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Cryptocurrencies: An etymological approach

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Abstract---This study aims to elucidate the concept of digital currencies, encompassing both cryptocurrencies and central bank digital currencies (CBDCs), and to analyze the distinctive characteristics of each type. Additionally, the study explores the impact of these currencies on the global economic system. Recent widespread adoption of digital currencies, which have not been subjected to any regulatory or monetary authority, presents potential risks to global economies. The study concludes that, based on an examination of digital currency concepts, it is essential to develop a model for issuing central bank digital currencies that aligns with the specific characteristics of each economy, given that their emergence has become an inevitable result of monetary developments.

Keywords---Digital currencies, Cryptocurrencies, Central bank digital currencies (CBDCs).

Introduction

Digital currencies are among the most significant challenges facing the global economy today, particularly concerning the monetary system. These currencies have successfully attracted a large share of global investment liquidity, resulting in widespread adoption. However, this proliferation poses a serious threat to both local and international economic systems. In this context, governments have sought to develop digital currencies issued by central banks to clarify the situation and manage the risks associated with virtual cryptocurrencies, which have garnered increased attention recently. This intervention may impact the central bank's role as the primary issuer of currency and its supervisory function over the financial sector.

Significance of the Study:

The topic of digital currencies has garnered increasing attention due to several key factors, including:

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1. The accelerating shift towards a digital economy.
2. The emergence of cryptocurrency and its widespread acceptance by individuals, institutions, and even some countries.
3. The desire of central banks to leverage cryptocurrency technology to enhance and benefit the economy.

Objectives of the Study:

This study aims to achieve the following objectives:

1. **Analyze the Benefits and Risks Associated with the Trading of Digital Currencies:** The study seeks to explore the potential advantages and challenges arising from the trading of digital currencies, including their impact on financial markets and economic stability.
2. **Review the Concept of Central Bank Digital Currencies and Assess Their Economic Implications:** The study aims to provide a comprehensive definition of digital currencies issued by central banks and analyze the expected effects of these currencies on the macroeconomy, monetary policy, and the global financial system.

Problematic:

This research paper aims to analyze and interpret the factors that influence the understanding and definition of digital currencies. In this context, the paper seeks to answer the following key question: What are the main factors that contribute to clarifying and explaining the nature of digital currencies? To cover the theoretical aspects related to this topic, the research has been divided into several sections that address various dimensions of this field.

Chapter One: The Emergence and Evolution of Digital Currencies

Digital currencies are a form of financial assets stored in electronic files or databases, differing in their structure and uses compared to traditional cash. A digital currency can be defined as a means of financial exchange represented by electronic records, encompassing various main types that signify advancements in the fields of finance and trade.

Digital currencies include electronic money, which allows users to conduct financial transactions online without the need for physical cash. Among the most notable forms of digital currencies are cryptocurrencies, which rely on encryption techniques to ensure transaction security and reduce the possibility of manipulation. Prominent examples of these currencies include Bitcoin and Ethereum, which represent advanced models in this field.

Additionally, there are central digital currencies issued and managed by regulatory bodies or central banks. These currencies aim to combine the advantages of digital currency with traditional oversight and regulation, thereby enhancing the stability of the digital financial system.

On the other hand, stablecoins aim to reduce price volatility that may affect the actual value of the digital currency. These currencies are typically backed by real assets such as the US dollar or gold to ensure value stability.

There are also digital currencies linked to specific communities, such as those used in video games or social networks. Although these currencies provide value within their specific domains, they cannot be converted into real cash, limiting their use in general financial transactions.

Understanding these different types of digital currencies is crucial for developing public policies related to their regulation and management, contributing to the stability of the financial system and protecting consumers in the growing digital economy.

Section One: The Historical Roots of Virtual Currencies

Digital currencies emerged as a tool to meet financial obligations within the context of digital trade. Initially, scholars used the term "digital currency" to refer to some electronic applications designed to settle financial transactions in digital commerce. For example, the digital payment system used in the Netherlands in 1994, as well as the smart card in the United States, were considered early forms of digital currency. However, these electronic applications could be classified as electronic banking tools or means of electronic payment rather than being classified as digital currencies due to their lack of characteristics and elements of traditional currency.

The evolution of digital currencies became more apparent during the 1990s and saw a notable increase in spread following the global financial crisis of 2008. This period witnessed intensive efforts by several programmers to establish digital currencies, but most of these attempts failed due to the lack of organizational and legislative structures, as well as the low number of internet users globally at that time.

In 2008, with the rise in global economic crises and a decline in trust in the traditional financial system, an unidentified person known as "Satoshi Nakamoto" published a research paper introducing the concept of "Bitcoin" as an electronic currency system. In January 2009, the first Bitcoin was launched, starting at an extremely low value.

In 2005, China witnessed the emergence of a type of digital currency based on commodities through the "Tencent QQ" platform using "Q" coins. However, this currency faced criticism due to its potential negative impact on the stability of the official Chinese currency, the "Yuan," due to the speculation surrounding its use. Consequently, this currency did not have a strong impact on the Chinese financial system.

Subsection 2: Types of Digital Currencies in Circulation

Digital currencies vary in their characteristics and uses, and they can be classified into several main types based on their level of centralization and

methods of handling. The basic classification of digital currencies includes the following types:

Official Digital Currencies: Official digital currencies are issued by institutional entities such as major corporations or governments. A prominent example is the LIBRA currency launched by Facebook. The LIBRA currency aims to facilitate global financial transactions through a unified digital platform and seeks to integrate blockchain technology with the traditional financial system to provide a stable digital currency backed by a basket of diverse assets.

Electronic Money: This type includes electronic cards used for storing and conducting financial transactions. Although similar to digital currencies in usage, electronic money is essentially digital records of traditional cash balances and is managed through banking systems based on encryption technologies and account management.

Virtual Currencies: Virtual currencies are a category of currencies traded within specific environments and are not always endorsed by official financial authorities. Virtual currencies vary in their characteristics and can be classified into two main types:

- **Centralized Convertible Currencies:** These currencies are managed by a central entity that controls their issuance and trading. An example of this is electronic gold, which reflects the value of real gold but is traded digitally through specialized financial platforms.
- **Decentralized Convertible Currencies:** These currencies are based on blockchain technology, allowing for decentralized trading without the need for an intermediary. A prominent example of this type is Bitcoin, which represents one of the most important and oldest cryptocurrencies. Bitcoin features a decentralized issuance and trading mechanism through a distributed network of participants, enhancing the security and transparency of transactions and reducing risks associated with central control.

These types of digital currencies are vital areas of study in academic research and public policy, providing new insights into how financial innovations impact global economic systems and offering solutions to the challenges that may arise from this rapidly advancing digital evolution.

Subsection 3: Characteristics of Digital Currencies: An Academic Analysis

1. **Speed of Transactions** Speed is one of the most notable characteristics of digital currencies compared to traditional methods such as bank transfers or ACH systems, which can take days to confirm a transaction. Digital currencies enable near-instantaneous payment execution, thereby enhancing the efficiency of the financial system and saving valuable time for users.
2. **Low Transaction Fees** Digital currencies are distinguished by their extremely low transaction fees, which can sometimes be zero. This feature makes them attractive to both individuals and businesses, as they can avoid the high costs associated with traditional financial transfers, thereby achieving greater economic efficiency.

3. **Dual Functionality** Digital currencies can be classified as both a means of financial settlement and a payment tool. They are not merely a monetary instrument but also serve as a unit of wealth that can be used to conduct economic transactions in various ways.
4. **Global Accessibility** Digital currencies offer global accessibility, allowing anyone, anywhere in the world, to access their digital wallet and perform money transfers within a few minutes. This feature enhances financial inclusion and contributes to financial empowerment for individuals in remote or underserved areas with limited access to traditional banking services.
5. **Security and Reliability** Digital currencies rely on blockchain technology, which provides a high level of security. The blockchain is a distributed and tamper-proof ledger that ensures transactions cannot be forged or falsified. This technology makes digital currencies a secure and reliable option, increasing their popularity in financial markets.
6. **Decentralization** Digital currencies are produced in a decentralized manner, meaning they are not subject to a central authority or governing entity. This decentralized nature promotes autonomy and reduces the risk of political or economic manipulations that could affect the traditional financial system.
7. **Control of Supply and Inflation** Digital currencies are characterized by a market cap and a limited supply, which aligns with market supply and demand. This mechanism helps protect digital currencies from long-term inflation, as the available amount of currency is regulated according to predefined criteria, thereby enhancing its value stability over time.

These characteristics underscore the importance of digital currencies as a future option in the global financial system, providing innovative solutions to longstanding issues and opening new avenues for economic interaction.

Chapter Two: The Ruling on Cryptocurrency Trading and Its Regulations

This section explores the fatwas issued by contemporary Islamic scholars and fatwa institutions regarding the legal status of cryptocurrency trading, by outlining the factors affecting the legal ruling and discussing them.

1. Concept of Cryptocurrency Trading

Cryptocurrencies are a type of financial asset used in economic transactions over the internet. These currencies are intangible and rely on blockchain technology to ensure security and transparency in transactions. Notable examples of cryptocurrencies include Bitcoin, Ethereum, and Ripple.

2. Contemporary Fatwas Regarding Cryptocurrencies

Scholarly opinions on the legality of cryptocurrency trading vary. Some fatwa institutions and scholars have issued fatwas prohibiting the use of these currencies, while others have endorsed their use under certain conditions. The differing fatwas are based on the following principles:

- **Sharia Compliance:** Some scholars emphasize the need to adhere to Sharia principles in financial transactions, such as avoiding gharar (risk) and riba (interest). From this perspective, it is believed that cryptocurrencies may involve high risks and instability, which could be contrary to Sharia principles.

- **Analysis and Research:** Some scholars stress the importance of examining the nature of cryptocurrencies through thorough studies to determine their compliance with Islamic law. They argue that cryptocurrencies should be evaluated from multiple angles, such as their security, transparency, and economic impact.
- **Legal and Economic Responsibility:** Some fatwas highlight the importance of adhering to local and international laws related to cryptocurrency trading. At the same time, some believe that cryptocurrencies might contribute to achieving certain economic goals, such as facilitating financial transactions and reducing costs.

3. Factors Affecting the Legal Ruling

Factors that influence the legal ruling on cryptocurrency trading include:

- **Instability:** The volatility of cryptocurrency prices is a significant concern, as it can lead to substantial financial losses.
- **Transparency Verification:** Some cryptocurrencies raise doubts about the transparency of the blockchain system used, which might affect their acceptance in markets.
- **Social and Economic Impact:** The impact of cryptocurrencies on society and the economy should be examined comprehensively, including their effects on the poor and small investors.

Discussing the ruling on cryptocurrency trading requires a detailed analysis of various scholarly opinions and their impacts. This analysis should be objective and transparent, taking into account ongoing technological and economic developments. Scholars and policymakers should continue to study this issue in alignment with Sharia principles and contemporary requirements.

The fatwas issued by various fatwa institutions and contemporary scholars address the issue of digital currencies and their Islamic ruling, particularly concerning Bitcoin. These fatwas can be summarized as follows:

1. The fatwa from the Egyptian Dar al-Ifta issued on 28/12/2017 titled "The Grand Mufti on the Ruling of Dealing with Electronic Currencies – Bitcoin."
2. The fatwa from the Palestinian Dar al-Ifta issued on 14/12/2017, which prohibits dealing with virtual electronic currencies including Bitcoin.
3. The fatwa from the Directorate of Religious Affairs in Turkey.
4. The fatwa from the Dubai Awqaf and Minors Affairs Foundation issued on 30/01/2018 titled "The Islamic Ruling on Dealing with Bitcoin."

Many contemporary scholars have also ruled against dealing with Bitcoin, including: Jumaa Ali, Khlan bin Nabhani al-Kharoosi (Assistant Grand Mufti of Oman), Abdul Sadiq bin Khalkan, and the Secretary-General of the International Union of Muslim Scholars, Ali al-Qaradaghi, among others.

The opinions can be divided into three main views:

1. **Prohibition:** This is the stance of the majority of contemporary scholars, and the fatwas from the mentioned institutions follow this view. Among the scholars supporting this opinion are Ahmed Haji al-Khiri, a member of the Fatwa Authority at the Kuwaiti Ministry of Awqaf, and Sheikh Abdullah al-Mutlaq, a member of the Council of Senior Scholars in Saudi Arabia.

2. **Permissibility:** Some contemporary scholars hold this view, which was supported by the Islamic Economics Forum in their statement.
3. **Suspension of Fatwa:** Some scholars consider the issue to be a major contemporary issue that requires collective fatwas from juristic bodies and fatwa institutions, with the participation of technical and economic experts. Among these scholars are Sheikh Muhammad Saleh al-Munajjid, Sheikh Abdul Rahman al-Barak, Sheikh Yusuf al-Shibli, and Ahmed Abdul Aziz al-Haddad al-Fawzan.

Section Two: Drawbacks of Digital Currencies

Despite their numerous advantages, digital currencies present a set of challenges and drawbacks that must be considered carefully. Some of these drawbacks are evident in the following aspects:

Loss of Access to Digital Wallets: Losing the private key to a digital wallet is a significant issue, as the wallet cannot be recovered or accessed once the key is lost. This means that the wallet becomes permanently inaccessible, effectively resulting in the complete loss of its contents.

Facilitation of Illicit Activities: Cryptocurrencies provide a conducive environment for suspicious transactions such as drug and arms trafficking, due to the lack of traceable personal data. This makes them a preferred medium for individuals engaging in illegal activities, as tracking them becomes challenging.

Lack of Effective Regulation: Digital currencies lack regulatory bodies to address cases of fraud or deception. This enhances the likelihood of fraud, as there is no accountable authority to hold responsible in the event of issues.

Price Stability and Volatility: Digital currencies experience sharp and unstable price fluctuations, where their value can change significantly over short periods. These fluctuations make them a high-risk investment tool, potentially leading to severe declines that impact investments.

Absence of Physical Presence: Digital currencies are intangible; they are entirely virtual and lack a physical form. This makes them ungraspable or physically interactive, which can cause discomfort for some individuals.

Opinions vary on the impact of digital currencies on financial markets. Some experts believe that these currencies do not pose a significant threat at present and that current market volatility might be merely a speculative bubble lacking the attributes for lasting presence. In contrast, other analysts think that cryptocurrencies will fundamentally alter the global economy in the future. Digital currencies have managed to attract a substantial amount of investment liquidity, indicating the growing size of their market, despite associated risks such as potential effects on major currencies or use in illegal activities.

Consequently, the advantages offered by digital currencies suggest that central banks and governments should adopt effective regulatory policies to manage them positively, balancing the benefits of their capabilities with protecting the global economy from potential risks.

Conclusion

Based on the information presented in this research paper, several important conclusions and recommendations can be drawn, as outlined below:

First: Conclusions

1. Digital currencies are decentralized, meaning users cannot directly control them, and transactions occur exclusively through the internet without any physical presence.
2. Digital currencies are traded through an encrypted system that obscures the identities of recipients, which could pose a threat to financial stability if used in suspicious activities.
3. These currencies are virtual and lack a tangible presence in global markets, making it difficult to track their movement.
4. Some sectors encourage the use of virtual currencies due to their lower cost compared to digital currencies.

Second: Recommendations

1. There is a need to establish a comprehensive and coordinated global legal framework to regulate digital currencies, aiming to reduce risks associated with financial stability. This framework should include specific regulations for the primary uses of cryptographic assets.
2. Regulatory rules and texts should align with the risk levels associated with digital currencies and the economic functions they perform.
3. Policymakers should prioritize accelerating cross-border payment procedures, while working to reduce their costs and enhance their transparency to include all individuals.

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