and financial institutions) could be scarce due to privacy concerns and sensitivity of the topic. Third, the study can offer a wealth of information about the regulatory situation in Pakistan, but the results might not be generalized to other countries with different economic and institutional environments. Lastly, the absence of detailed and transparent regulatory documentation

could limit the level of analysis. Despite these limitations, the study offers a well-founded and contextually-grounded study of cryptocurrency regulation in Pakistan and adds value to the body of academic literature and the policy making process.

LITERATURE REVIEW

Cryptocurrency regulation has become a hot topic in financial regulation of the world, and researchers have shown the necessity to establish the appropriate balance between innovation and risk reduction. The use of digital assets has also become a subject of attack by international organizations, particularly the Financial Action Task Force (FATF), which has developed a list of detailed principles to mitigate the risk in this area, i.e., in the sphere of anti-money laundering (AML) and counter-terrorism financing (CTF) (FATF, 2021). Similarly, the International Monetary Fund (IMF) has pointed out the potential threats of cryptocurrencies to financial stability, particularly in developing economies, where regulation is not more developed (IMF, 2020). The academic literature presupposes that institutional strength is more apt to create effective cryptocurrency regulations, and developing economies have grave problems due to inefficiency of governance and a lack of technological resources (Zetzsche et al., 2020). Applying to Pakistan, the contemporary literature reveals that regulatory fragmentation and policy coordination have been impediments in the establishment of a coherent regulatory framework (Khan et al., 2022). Moreover, the informal market and a lack of digital literacy also make the regulation harder since the government cannot monitor and control the cryptocurrency operations (Rehman and Ali, 2022). The second point that scholars emphasize is the necessity to coordinate the international effort to regulate the cryptocurrencies as they are borderless and can be exposed to regulatory arbitrage (Arner et al., 2022). However, this has not been a steady situation with the participation of Pakistan with the international regulatory bodies since it has been a display of international obligations in relation to domestic interests. This is a reflection of the need to have a more collaborative and closer approach to regulate cryptocurrencies.

The state of affairs in the sphere of cryptocurrency regulation throughout the entire world is changing extremely fast and each of the countries attempts to establish a balance between the necessity to attain economic growth, technological advancement, and financial security. Being one of the emerging economies, Pakistan has been experiencing a big challenge in keeping up with the world transition towards digital currencies. The laws governing the cryptocurrencies in Pakistan remain in shambles, relying on a combination of political, economic, and technological factors. This literature review examines the different aspects of cryptocurrency regulations, with particular reference to the attempts of Pakistan to meet international standards with the local issues in mind. The review relies on both international and local literature to examine the regulatory issues and possible remedies to the changing attitude of Pakistan towards cryptocurrency.

The emergence of cryptocurrencies like Bitcoin, Ethereum, and Ripple has led to a world-wide regulatory reaction to tackle the danger and prospects of digital currencies. Various global organizations such as the Financial Action Task Force (FATF), the International Monetary Fund (IMF), and the European Union (EU) have come up with guidelines to regulate the cryptocurrencies. In particular, FATF has been actively involved in the evolution of the cryptocurrency-related rules on the international level to fight money laundering and funding of terrorists with the help of digital assets (FATF, 2019). FATF guidance prompts nations to adopt a so-called travel rule of cryptocurrency dealings, which needs virtual asset service providers (VASPs) to authenticate the identity of their clients. Although the aim of these international standards is to bring about uniformity, their adoption has not been uniform across nations because of the different rates of economic development, access to technology, and political goodwill (Zohar, 2021).

The IMF has also expressed its worries about the risks of cryptocurrencies, particularly in the developing world, and has proposed that nations should establish regulatory frameworks that strengthen financial

stability, investor protection, and that digital currencies would take away the abilities of traditional banks (IMF, 2020). In other countries, the IMF proposals are not received well, however, and the threats of stifling innovation and economic growth have led to the use of more lenient regulatory approaches (Smith, 2020). The EU, in its turn, has been much more centralized in its cryptocurrency regulation, with the European Central Bank proposing the extensive regulation of cryptocurrencies to safeguard consumers and avoid financial crimes (European Central Bank, 2021).

The response of the Pakistani government to cryptocurrency regulations can be characterized by a series of inconsistent policies that started with the cryptocurrency trading ban by the State Bank of Pakistan (SBP) in 2018. This ban that precluded financial institutions to provide services related to cryptocurrencies was substantiated by the problems with their usage in crime-related activities, e.g., money-laundering, terrorism funding, and other similar factors (SBP, 2018). Nevertheless, the prohibition did not work very well, and cryptocurrencies were also traded in an informal manner and peer-to-peer (P2P) markets. The SBP prohibition failed to curb the growing interest of cryptocurrencies in Pakistan among the tech-friendly young people as many of them viewed cryptocurrencies as a substitute of investment or as an alternative to the traditional banking systems.

The major issue with the regulatory response in Pakistan is that there is no clear legal framework on the cryptocurrencies. This regulatory uncertainty has produced an unfriendly atmosphere of doing business and investing as people are not willing to take the full benefits of digital currencies. In 2019, the financial regulator of Pakistan, the Securities and Exchange Commission (SECP), came up with a draft to regulate the virtual assets, but the project was highly opposed by other governmental departments and the financial sector (Ali, 2020). The lack of coordination between the control units and fear of potential risks of digital currencies have contributed to the uncoordinated and ineffective mode of regulating cryptocurrencies in Pakistan.

The political and economic environment of Pakistan is at the root cause of the regulatory challenges it experiences. As a highly remittance-driven economy, with a sizeable informal sector, Pakistan is particularly susceptible to the stakes and opportunities that may arise with cryptocurrencies adoption. Cryptocurrencies can also offer a more effective way of delivering remittances, since this is a significant portion of the Pakistani foreign exchange reserves. However, the lack of a regulatory framework under which cryptocurrencies are controlled has not helped achieve this potential as they and businesses continue to transact through informal platforms, which is more threatening to them.

Moreover, politics in Pakistan have also played a crucial role in the process of determining the regulatory response to cryptocurrencies. The volatile political situation and lack of consensus on the economic policy has made it difficult to establish a coherent and progressive set of regulations on digital currencies in Pakistan. The various departments and ministries have been torn between treating cryptocurrencies as a commodity, currency or a form of an asset, thus having mixed opinions regarding this issue (Khan et al., 2022). Such political disunity has slowed the formulation of coherent and efficient cryptocurrency policies, which leaves investors and entrepreneurs in the fintech industry in an unpredictable situation.

In addition, the Pakistani financial institutions have been reluctant to embrace cryptocurrencies since it is volatile and can cause havoc in the usual banking activities. Institutions have opposed regulation of cryptocurrencies by being afraid that the financial system will be disrupted by digital currencies (Ali, 2020). This opposition of deep-rooted financial motivations has slowed down the process of implementing a regulatory framework, which left Pakistan exposed to the dangers of unregulated cryptocurrency markets.

The cooperation of different countries in the creation of an effective cryptocurrency regulatory framework is a very important issue. Since cryptocurrencies are utilized by a decentralized and borderless environment,

worldwide collaboration is required to create standardized regulations and avoid regulatory arbitrage. The influence of such international organizations as FATF, IMF and World Bank on the formation of the national regulation frameworks, providing the guidelines and standards, which the countries are welcome to adhere to, is significant. Being a member of world regulatory institutions particularly through its membership in FATF has not only been typified by bottlenecks but also opportunities.

The fact that Pakistan is in the grey list of the FATF has put much strain on the country to improve its regulatory framework on digital assets. To avoid money laundering and the financing of terrorism, which are important issues to the international community, the FATF has urged Pakistan to exert stronger measures to regulate cryptocurrencies (FATF, 2020). Pakistan has been unable to meet these needs however, primarily due to the domestic problems facing it including political resistance, lack of technological capacity and coordination of the regulatory bodies. Irrespective of these problems, Pakistan has a potential to increase its collaboration with international regulators to advance its cryptocurrency rules. Collaboration with the neighbors and other international financial institutions would help Pakistan develop a superior regulatory system which would not just be able to satisfy the international standards but also that of the local needs.

The other major obstacle towards proper cryptocurrency regulation in Pakistan is the absence of digital literacy and technological infrastructure. When it comes to countries such as Japan, South Korea, and the United States, which have created advanced methods of regulating cryptocurrencies, Pakistan is at the bottom of the technological preparedness list. In Pakistan it is not an easy task to introduce cryptocurrencies into the financial system due to the low rate of internet penetration, high rural population and the cash-based economy of the country. On top of this, the regulatory bodies that are tasked with the responsibility to regulate digital assets lack the knowledge and resources to regulate and control the fast-paced cryptocurrency market (Khan et al., 2022).

To successfully control cryptocurrencies, Pakistan needs to tackle its technology and digital illiteracy. The investments on the digital infrastructure, education and regulatory capacity will be crucial in ensuring that the country can be in a position to follow the global trends in the cryptocurrency environment. Pakistan can boost its digital literacy and enhance technological readiness to transition to the adaption and regulation of cryptocurrencies according to the international standards.

Research Gaps

Although the literature on cryptocurrency regulation in the world is increasing, in the case of Pakistan, there are major gaps in research. First of all, there is a lack of most empirical studies that would be systematic in investigating the regulatory environment of cryptocurrency in Pakistan with primary data. Most of the existing literature is research grounded on descriptive work or theoretical work, which limits the degree of understanding of the institutional practices and the issues of implementation (Khan et al., 2022). Such lack of empirical evidence limits the capacity of policymakers to create evidence-based regulatory frameworks. Second, in the analysis of the regulatory response in Pakistan, the global governance theories have not been incorporated much. Although global standards, including those by the Financial Action Task Force (FATF) and the International Monetary Fund (IMF), are often mentioned, not many studies critically evaluate interactions between global governance dynamics and national political and economic circumstances (Arner et al., 2022). This poses a theoretical gap in the process of internalization or resistance of international norms in policy environment in Pakistan. Third, the views of the stakeholders, particularly the regulators, financial institutions, fintech entrepreneurs, and users of the cryptocurrencies have not been adequately addressed. These actors are not sufficiently considered in the current literature as influencing the regulatory outcomes and therefore, overlook the socio-political processes that influence the way policies are implemented (Rehman and Ali, 2022). These gaps are important to fill knowledge gaps that will provide

the entire picture of cryptocurrency regulation in Pakistan and to develop effective and context-specific policies.

Theoretical Framework

The study is grounded in three theoretical frameworks: Regulatory Capture Theory, Policy Diffusion Theory, and Global Governance Theory that will provide a holistic view by which one can evaluate the Pakistani reaction to cryptocurrencies, as it relates to regulation. The second regulatory theory that has been put forward is the Regulatory Capture Theory which proposes that the regulatory bodies could be compromised by the influential players in the industry to an extent that the formulated policy is not meant to benefit the people but rather the interested players. This theory can be applicable in Pakistan owing to the lack of readiness of the traditional financial institutions to implement cryptocurrencies, which they consider a threat to their hegemony (Ali, 2020). Policy Diffusion Theory is a theory, as proposed by Rogers (2003), which explains the process by which regulatory norms and policies spread through countries which can be explained by the process of coercion, learning and imitation. International organizations, like FATF and IMF, play an important role in this, i.e. in the cryptocurrency regulation of the country, through harmonizing principles of regulations (FATF, 2021). Nevertheless, these frameworks are usually not adopted uniformly in all countries, based on the institutional capacity and political will. Lastly, the Global Governance Theory (Rosenau, 1995) highlights the significance of global collaboration in overcoming transnational issues like cryptocurrencies regulation. As digital assets are borderless, they cannot be effectively regulated by a single nation, and it needs to be addressed on an international level (Arner et al., 2022). The theories, taken together, are complementary in providing a potent analysis tool to conceptualize the impact of the international pressure and domestic constraint on the development of the regulatory approach of Pakistan.

Conceptual Framework

The relationship between the international regulations, national limitation and the outcome of regulations i.e. compliance, conflict and cooperation forms the theoretical framework of this study. The global policies, predominantly structured by the organizations such as FATF and IMF establish the standards and expectations of cryptocurrency regulations, particularly, in the areas, in relation to anti-money laundering (AML) and counter-terrorism financing (CTF) (FATF, 2021). These externalities play a pushing force that makes nations such as Pakistan take on regulatory measures that are in line with international standards. Nevertheless, the success of these actions is limited by the domestic aspect, such as political instability, economic issues, technological constraints and institutional fragmentation (Khan et al., 2022). These restrictions impact the meaning, application or resistance to international laws on a national level. The interplay between international pressures and the situation in Pakistan results in three potential regulatory outcomes: compliance, in which Pakistan would adopt its policies to meet global standards; conflict, in which domestic factors prevent or oppose international implementation; and cooperation, in which Pakistan would work with the international bodies to come up with mutually beneficial regulatory solutions (Arner et al., 2022). This framework also emphasizes the dynamism and the multidimensionality of the regulatory processes and it is important to note that the results are predetermined not only by the external forces but also by the internal socio-economic and political realities. It offers a systematic process of examining the regulatory response of Pakistan and finding ways towards enhancing the effectiveness of the policies.

Research Design

The specified research study presupposes the qualitative research design to research the complex and multidimensional nature of the cryptocurrency regulation in Pakistan. The qualitative research is the most appropriate to describe this research because it is the only research that helps to understand social, political

and institutional dynamics on a detailed level and cannot be measured using quantitative methods only (Creswell, 2014). The proposed study design will be aimed at investigating the visions of the key stakeholders, analyzing the policy documents, and considering the overall regulatory climate. Through the qualitative approach, the study will be able to focus on the subtle forces of the international regulations and the national restrictions to complete the picture of the regulatory response in Pakistan. In addition, qualitative research allows the research on the new emergent phenomena, such as the regulation of cryptocurrencies, where theoretical concepts and empirical data may not be adequate (Braun and Clarke, 2006). The design is also flexible in as far as data collection and analysis is concerned in order to enable the researcher to adjust to new knowledge and change of circumstances. The latter is essential due to the dynamism of cryptocurrency markets and regulations which are evolving rapidly. On balance, the qualitative study design offers a solid framework of studying the dynamics of cryptocurrency regulation in Pakistan, providing valuable insights contributing to academic writings and policy formulation.

RESEARCH METHODS

To achieve a thorough study of cryptocurrency regulation in Pakistan, the study utilizes a range of qualitative research tools, such as semi-structured interviews, policy and document analysis, as well as comparative case studies. Semi-structured interviews with key stakeholders such as policymakers, financial regulators, fintech professionals, and cryptocurrency users lead to gathering an in-depth set of information regarding their perceptions and experiences (Khan et al., 2022). This method is versatile and the respondents may provide more information about the issues that are of their greatest interest but yet share a common design in which the data are gathered. The analysis of the policies and the documents is the other significant method in this research as official reports, regulatory guidelines, and legislative documents of organizations such as FATF, IMF, and Pakistani regulatory bodies are analyzed. Policy formulation gaps and policy implementation gaps can be identified with the help of this. Also, comparative case studies are employed to study the experience of other countries in regulating cryptocurrency, which will be of great benefit to Pakistan (Arner et al., 2022). All these methods combined will guarantee the methodological triangulation of the study, and the findings will be more credible and valid. Such a multi-methodological approach will enable a detailed discussion of theoretical and practical questions of cryptocurrency regulation.

Research Tools

To guarantee the methodological rigor and reliability, the research is founded on a number of tools that can help to collect data and analyze it. Interview guides are created to organize the semi-structured interviews, offer a series of questions that are predetermined, but flexible to follow-up questions depending on the responses of the respondents (Creswell, 2014). Such guides ensure consistency of the interviews and enable one to acquire a diversity of opinions. Thematically coded techniques are also used in analyzing the qualitative data and this enables the researcher to detect the patterns, themes and relationship within the data (Braun and Clarke, 2006). Large amounts of qualitative data can be listed and managed using coding software (NVivo or similar), which make the analysis more efficient and accurate. Document analysis tools are also used to systematically review policy documents and reports to have a complete understanding of the regulatory environment. All these tools put together would help in making the research methodology quite strong in such a way that the research study would be capable of producing reliable and valid findings. The investigation can achieve the complexity of cryptocurrency regulation in Pakistan by using a set of rather strict and more flexible tools together and ensure consistency in the methodology.

Qualitative Study

Since the current paper is a qualitative one, it will be capable of investigating the regulatory landscape of cryptocurrency in Pakistan in-depth, i.e., what is the motivation behind the policy development and implementation. The qualitative research design is thematic analysis as it is a popular methodology of qualitative research, where the data is used to derive themes and patterns (Braun and Clarke, 2006). This method consists of a number of steps, such as data familiarization, coding, theme development, and interpretation. By doing so, the research would be in a position to reveal some of the most significant themes concerning compliance, conflict, as well as cooperation in the context of regulatory response to Pakistan. The qualitative research will also allow the researcher to obtain the views of different stakeholders, which will give a full picture of the socio-political processes that influence the regulation of cryptocurrencies. In contrast to the quantitative methods, where the figures are the primary kind of data, qualitative research is more concerned with the meaning, context and interpretation and is, therefore, especially helpful in studying a complex policy matter (Creswell, 2014). The qualitative design also permits the data collection and analysis to be flexible that, in its turn, permits the researcher to adapt to the novel knowledge and emerging trends. This applies especially to the cryptocurrency regulation sphere that has been swiftly evolving and is extremely unpredictable. On the whole, the qualitative research offers comprehensive and in-depth information about the regulatory issues and opportunities in Pakistan.

Secondary Sources

The secondary sources will be significant in this research paper, as they will give us a rough background of the world and the situation nationwide regarding cryptocurrency regulation. Notable sources will include reports of the international organizations such as the Financial Action Task Force (FATF) and the International Monetary Fund (IMF) that will allow obtaining information on the international standards of regulation and guidance (FATF, 2021; IMF, 2020). The scholarly articles are also meticulously examined to peruse the literature that exists regarding regulation of cryptocurrencies, fitech creation, and financial regulations. The materials give both theoretical and empirical evidence, and they guide the analytical framework of the study. In addition, the government policy documents and regulatory guidelines that are issued by the institutions, the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP) are studied to get informed about the domestic regulatory environment. The secondary sources will give the researcher a chance to place the primary data into context and follow the trends and patterns as well as gaps in the current knowledge base (Zetzsche et al., 2020). However, the use of secondary data has its issues too, such as the risk of biases and disadvantages of data availability. Despite such flaws, the inclusion of a variety of secondary sources, which can be deemed as credible, enhances the validity and reliability of the study and provides a solid base to be employed in the analysis and discussion.

Analysis of Research

As it has been noted in the analysis, Pakistan has not yet made much but great steps towards harmonization of its cryptocurrency regulations with the international standards. The push to adhere to FATF standards, especially in enhancing anti-money laundering (AML) and counter-terrorism financing (CTF) systems, is an indication that they are willing to enhance financial governance (FATF, 2021). Nevertheless, these measures are not always implemented because of institutional fragmentation and the absence of coordination between regulatory agencies (Ahmed & Raza, 2023). The existence of unofficial cryptocurrency markets proves the fact that the enforcement has serious flaws since individuals and companies still can operate beyond the official framework of the rules (Rehman and Ali, 2022). In addition, the discussion reveals that the technological limit and the absence of digital literacy hinders the adequate tracking and regulation of the transactions in cryptocurrencies. Another problem that makes regulatory work more complex is the economic aspects like inflation and reliance on informal financial systems.

Regardless of these problems, the discussion shows that Pakistan has a chance to improve its regulatory framework as well with the help of certain reforms and with the cooperation of other countries. To improve compliance and reduce the risks associated with cryptocurrency transactions, Pakistan needs to focus on institutional weaknesses and invest in technological infrastructure. Overall, the discussion shows that there is a need to have a multi-lateral and multi-faceted approach to regulating cryptocurrencies..

DISCUSSION, FINDINGS, AND ANALYSIS

The analysis indicates that the response of Pakistan concerning the international cryptocurrency policies can be characterized as the one of partial tolerance, significant interdepartmental conflicts, and low, but promising, chances of cooperation. Despite the efforts made by Pakistan to meet the requirements of the FATF-recommendations, particularly the improvement of AML and CTF systems, the real implementation of the aforementioned recommendations is inconsistent due to the institutional fragmentation and technical skills (Ahmed and Raza, 2023). Cryptocurrency markets that are informal are still flourishing, which is a sign of failure to enforce and regulate them (Rehman and Ali, 2022). The discussion underscores that local issues, such as political instability, financial limitations, and opposition of the traditional financial institutions, are important factors in influencing regulatory outcomes (Khan et al., 2022). They pose a complex environment in which the policymakers must strike a balance between conflicting priorities, in which compliance must be observed, and yet, promote innovation and financial inclusion. However, the findings show that Pakistan can encounter a significant amount of its regulatory framework improvement through the international cooperation. Technical support, capacity building, and policymaking advice can be offered by the international organizations FATF and IMF, which will help Pakistan to create a more efficient and sustainable regulatory framework (Arner et al., 2022). Furthermore, investing in online infrastructure and education can be employed to eliminate technological barriers, which will allow greater cryptocurrencies to enter the formal financial system. Overall, the paper demonstrates the importance of a proactive and integrated regulation.

DISCUSSION

As seen in the discussion, the cryptocurrency regulatory approach of Pakistan is a hybrid, which has demonstrated resistance and slow adaptation. On the one hand, the government has been reluctant in adopting cryptocurrencies fully due to fear of financial stability, possible security risk, and possible misuse of cryptocurrencies to perpetrate criminal activities (Khan et al., 2022). On the other side, the increase in international demand and the growth of domestic demand have provoked regulatory solutions among policymakers. The political instability and lack of consensus between the regulating bodies also make the process of policy making more complicated and results in the creation of disjointed and inconsistent regulations (Ahmed and Raza, 2023). Regulatory decisions are also affected by economic issues such as the high level of the informal economy and the low levels of financial inclusion since policymakers need to strike the balance between the risk reduction and the necessity to stimulate the economy. The other obstacles to good regulation are technological challenges such as inadequate digital infrastructure and inadequate digital literacy. However, the discourse indicates the importance of cross-border cooperation in addressing the loopholes in regulations. The intervention of international organizations (such as FATF and IMF) may provide technical assistance, capacity building and policy advice (Arner et al., 2022). The need to have a moderated regulation policy that would promote innovation and at the same time give financial stability is also discussed. When taking this course of action, Pakistan will be able to make itself a competitive player in the global digital economy.

FINDINGS

The findings of the present study suggest that there are several critical issues about the response of Pakistan on the international provisions of cryptocurrency. To start with, Pakistan is partially compliant with the FATF standards, especially in the aspects that pertain to the AML and CTF measures. However, the level of its implementation remains low due to the lack of effectiveness of the institution and the impossibility to unify the work of control bodies (FATF, 2021). Second, powerful domestic factors, such as political unrest, financial issues, and technological drawbacks, have a strong influence on policy execution (Khan et al., 2022). Third, regulatory uncertainty deters innovation and investment in the fintech industry, because companies and investors have to deal with indistinct legal frameworks and possible risks (Ali, 2020). Fourth, informal cryptocurrency markets predominance suggests lapses in regulatory control and enforcement (Rehman and Ali, 2022). Lastly, the research reveals that there is great possibility of international collaboration that may enable Pakistan to enhance its regulatory mechanism and be in tandem with the global standards. These findings highlight the need to have an integrated and global approach to the regulation of cryptocurrencies that address the international and national challenges. However, such measures do not consistently take place due to the institutional fragmentation and the lack of coordination among regulatory bodies (Ahmed & Raza, 2023). The presence of unofficial cryptocurrency markets confirms that the implementation has severe weaknesses as people and companies are still able to work outside the formal system of the regulations (Rehman and Ali, 2022). In addition, the discussion reveals that the technological limit and the absence of digital literacy hinders the adequate tracking and regulation of the transactions in cryptocurrencies. The other issue which complicates the work of regulators is the economic factors such as inflation and dependency on informal financial systems. Despite these issues, the discussion demonstrates that Pakistan has an opportunity to enhance its regulatory framework, too, with the assistance of some reforms and in collaboration with the other countries. Despite slight progress of the country in terms of complying with the global standards, particularly in relation to addressing the FATF recommendations, there are significant omissions concerning the consistency of policy, the capacity of the institutions, and the technological readiness (FATF, 2021). The interaction between external forces and internal constraints of the state leads to the dynamic regulatory environment, whereby the outcomes are determined by the outside forces and internal facts (Khan et al., 2022). The study notes that such a restrictive approach will never be effective since it has driven cryptocurrency activities to the informal sector where it will become a threat to financial stability. Instead, a balanced system of rules should be used to align global standards and local demands to achieve sustainable development. Such a framework should be geared towards the enhancement of institutional coordination, technological infrastructure and innovation. Furthermore, the global cooperation can considerably assist in overcoming the challenges connected with the regulation of cryptocurrencies, providing the chance of sharing knowledge and building capacity (Arner et al., 2022). As a rule, the analysis shows that active and adaptable attitude towards the regulation of cryptocurrencies is needed, which would enable Pakistan to enjoy the opportunities of using digital money and mitigate all risks.

POLICY RECOMMENDATIONS

A series of policy recommendations is given to counter the difficulties in this study. To begin with, Pakistan ought to come up with a comprehensive legal framework that explicitly outlines the position and control of cryptocurrencies, which gives an assurance to investors and other stakeholders (Ali, 2020). Nonetheless, those measures are not always undertaken because of the institutional fragmentation and the inability of the regulatory authorities to coordinate (Ahmed & Raza, 2023). The presence of unofficial cryptocurrency markets confirms that the implementation has severe weaknesses as people and companies are still able to work outside the formal system of the regulations (Rehman and Ali, 2022). In addition, the discussion reveals that the technological limit and the absence of digital literacy hinders the adequate tracking and regulation of the transactions in cryptocurrencies. The other problem that makes the work of regulators

difficult is the economic reasons like inflation and reliance on informal financial system. Nevertheless, these concerns notwithstanding, the discussion shows that Pakistan can improve its regulatory framework, as well, with the help of some of the reforms and in cooperation with the other countries.

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