ADVANTAGES AND DISADVANTAGES OF DIGITAL CURRENCY, PROSPECTS FOR DEVELOPMENT

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Abstract*. In this article, digital currency, operations on them, some advantages and disadvantages of digital currencies are shown in a large scale. A digital currency is a form of currency that exists only in digital or electronic form, is unregulated, and is reported to exist only in digital form.*

Keywords*: digital currency, electronic money, electronic currency, cyber cash, virtual currencies, cryptocurrencies, monetary and fiscal policy, electronic transactions.*

Digital currency is a form of currency that exists only in digital or electronic form. It is also referred to as digital money, electronic money, electronic currency, or cybercash. Digital currencies can only be used through computers or mobile phones, as they exist only in electronic form. Typically, digital currencies do not require intermediaries and are often considered the cheapest way to trade currencies.

All cryptocurrencies are digital currencies, but not all digital currencies are cryptocurrencies. Some advantages of digital currencies are that they allow for the continuous transfer of value and can reduce transaction costs. Some disadvantages of digital currencies are that they can be volatile in trading and susceptible to fraud.

Digital currencies do not have physical attributes and exist only in digital form. Operations with digital currencies are carried out through computers or electronic wallets connected to the internet or designated networks. In contrast, physical currencies like banknotes and coins are tangible, meaning they have specific physical properties and characteristics. Operations with such currencies can only be conducted if their owners physically possess these currencies.

Digital currencies have similarities to physical currencies. They can be used to purchase goods and services. They may also find limited use in certain online communities, such as gaming sites, gambling portals, or social networks.

Digital currencies also enable rapid transactions that can be seamlessly carried out across borders. For instance, a person located in the United States can make payments in digital currency to a counterparty living in Singapore, provided both are connected to the same network.

Characteristics of digital currencies:

As mentioned above, digital currencies exist only in digital form without a physical equivalent. They can be centralized or decentralized. The production and distribution of physical fiat currency, such as banknotes and coins, are centralized processes managed by central banks and government institutions. In contrast, well-known cryptocurrencies like Bitcoin and Ethereum are examples of decentralized digital currency systems.

Digital currencies can transfer value. Using digital currencies requires a shift in mindset within the available scope of currencies, where they are related to the operations of buying and selling goods and services

However, digital currencies expand the concept. For example, a gaming network token might extend a player's life or grant them additional superpowers. This isn't a trade transaction but represents a transfer of value.

Types of digital currencies:

Digital currency is a broad term that can describe various types of currencies existing in the electronic domain. Generally, there are three types of currencies:

Cryptocurrencies: Cryptocurrencies are digital currencies that use cryptography to secure and verify transactions on the network. Cryptography is also applied to control the creation and regulation of these currencies. Bitcoin and Ethereum are examples of cryptocurrencies. Depending on the jurisdiction, cryptocurrencies may or may not be regulated. They are considered virtual currencies because they are unregulated and exist only in digital form.

Virtual currencies: Virtual currencies are unregulated digital currencies controlled by developers or various stakeholders of a founding organization. Virtual currencies can also be algorithmically managed through a designated network protocol. An example of virtual currency is a gaming network token, which is determined and regulated by its developers.

Central Bank Digital Currencies (CBDCs): CBDCs are regulated digital currencies issued by a country's central bank. A CBDC could complement or substitute traditional fiat currency. Unlike fiat currency, which exists in both physical and digital forms, CBDCs exist solely in digital form. England, Sweden, and Uruguay are among the countries planning to issue digital versions of their fiat currencies.

The use of CBDCs has been proposed as a means to enhance the speed and security of centralized payment systems, reduce the costs and risks associated with handling cash, encourage more financial inclusivity for individuals and companies unable to use traditional banking services, facilitate cross-border payments, and reduce the demand for currency.

The introduction of a CBDC in the United States presents several challenges. For example, a robust privacy and security infrastructure must be in place before Congress can authorize the issuance of a CBDC. The government must also consider the potential impacts on monetary policy and the operational management of transitioning from traditional money to a CBDC.

Digital currencies	Virtual currencies	Cryptocurrencies
A regulated or unregulated currency that exists only in digital or electronic form	An unregulated digital currency controlled by a developer(s), a founding organization, or a defined network protocol.	A virtual currency that uses cryptography to secure and verify transactions, as well as manage and control the creation of new currency units.

Advantages of digital currencies: Digital currency transactions within a single network are very fast because they can be conducted without intermediaries. Payments in digital currency are made directly between the transacting parties without the need for any intermediaries, making transactions usually instant and at a low cost. This is better than traditional payment methods that involve banks or clearing centers. Electronic transactions based on digital currency also ensure the maintenance of necessary documents and transparency in transactions. No physical production required: There are no physical production facilities required for digital currencies as there are for physical currencies. Such currencies are also immune to physical defects or contamination that can exist in physical currency.

Implementation of monetary and fiscal policy: In the current currency regime, the Fed works through a series of intermediaries - banks and financial institutions - to circulate money into the economy. CBDCs help bypass this mechanism and allow the government to make payments directly to citizens. They also simplify production and distribution methods by eliminating the need to physically produce and transport currency paper from one place to another.

Decentralized: Digital currencies can be decentralized. This means they are not controlled by any government or financial institution. Decentralized digital currencies are more resistant to government intervention, censorship, and manipulation. Decentralization means that control over the digital currency is distributed among a wider range of owners or users.

Privacy: Operations with digital currencies do not involve personal data, providing users with a high level of privacy and anonymity. Therefore, they are very beneficial for those who wish to protect the confidentiality of their financial operations.

Worldwide usability: Anyone connected to the internet can use digital currencies from anywhere in the world. Therefore, these services are particularly beneficial for people who do not have access to conventional banking facilities. Moreover, most of these banking services only require an internet connection; for geographic areas without robust financial infrastructure, digital currencies can be a stronger option.

Potential for hacking: Their digital nature makes digital currencies susceptible to hacking attacks. Hackers can steal digital currencies from online wallets or alter the protocol for digital currencies, rendering them useless. As demonstrated by many instances of cryptocurrency breaches, protecting digital systems and currencies is an ongoing effort.

Volatile value: Digital currencies used for trading can lead to price volatility. For example, the decentralized nature of cryptocurrencies has led to a plethora of thinly capitalized digital currencies prone to sharp price swings based on investor whims. Other digital currencies have experienced similar price trajectories in their early days. For instance, Linden dollars, used in the Second Life online game, had a similar volatile price trajectory in its early days.

Limited acceptance: Digital currencies are still not used as a means of payment by retail sellers and other businesses. Therefore, using them for regular transactions may be difficult. While digital currencies have gained popularity, there is still limited functionality in many places for everyday transactions.

Irreversible: Transactions on the digital currency network are irreversible. This means that once a transaction is completed, it cannot be reversed. This can be a disadvantage if a mistake or fraud occurs. It is also a significant disadvantage for newcomers to the digital currency field, as there is a significant learning curve. Since there is no central control area for many digital currencies, new users cannot go to their local branches for assistance with many digital currencies.

ADVANTAGES AND DISADVANTAGES OF DIGITAL CURRENCIES:

Advantages:

Faster transaction times.

No need for physical production.

Lower transaction costs.

Facilitates the implementation of monetary and fiscal policies.

Offers more privacy compared to other forms of currency.

Disadvantages:

Can be difficult to store and use.

Susceptible to hacking.

May have volatile prices that can lead to value loss.

Transactions cannot be reversed.

Still has limited acceptance.

The future of digital currencies: Cryptocurrencies like Bitcoin have appreciated in value, but they are primarily used for speculative investments or purchasing other speculative assets. While there are signs of acceptance by merchants in countries like El Salvador, the high volatility and complexity of these currencies make them impractical for many everyday applications. Many companies have attempted to reduce volatility by introducing stablecoins, which are pegged to the price of a fiat currency. Typically, this is done by depositing an equivalent amount of fiat that can be used to redeem the tokens. However, issuers of stablecoins like Tether have used these deposits for more speculative investments, raising concerns about potential market crashes.

Another potential application lies in central bank digital currencies (CBDCs), which can be issued by a country's bank or monetary authority. They are used and stored in online wallets similar to cryptocurrencies but allow the central bank the discretion to issue and freeze tokens as needed. Several countries, including China, have offered digital versions of their currencies.

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