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CRYPTOCURRENCY IN KAZAKHSTAN AND CENTRAL ASIA: AN OVERVIEW

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INTRODUCTION

The rise of cryptocurrencies has transformed financial ecosystems worldwide, and Central Asia is increasingly engaging with this digital revolution. Central Asia, with Kazakhstan at its forefront, is emerging as a notable hub for cryptocurrency activities, driven by abundant energy resources, strategic location, and evolving regulatory frameworks. Countries in this region are exploring the potential of cryptocurrencies not only as investment vehicles but also as catalysts for economic growth.



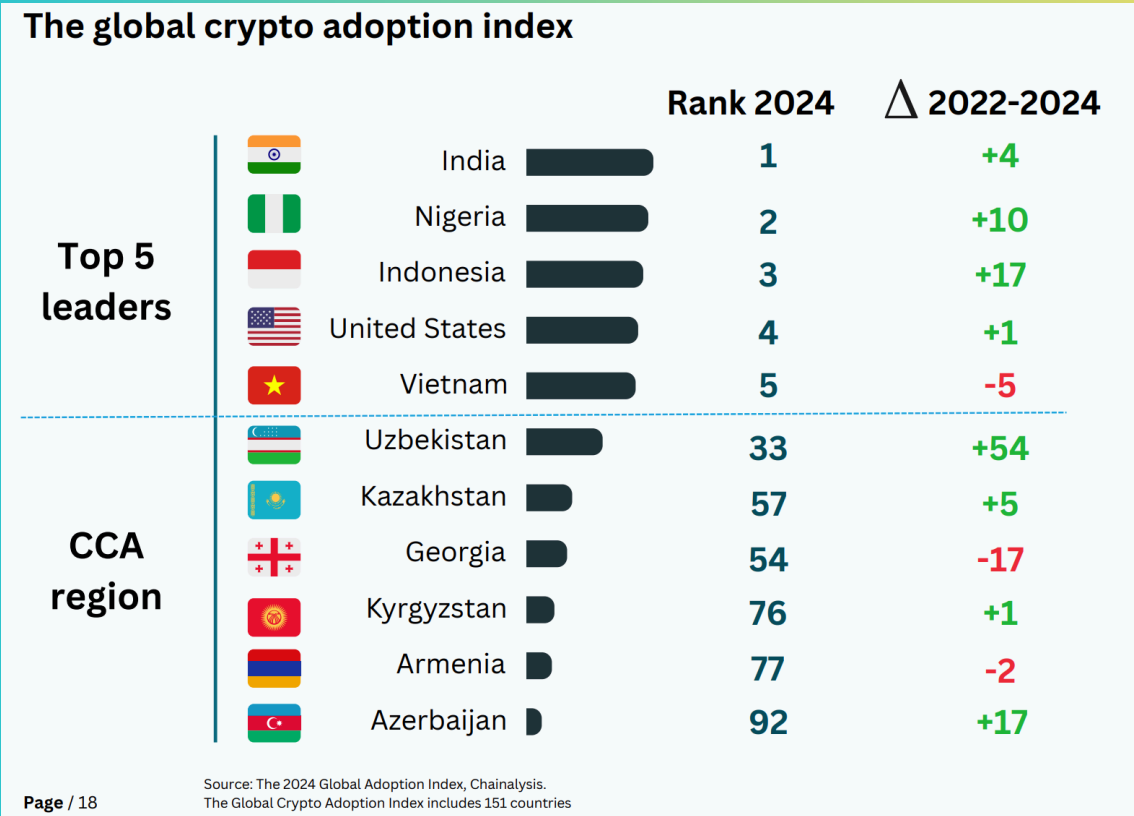
Source: eurasianet.org

TRENDS IN CRYPTOCURRENCY OWNERSHIP

Kazakhstan has experienced a notable increase in cryptocurrency ownership among its population. As of 2024, approximately **8%** of Kazakhstanis own cryptocurrencies, up from **4%** in 2022. This growth positions Kazakhstan **57th** in the 2024 Global Crypto Adoption Index, reflecting a steady upward trend despite challenges in mining operations due to regulatory constraints.

Although there is increasing public interest, the overall market remains relatively small compared to global standards. As of early 2023, only about 1-3% of residents were actively buying or selling crypto assets. Market volatility also poses risks that could deter potential investors.

Uzbekistan has emerged as a regional leader in cryptocurrency adoption, ranking **33rd globally** - an impressive leap of 54 positions since 2022. About **1.5%** of its population, or roughly 512,000 individuals, own cryptocurrencies. The rapid growth is attributed to a favorable regulatory framework that allows cryptocurrency transactions exclusively through licensed providers. In 2024, Uzbekistan's licensed exchanges processed over \$1 billion in transactions, underscoring the robust integration of digital assets into its financial system.



Source: astanatimes.com

Tajikistan is among the lowest in the region regarding cryptocurrency adoption. Compared to its neighbors, such as Kazakhstan and Uzbekistan, which have established more robust frameworks for digital assets, Tajikistan's position is less favorable. The country does not feature prominently in global rankings for cryptocurrency ownership or usage. Cryptocurrencies are neither explicitly banned nor legally recognized in Tajikistan. This creates a "grey area" for crypto activities, leading to uncertainty among potential investors and users. While there is no outright prohibition, the lack of clear regulations can deter engagement with digital assets.

| Country | Global Rank | Population Owning Crypto | Key Features |
|---------------------|-------------|--------------------------|---|
| <i>Uzbekistan</i> | 33rd | ~512,000 (1.5%) | 15 licensed exchanges; \$1 billion transaction volume; tax exemptions |
| <i>Kazakhstan</i> | 57th | ~1.5 million (8%) | CBDC introduction; regulatory overhaul; mining challenges |
| <i>Kyrgyzstan</i> | 76th | Data not specified | Emerging interest but lacks substantial infrastructure |
| <i>Tajikistan</i> | Not ranked | Minimal | Limited engagement with cryptocurrencies |
| <i>Turkmenistan</i> | Not ranked | Minimal | Lacks infrastructure and public interest |

Comparative analysis of the cryptocurrency engagement
Source: astanatimes.com

REGULATORY FRAMEWORK AND DEVELOPMENTS

As of April 2023, the Ministry of Digital Technology began issuing licenses for cryptocurrency activities under the new Law on Digital Assets, it aims to regulate the issuance and circulation of digital assets, ensuring compliance with anti-money laundering (AML) and counter-terrorist financing (CFT) measures.

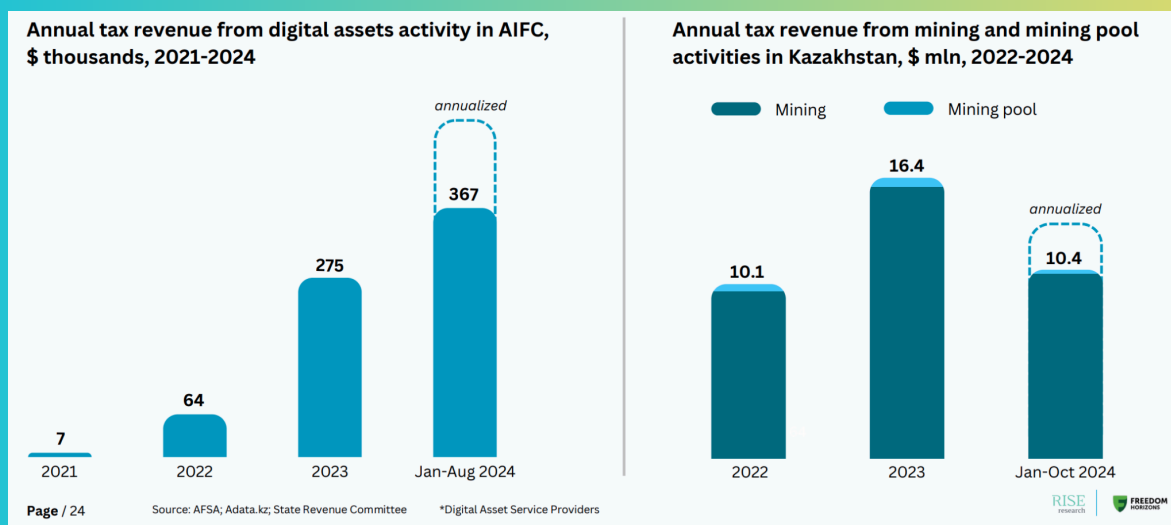
Kazakhstan has made significant strides in establishing a regulatory environment conducive to cryptocurrency activities

The Astana International Financial Centre (AIFC) has licensed 11 cryptocurrency exchanges, facilitating access to 112 cryptocurrencies. Trading activity on these platforms reached approximately \$815 million between January and October 2024.

New regulations, which took effect in January 2024, require all mining operations to obtain state licenses and ensure that at least 50% of mined coins are traded through AIFC-registered platforms. This move aims to enhance transparency and regulatory oversight.

In late 2024, Kazakhstan's regulators froze approximately \$1.2 million in cryptocurrency and shut down numerous illegal over-the-counter platforms. This crackdown is part of a broader effort to combat unlicensed crypto activities, which have been linked to money laundering risks

In 2023, Kazakhstan introduced a **Central Bank Digital Currency (CBDC)** to compete with cryptocurrencies, indicating a dual strategy of regulation and innovation aimed at stabilizing the financial landscape while embracing digital assets.



Source: astanatimes.com

The Kyrgyz Republic legalized cryptocurrency transactions in January 2022, establishing a formal regulatory environment that aims to attract investment and innovation. This legal recognition has led to a significant increase in the turnover of legal crypto exchanges, which grew from 5.2 billion soms in 2022 to 346.7 billion soms in the first half of 2024

The government is considering raising the sales tax on virtual asset transactions from 3% to 5%, which has raised concerns among stakeholders about potential negative impacts on the market. Despite these concerns, legal crypto exchanges contributed approximately 73.1 million soms in taxes in 2023, and by mid-2024, this amount reached 74.2 million soms. The government aims to collect around 350 million soms annually from the crypto sector, indicating its growing importance as a revenue source.

Uzbekistan has established a regulatory framework aimed at fostering cryptocurrency adoption. The National Agency for Prospective Projects (NAPP) oversees the sector and has introduced a regulatory sandbox that allows for experimentation with blockchain technologies, providing tax benefits and incentives to participants. As of December 2024, Uzbekistan boasts 15 licensed service providers, including two crypto exchanges and ten crypto stores.

The growth of Uzbekistan's crypto ecosystem is attributed to several factors:

Regulatory Support

The government has created a stable environment for digital assets, allowing operations exclusively through licensed providers and facilitating significant transaction volumes.

Infrastructure Development

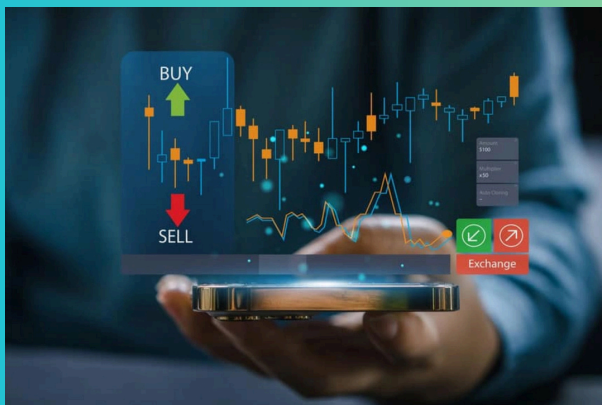
With 15 licensed cryptocurrency exchanges, Uzbekistan has established a robust infrastructure that encourages both retail and institutional participation in the crypto market.

ECONOMIC IMPACT

The digital asset sector in Kazakhstan has shown significant growth in tax revenues. In the first eight months of 2024, licensed digital asset providers contributed approximately **\$367,000** in taxes, up from \$275,000 in 2023. Additionally, crypto-mining activities generated around \$10.4 million in tax revenue over ten months and \$16.4 million in 2023. The cryptocurrency market in Kazakhstan is anticipated to decline by 2.87% from 2024 to 2025, leading to a projected market volume of US\$101.4 million in 2025.

Kazakhstan emerged as a major player in Bitcoin mining after China's ban on the activity in 2021, accounting for about 27.3% of global mining at its peak. This influx of mining operations has stimulated local economies, although it has also led to increased energy demands and regulatory scrutiny.

The cryptocurrency market in Uzbekistan is projected to generate substantial revenue, with estimates of \$57.3 million for 2024. Since 2022, the sector has contributed over \$3.6 million to the state budget, highlighting its growing economic significance. Cryptocurrency exchanges are expected to contribute around \$1 million annually due to increased fees, reflecting the government's efforts to capitalize on this burgeoning sector.



Source: caspianpost.com

CHALLENGES

Energy Constraints

Both Kazakhstan and Kyrgyzstan struggle with energy shortages that impact mining operations and overall crypto market development.

Regulatory Uncertainty

While Uzbekistan has established a supportive framework, other countries like Kazakhstan are still refining their regulations to balance innovation with oversight.

Public Awareness

There remains a need for increased public understanding of cryptocurrencies to foster broader adoption across the region.

Cybersecurity Threats

The risk of hacking, fraud, and other cyber threats remains a persistent challenge for cryptocurrency platforms.

FUTURE PREDICTIONS

Continued Growth

The region is expected to see sustained growth in cryptocurrency adoption and trading volumes as more individuals recognize the potential of digital assets.

Regulatory Clarity

As governments refine their regulatory frameworks, clearer guidelines will likely emerge, fostering greater confidence among investors and businesses.

Technological Advancements

Innovations such as decentralized finance (DeFi) platforms and stablecoins are anticipated to gain traction, further integrating cryptocurrencies into everyday financial transactions.

Economic Resilience

Central Asian economies are projected to grow robustly despite global uncertainties, with GDP growth rates expected to rebound to around 5.9% by 2025.

CONCLUSION

In conclusion, while Kazakhstan is making significant strides in cryptocurrency adoption and regulation within Central Asia, it faces challenges that could impede future growth. Uzbekistan's emergence as a leader in adoption rates highlights the potential for both leading CA countries to capitalize on the growing interest in digital assets. By addressing infrastructure needs and enhancing regulatory frameworks, both nations can harness the full potential of cryptocurrencies as transformative economic forces within their respective markets. As Central Asia navigates this rapidly changing landscape, it stands poised to play an increasingly significant role on the global stage of digital assets.

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