

Changing Dimensions of Sri Lankan Economy with the Surge of Crypto currency during the COVID-19 Pandemic: Analysis of Sri Lankan Crypto currency through Global Crypto Frameworks

R.A.C. Sewmini¹

Abstract

Crypto currency is a virtual currency without being backed by any tangible reserve. According to 'Pauxful', a Bitcoin trading platform, the monthly trading volume of Sri Lanka during 2019-2021 was 730% parallel to the COVID-19 pandemic. Despite its' popularity, Crypto currency is not still considered as a legal tender in Sri Lanka. Rather, the market volume of Crypto currency in Sri Lanka is LKR 9, 637, 613 with over 320,000 user base. But on the other hand, Crypto-related illicit activities have also raised financial issues in Sri Lanka emphasizing the need of a regulatory mechanism which already many international countries have implemented at present. The main research problem of this study is to investigate why Sri Lanka is not regulating Crypto currency to mitigate financial insecurities to harness the benefits. The main objective of this study is to examine the financial threats born out of Sri Lankan Crypto while investigating how international countries have mitigated their risks through the policy frameworks that have been implemented. This study is a qualitative research based on secondary data. Findings reveal that the anonymity of the Crypto wallet which hides the transaction history and user identity is the main cause for financial insecurities further emphasizing that Sri Lanka's need to strengthen the Know Your Customer (KYC) and Anti Money Laundering (AML) regulations to ensure market integrity in compliance with the legal and regulatory framework. Indeed, there exists an imperative need for proper financial governance in Sri Lanka to address the Crypto currency market lacunas.

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¹ BA Honours in International Studies, University of Kelaniya
chamathkaracs@gmail.com