

Case Study

CRYPTOCURRENCIES IN THE WESTERN BALKANS: ANALYSIS OF LEGAL REGULATION AND FUTURE PROSPECTS

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ABSTRACT

Background: Cryptocurrencies have revolutionised the global financial sector, thus challenging traditional financial systems. They offer new opportunities for investments and fund transfers. However, the legal challenges associated with regulating cryptocurrencies are numerous, especially in the Western Balkans, where existing legal infrastructures are not suitable to address the decentralised nature of this financial system. This study provides an analysis of the legal obstacles to regulating cryptocurrencies in the region, examining the main legal issues and existing legal infrastructure that impact the development of this digital financial sector.

Methods: This scientific paper explores the legal spectrum of cryptocurrency regulation in the Western Balkan countries. The research objectives include examining the extent of legal regulation across the six countries and identifying legal shortcomings. Given the nature of the topic, the analytical method was employed to study existing regulations on cryptocurrencies and practical cases related to cryptocurrencies; the comparative method to contrast the legal approaches among Western Balkan countries; and the statistical method to quantify the scope and trends in crypto-related activity in the region.

Results and Conclusions: The Western Balkan countries have not yet developed a stable and harmonised framework for regulating cryptocurrencies. In some Western Balkan countries, this leaves room for abuse and misuse, largely due to technological barriers. The findings show that Kosovo and Bosnia and Herzegovina are particularly weak in the legal regulation of cryptocurrencies; the absence of relevant court cases or judicial precedents in these countries is directly linked to the lack of laws governing this sphere. Meanwhile, Serbia and Albania are a step further in the legal regulation of cryptocurrencies.

The article examines whether there have been efforts to create a common legal framework across the Western Balkan region. The analysis reveals that no country has defined or specified the scope of cryptocurrency activity in law. Moreover, there are no efforts to create a common framework. These countries still require a much greater commitment to reform and strengthen their national legal infrastructures. In the case of Kosovo, the legislative gap is concerning, as it also reflects the inability to combat illegal acts associated with cryptocurrency use.

1 INTRODUCTION

Digitalisation is creating a new environment in which rapid technological development is advancing, and government policies must keep pace with this progress. Blockchain technology can transform financial markets and fundamentally change the way financial assets are issued, stored, accessed and traded.¹ Described as an electronic peer-to-peer system, Bitcoin came into being in 2008 as the first application of blockchain technology.² However, the industry's growth demonstrates that the fundamental principles of transparency and decentralisation are increasingly challenged by the socio-technical blockchain stack.³

One of the most commonly used terms in the field of crypto economics is "decentralisation," which is sometimes regarded as the primary purpose of blockchain⁴. Nonetheless, numerous dilemmas have surrounded blockchain technology and its challenges for law enforcement. These challenges have become prominent with the widespread adoption of blockchain—especially as it enabled the creation of cryptocurrencies. In this regard, it is worth emphasising that the type of blockchain technology determines how transactions with digital currencies (cryptocurrencies) are executed, and it also affects the speed of transaction execution.

The rapid transformation of the financial sector has gained significant importance, with new models or systems in the digital aspect of the financial spectrum, such as the concept of banking as a service and decentralised finance.⁵ These impactful innovations are

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- 1 Ittay Eyal, 'Blockchain Technology: Transforming Libertarian Cryptocurrency Dreams to Finance and Banking Realities' (2017) 50(9) Computer 38, doi:10.1109/MC.2017.3571042.
 - 2 Satoshi Nakamoto, 'Bitcoin: A Peer-to-Peer Electronic Cash System' [2008] Decentralized Business Review 1, doi:10.2139/ssrn.3440802.
 - 3 Balázs Bodó and Alexandra Giannopoulou, 'The Logics of Technology Decentralization - the Case of Distributed Ledger Technologies' in Massimo Ragnedda and Giuseppe Destefanis (eds), *Blockchain and Web 3.0: Social, Economic, and Technological Challenges* (Routledge 2019) 114, doi:10.4324/9780429029530-8.
 - 4 Vitalik Buterin, 'The Meaning of Decentralization' (*Medium*, 6 February 2017) <<https://medium.com/@VitalikButerin/the-meaning-of-decentralization-a0c92b76a274>> accessed 10 December 2024.
 - 5 Thomaz Arruda, 'DeFi: A Path to Integration? The Strange Case for Centralization in EU Banking Law' (2022) 16 Bocconi Legal Papers 23.

expanding in parallel with the increasing number of technology users, influencing the delivery of financial services.⁶

Digital finance plays a crucial role in economic growth, acting as a positive driver.⁷ Without denying that the inclusion of finance in a digital way is offering numerous opportunities, it could once have been considered inaccessible. Purchases, payment execution, investments and others have expanded finance through digital systems. However, the digitalisation of financial relations also presents certain risks. Based on global practices, it is evident that such risks, in one way or another, diminish the positive impact that digital finance can present.

This paper will reveal the legal spectrum of cryptocurrencies in the countries of the Western Balkans. Scientific tasks are among the objectives that reflect the legal regulation of the six countries in the Western Balkans. Technological development has profoundly changed the way financial instruments are issued and traded.⁸ Naturally, such evolutions necessitate that government policies remain consistent with such changes. Therefore, efforts must be made to ensure markets for the technology remain open and transparent,⁹ especially given that advances in the financial field can undoubtedly impact the legal order. The absence of proper legal guarantees creates the risk that irresponsible actors may exploit the financial system.¹⁰

What challenges arise from the absence of legal harmonisation, regulatory uncertainty and technological barriers? This study examines the efforts to develop policies and laws that support the use of cryptocurrencies while ensuring consumer protection and financial stability. It seeks to answer these questions and proposes recommendations for advancing legal regulation in this regard.

2 LEGAL INFRASTRUCTURE OF THE WESTERN BALKAN COUNTRIES

After a long period since the issuance of Bitcoin, cryptocurrencies are still not widely understood in terms of their use or the purposes they serve. In countries undergoing transition, such as the six Western Balkan nations, there is a pressing need for well-thought-out policies regarding the legal regulation of cryptocurrencies in these countries. A group of researchers who, based on a survey, concluded that although the majority of respondents

6 Soumitra Dutta and Bruno Lanvin (eds), *The Network Readiness Index 2022: Stepping into the New Digital Era : How and Why Digital Natives Will Change the World* (Portulans Institute 2022).

7 Asep Risman and others, 'The Effect of Digital Finance on Financial Stability' (2021) 11 Management Science Letters 1979, doi:10.5267/j.msl.2021.3.012.

8 Parma Bains, Nobuyasu Sugimoto and Christopher Wilson, *BigTech in Financial Services* (Fintech Note, IMF 2022).

9 Benjamin K Sovacool and Dylan D Furszyfer Del Rio, 'Smart Home Technologies in Europe: A Critical Review of Concepts, Benefits, Risks and Policies' (2020) 120 Renewable and Sustainable Energy Reviews 109663, doi:10.1016/j.rser.2019.109663.

10 Gili Vidan and Vili Lehdonvirta, 'Mine the Gap: Bitcoin and the Maintenance of Trustlessness' (2018) 21(1) New Media and Society 42, doi:10.1177/1461444818786220.

had heard of cryptocurrencies, they have no or very little knowledge about blockchain technology.¹¹ This indicates a significant gap in public understanding of digital finance—especially when compared to other parts of the world, where technological adoption has advanced beyond imagination.

In particular, the state of Kosovo presents a deficiency in its legal framework concerning cryptocurrencies. The first and evident dilemma is the lack of legal clarity regarding the regulation of cryptoassets in Kosovo. Despite the rapid transformation of technology, particularly digital advancements in the financial sector, Kosovo has struggled to keep pace with global trends in this area.

Nonetheless, Kosovo, through the Law on Cryptoassets,¹² has made an effort to regulate some aspects of the development of this financial activity. The Law on Cryptoassets defines the term cryptoassets and further emphasises that operators providing crypto services are required to be registered and licensed by the competent authorities. Furthermore, the law attaches importance to the prevention of money laundering activities, requiring service operators to comply with established rules.

Despite the absence of a comprehensive legal act regulating cryptocurrencies, the Tax Administration of Kosovo on 13 December 2021¹³ issued a notice regarding tax obligations for income generated from cryptocurrencies. According to Law No. 03-L/222 on Tax Administration and Procedures, the TAK notified the public that tax obligations for income generated from cryptocurrencies depend on the person's status.

In terms of judicial practice, Kosovo's courts have yet to develop a significant body of case law concerning cryptocurrencies. Among the court decisions analysed, only one decision indirectly appears to address the issue of cryptocurrencies. In Decision P.nr. 2021:233110,¹⁴ the suspects were acquitted of the indictment, under the allegations of the Prosecution under allegations of organising pyramid schemes and engaging in illegal gambling. The case raised questions about the organisation of games of chance without a proper license; however, the court found insufficient grounds for conviction, and the suspects were acquitted.

At another level among the Western Balkan countries is Albania, which has taken legislative steps regarding digital finance, namely cryptocurrencies. Notably, Law 66/2020 on Financial

11 Simeana Beshi, Flaka Braha and Luan Vardari, 'Cryptocurrency Awareness in Kosovo' in Kıymet Tunca Çaliyurt (ed), *New Approaches to CSR, Sustainability and Accountability*, vol 3 (Springer 2022) 81, doi:10.1007/978-981-16-9364-9_6.

12 Law of the Republic of Kosovo No 08/L-295 'On Cryptoassets' (22 November 2024) <<https://gzk.rks-gov.net/ActDetail.aspx?ActID=99185>> accessed 10 December 2024.

13 'Notice to Taxpayers – Tax Liabilities for Revenues Generated from Cryptocurrencies' (*Tax Administration of Kosovo*, 13 December 2021) <<https://www.atk-ks.org/en/njoftim-per-tatimpagues-detyrimet-tatimore-per-te-ardhurat-e-realizuar-nga-kriptoalutut/>> accessed 10 December 2024.

14 Case No 2021:126936, decision No 2021:233110 (Basic Court Ferizaj, 24 January 2023) <<https://www.gjyqesori-rks.org/aktgjykimet/?r=M&lang=en>> accessed 10 December 2024.

Markets Based on Distributed Ledger Technology¹⁵ was enacted to regulate the issuance of digital tokens or virtual currencies, as well as the licensing, monitoring and supervision of entities engaged in activities such as the distribution, trading and storage of digital tokens. Additionally, the law regulates digital token agents, innovative service providers and the automated undertaking of collective investments.

This law, which entered into force on 1 September 2020, was returned for review by the then-President of the Republic of Albania, Iliri Meta, through a presidential decree. Among the concerns raised in the decree were the law's shortcomings in addressing key issues such as the prevention of criminal activities, illegal transactions, money laundering and tax evasion.¹⁶

Complementary to this legislation, two other laws address the digital finance landscape:

1. Law No. 55/2020 "On Payment Services";
2. Law No. 62/2020 "On Capital Markets"

Although these normative acts do not directly include cryptocurrency as a digital currency, the Law on Financial Markets Based on Distributed Ledger Technology explicitly includes the issuance of virtual currencies within its regulatory scope.

However, a crucial question arises: Is it sufficient to regulate such financial activity with only these legal instruments, given the broad scope of cryptocurrencies?

Albania, in its judicial practice, also presents several criminal offences involving cryptocurrencies. Therefore, Albania appears to be making progress in preventing crypto-related crimes and sanctioning illegal acts that may be caused by cryptocurrencies.¹⁷

Bosnia and Herzegovina (BiH): In BiH, virtual currencies have only recently begun to attract legal attention, particularly following the amendment of the Law on the Securities Market. Considering that Bosnia and Herzegovina is divided into two administrative entities, such legal changes regulating digital currencies are known only in the Republic of Srpska (RS). However, they remain unknown to the rest of the Federation or other entities in BiH.

The amendments introduced in the Republic of Srpska, while marking an initial step towards regulating digital assets, do not provide comprehensive, proper legal coverage. Specifically, it does not specify the entire issue of cryptocurrencies in terms of taxation.

15 Law of the Republic of Albania No 66/2020 'On Financial Markets Based on Distributed Ledger Technology' (21 May 2020) <<https://amf.gov.al/readLaw.asp?id=20347>> accessed 10 December 2024.

16 Decree of the President of the Republic of Albania No 11518 of 22 June 2020 'On the Return of Law No 66/2020 "On Financial Markets Based on Distributed Ledger Technology"' <<https://arkiva.presidenti.al/presidenti-meta-dekreton-kthimin-per-rishqyrtim-ne-kuvend-te-ligjit-nr-66-2020-arsyet-e-kthimit-per-rishqyrtim-te-ligjit/>> accessed 10 December 2024.

17 'Press Release' (SPAK *Special Structure Against Corruption and Organized Crime*, 22 January 2025) <<https://spak.gov.al/njoftim-per-shtyp-date-22-01-2025/>> 25 January 2025.

However, in Bosnia and Herzegovina, there is no specific normative act that defines cryptocurrencies in detail.

A notable gap remains in the area of taxation. In practice, there is no tax on income generated through cryptocurrency transactions in Bosnia and Herzegovina.¹⁸ This means that cryptocurrency transactions, regardless of volume or frequency, are not currently subject to taxation.

Therefore, the current situation in Bosnia and Herzegovina remains legally unclear and undefined. The lack of unified legislation, taxation policy and judicial precedent continues to hinder the development of a clear and consistent enforcement approach for cases of cryptocurrency misuse.

North Macedonia: With the new Law on Money Laundering and Financing of Terrorism, an attempt has been made to address aspects of cryptocurrencies, particularly from a criminal perspective. Since the dimension of violations of freedoms and human rights spans a broad spectrum, there is a significant need for legal regulation. North Macedonia, through the aforementioned law, has managed to prevent and sanction “crypto laundering”.

However, this study revealed that the term “cryptocurrency” is not formally recognised by any current law in force. Despite this, North Macedonia has demonstrated a degree of regulatory awareness, especially through the role of the National Bank of the Republic of North Macedonia.¹⁹

When examining the country’s legal frameworks, it is clear that North Macedonia does not yet have a regulation to determine and define the use of cryptocurrencies. In terms of financial oversight, North Macedonia’s general perspective on cryptocurrencies aligns with that of European financial regulators.

Montenegro: Legal gaps also exist in Montenegro, as no normative rules define whether financial activities involving cryptocurrencies are legal or illegal.

In response, the government has initiated preparatory efforts by forming a working group under the Financial Stability Council,²⁰ tasked with drafting a Law on Digital Assets. This proposed legislation is expected to address the issuance of crypto assets and trading.

18 Maja Nišević, Chiara Zamboni and Bojan Kovačević, ‘Cryptocurrencies: highlighting the perspective of Bosnia and Herzegovina’ (2022) 36(2) *International Review of Law, Computers & Technology* 286, doi:10.1080/13600869.2021.2004759.

19 Law of the Republic of North Macedonia ‘On the Prevention of Money Laundering and Financing of Terrorism’ [2022] *Official Gazette* 151 <<https://ufr.gov.mk/wp-content/uploads/2020/05/AML-CFT-Law-2022-adopted-Off.gazette-151.pdf>> accessed 10 December 2024.

20 ‘Montenegro’s 2024 Cryptocurrency Legislation Landscape’ (*Cryptocurrency.law*, 9 December 2023) <<https://cryptocurrency.law/montenegros-2024-cryptocurrency-legislation-landscape/>> accessed 10 December 2024.

Despite the legal vacuum, the Central Bank of Montenegro has cooperated with a crypto and blockchain solutions provider, aiming to develop a national strategy for launching the Central Bank's first digital currency.²¹

However, a fundamental dilemma emerges: How can collaboration on crypto be pursued while there is a legal gap in the legislation regarding the definition of cryptocurrencies?

Serbia: As one of the six countries in the Western Balkans, Serbia has several legal acts regulating digital assets. The Law on Digital Assets,²² which entered into force in 2021, regulates the issuance and provision of services related to digital assets. This law also includes provisions for property rights, such as pledges and trusts over digital assets, and clearly delineates the competencies of the Securities Commission and the National Bank of Serbia in oversight and enforcement. Finally, the supervision and implementation of the law on digital assets is also regulated.

In the penal aspect related to cryptocurrencies, Serbia has taken proactive steps. The Regulations for the Prevention of Money Laundering and Financing of Terrorism²³ contribute to financial activities.

Furthermore, Serbia has amended its tax legislation to explicitly include provisions related to the taxation of cryptocurrency transactions.

3 THE NEED FOR LEGAL REGULATION OF CRYPTOCURRENCIES

For the six Western Balkan countries, a typical example of the closest alignment of local legislation is with that of the European Union, given that these countries aim to join the European Union.

Currently, in the European Union, Regulation (EU) 2023/1114 has been approved. As for assets, investment instruments or electronic money, these are regulated by European financial regulation.²⁴

The European Commission published, on 24 September 2020, a proposal for a regulation on Markets in Crypto Assets. The European Commission took the first steps to assume its

21 'Central Bank of Montenegro Signs Agreement with Ripple to Develop a Digital Currency Strategy and Pilot' (*CBCG Central Bank of Montenegro*, 11 April 2023) <<https://www.cbcb.me/en/public-relations/news/press-releases/central-bank-of-montenegro-signs-agreement-with-ripple-to-develop-a-digital-currency-strategy-and-pilot?id=2243>> accessed 10 December 2024.

22 Law of the Republic of Serbia 'On Digital Assets' [2020] Official Gazette 153 <<https://mfin.gov.rs/en/decrees-2/law-on-digital-assets-rs-official-gazette-no-1532020-translation-by-the-national-bank-of-serbia-2>> accessed 10 December 2024.

23 Law of the Republic of Serbia 'On the Prevention of Money Laundering and the Financing of Terrorism' [2017] Official Gazette 113; [2019] 91; [2020] 153 <<https://mfin.gov.rs/en/decrees-2/law-on-the-prevention-of-money-laundering-and-the-financing-of-terrorism-2>> accessed 10 December 2024.

24 Valeria Ferrari, 'The Regulation of Crypto-Assets in the EU – Investment and Payment Tokens under the Radar' (2020) 27(3) Maastricht Journal of European and Comparative Law 325, doi:10.1177/1023263X20911538.

competence over all crypto assets within the EU and, after a comprehensive review of the entire crypto assets ecosystem, issued a proposal for a regulation on markets in crypto assets.²⁵ The document reflects the approach to digital assets as seen in the views and reports of several international organisations, advisory, and supervisory bodies.

The European Commission also acknowledged, for the first time, the need to assess the suitability of the EU regulatory framework regarding crypto assets.²⁶ The European Union has committed to assigning some of its regulatory bodies the task of monitoring crypto assets' implications, growth, and oversight. Additionally, the EU is considering the Anti-Money Laundering Directive in relation to crypto assets.

However, regulation within the European Union is not limited to this effort. Some European jurisdictions have taken independent initiatives to design 'solutions' within the framework of crypto assets. For example, Lithuania has followed the guidance approach by issuing guidelines on the Information Commissioner's Office and security token offerings.

Given the Western Balkan countries' aspirations toward European integration, these developments offer useful models for the alignment of local legal frameworks with those of the EU. Such alignment facilitates legal approximation and integration with the broader EU system.

Table 1. Revenue from Cryptocurrencies²⁷

Country	Revenue (2024)	Revenue per User (2024)	Projected Growth Rate (CAGR 2024-2025)	Revenue (2025)	Users (2025)	User Penetration (2024)
Albania	US\$1,197.0k	US\$9.5	-3.43%	US\$1,156.0k	126.20k	4.44%
Bosnia and Herzegovina	US\$1,709.0k	US\$12.3	-3.10%	US\$1,656.0k	139.10k	4.34%
Serbia	US\$9.4m	US\$32.0	-3.71%	US\$9.1m	295.90k	4.15%
North Macedonia	US\$0.00	US\$0.00	0.00%	US\$0.00	0.00k	0.00%
Montenegro	US\$91.0k	US\$3.1	-3.88%	US\$87.5k	29.11k	4.60%

25 Agata Ferreira and Philipp Sandner, 'EU Search for Regulatory Answers to Crypto Assets And their Place in the Financial Markets' Infrastructure' (2021) 43 Computer Law & Security Review 105632, doi:10.1016/j.clsr.2021.105632.

26 European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'A new ERA for Research and Innovation' (SWD(2020) 214 final, 30 September 2020) <<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0628>> accessed 10 December 2024.

27 Data from the global data and business intelligence platform "Statista", see: 'Cryptocurrencies' (Statista, 2025) <<https://www.statista.com/>> accessed 25 January 2025.

As reflected in the table, Serbia generates the highest income from cryptocurrencies among the Western Balkan countries taken into account, totalling US\$ 9.4 million in 2024. This is coupled with a high number of users. However, the table illustrates that the country is expected to experience a decline in revenue of - 3.71% in 2025.

In contrast, Montenegro demonstrates both low income and a small user base, with an anticipated revenue decline of 3.88% in 2025. Similarly, Albania shows lower revenue and user numbers. Bosnia and Herzegovina, following Serbia, is characterised by high incomes and a growing user base.

The data source does not provide any figures for North Macedonia or the state of Kosovo, leaving a gap in understanding.

Nevertheless, crypto exchanges have gained millions of customers in a short period of time and are reportedly highly profitable, largely due to the unregulated nature of the market.²⁸ Notably, 2018 witnessed significant volatility in crypto asset valuation, from its peak of over US\$800 billion in January 2018 to around US\$200 billion in August of the same year.²⁹

This raises a key question: Can crypto assets be restricted? Some authors argue that restricting or isolating cryptocurrencies could prevent innovation. Yet, the lack of regulation of cryptocurrencies in the six Western Balkan countries poses risks, especially given the uncertain legal environment surrounding financial activities involving crypto.

The dramatic price increase of cryptocurrencies, especially since the second half of 2016, has attracted the interest of investors who have poured millions of US dollars.³⁰ However, these added benefits do not necessarily outweigh the associated potential risks. For instance, inherent risk judgments are negatively correlated with cryptocurrency experience³¹ as price dynamics can influence the market liquidity.³²

One of the most pressing concerns posed by the lack of legal regulation is fraud, which, as a criminal category, can be a crime in itself in the case of crypto activities, such as consumer fraud or hacking. Fraud through hacking could potentially pose a problem to the

28 Michael Casey and others, *The Impact of Blockchain Technology on Finance: A Catalyst for Change* (Geneva Reports on the World Economy 21, CEPR Press 2018).

29 Guntram B Wolff and Maria Demertzis, 'The Economic Potential and Risks of Crypto Assets: Is a Regulatory Framework Needed?' (2018) 14 Bruegel Policy Contribution 1.

30 Nicola Borri, 'Conditional Tail-Risk in Cryptocurrency Markets'(2019) 50 Journal of Empirical Finance 1, doi:10.1016/j.jempfin.2018.11.002.

31 Steven A Harrast, Debra McGilsky and Yan (Tricia) Sun, 'Determining the Inherent Risks of Cryptocurrency: A Survey Analysis' (2022) 16(2) Current Issues in Auditing A10, doi:10.2308/CIIA-2020-038.

32 Sonia Arsi and others, 'Cryptocurrencies: Key Risks and Challenges' in Stephane Goutte, Khaled Guesmi and Samir Saadi (eds), *Cryptofinance: A New Currency for a New Economy* (WSPC 2021) 121, doi:10.1142/9789811239670_0007.

widespread adoption of cryptocurrencies, as the absence of recourse against a third party, such as a bank, concentrates risk in holders of crypto.³³

Auditing also presents significant challenges. Cryptocurrencies present several risks that affect auditors' risk assessments. Inspection of cryptocurrencies will be vital, as financial activities involving cryptocurrencies also contribute to the increase in crime. By ranking the risk and assessing the impact of cryptocurrencies, the inspection or audit of such financial activities with crypto will also present difficulties in the audit.

Illustrative Example

Table 2. Data collection techniques

Approach	Benefits	Disadvantages
Research findings	<p>Cryptocurrencies are not susceptible to attack.</p> <p>Buying and selling through which the principle of efficiency and effectiveness is derived.</p> <p>Cryptocurrencies can be audited.</p> <p>The high impact of this financial inclusion with crypto also enables an inclusive market.</p>	<p>"Unlimited" population involvement.</p> <p>Financial decentralization through cryptocurrencies creates potential risks.</p>
Legal power	<p>Cryptocurrencies in some Western Balkan countries are still not being taxed as earned income.</p> <p>"Open Bank" for cryptocurrency consumers or users.</p>	<p>The absence of regulation creates a dilemma: "legal or illegal income" for cryptocurrency users.</p> <p>Non-definition and non-regulation of cryptocurrencies.</p> <p>The rise in income from cryptocurrencies may also lead to increased criminal activity.</p> <p>The challenge of the law and the financial transformation from the traditional system to a modern financial system.</p>

³³ Kelvin FK Low and Ernie Teo, 'Legal Risks of Owning Cryptocurrencies' in David Lee Kuo Chuen and Robert H Deng (eds), *Handbook of Blockchain, Digital Finance, and Inclusion*, vol 1: Cryptocurrency, FinTech, InsurTech, and Regulation (Academic Press 2018) 225, doi:10.1016/B978-0-12-810441-5.00010-5.

4 FUTURE RESEARCH DIRECTIONS

Legal issues that do not specify, define and foresee financial activities involving cryptocurrencies leave numerous gaps, raising dilemmas about their future direction. A key question arises: In countries that lack normative provisions on cryptocurrency activities, will such activities be considered legal or illegal? This leads to further concerns—if crypto activities are considered illegal in the future, what responsibilities do legal entities hold if transactions involving cryptocurrencies contribute to an increase in crime or the appearance of criminal offences?

In some Western Balkan countries, these matters are foreseen by law. Can criminal liability be transferred, and can cases involving crypto and other activities be dealt with analogously if the countries consider them illegal? On what legal basis can cryptocurrency transactions be invoked if legal provisions do not regulate such a financial system? Is it considered an advantage or a disadvantage for cryptocurrency users?

The shift from a traditional financial system to a decentralised one represents a transformation of the financial market. However, given how the six Western Balkan countries—particularly Serbia—have treated crypto activities so far, it is clear that cryptocurrencies are a problematic dilemma and require the Western Balkan countries, especially Serbia, to accelerate steps towards legal regulation of cryptocurrencies. The urgent need for regulating cryptocurrencies is particularly important for the Western Balkan countries.

In this regard, the European Union's approach can serve as a model. As the Western Balkan countries aspire to join the European Union, it is essential for them to align with EU regulatory standards, including those related to cryptocurrencies. As discussed in the above section, the EU regulatory framework offers guidance that Western Balkan countries can incorporate into their domestic legislation. One significant precedent is the judgment of the Court of Justice of the European Union in Case C-264/14,³⁴ which ruled that the exchange of traditional currency for Bitcoin is exempt from VAT.

Another important dimension to highlight is the dimension of financial sector development. The European Banking Authority's report³⁵ not only emphasises the risks of lacking a clear legal framework—especially regarding security and consumer protection—but also notes the increasing popularity of crypto-assets and their increasing impact on global financial stability and security.³⁶

34 Case C-264/14 *Skatteverket v David Hedqvist* (CJEU, 22 October 2015) <<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:62014CJ0264>> accessed 10 December 2024.

35 European Banking Authority, *Report with Advice for the European Commission on Crypto-Assets* (EBA, 9 January 2019) <<https://www.eba.europa.eu/publications-and-media/press-releases/eba-reports-crypto-assets>> accessed 10 December 2024.

36 'EIB Issues its First Ever Digital Bond on a Public Blockchain' (*European Investment Bank*, 28 April 2021) <<https://www.eib.org/en/press/all/2021-141-european-investment-bank-eib-issues-its-first-ever-digital-bond-on-a-public-blockchain>> accessed 10 December 2024.

5 CONCLUSION

The study on the legal regulation of cryptocurrencies in the Western Balkans and their future prospects presents a comprehensive review of the opportunities that cryptocurrencies offer and the legal challenges arising from their normative regulation in the region.

Regarding the legal infrastructure, it is important to highlight that the Western Balkan countries currently face a climate of legal uncertainty. The lack of a harmonised infrastructure of legal acts in the Western Balkans is a significant legal obstacle. The lack of legal regulation not only leaves room for deep legal gaps but also raises serious concerns regarding justice, the rule of law and consumer protection. In particular, the lack of legal regulation of cryptocurrencies exposes consumers to risks, including fraud, hacking, and other forms of exploitation. The lack of intergovernmental policies further hampers efforts to combat the negative phenomena that appear with crypto transactions.

This lack of legal transparency also challenges economic actors and limits the possibilities for a developed, stable, and competitive crypto market. Such legal loopholes can increase and may affect other potential risks for abuse and misuse, undermining the trust of users and investors in cryptocurrencies.

Among the countries in the region, Serbia stands out as it has made efforts to legally regulate or foresee such decentralised financial activities in many aspects. This is in contrast to other Western Balkan countries, which are seen as necessary for the application of measures for the need for regulation by normative acts.

At present, the Western Balkan countries are being challenged by cryptocurrencies. The lack of legal regulation in these countries remains a challenge in itself that requires urgent legislative commitment. Proper legal oversight would support the development of a secure and controlled market. Currently, such gaps leave many spaces for unmanageable risk.

The future perspective for cryptocurrencies for the six Western Balkan countries can be described as a new wave advancing throughout the region. However, the future of these countries in relation to crypto promises legal uncertainty and a lack of protection for consumer rights—potentially becoming an obstacle to the healthy development of the financial sector. The Western Balkan countries have not yet developed a stable and harmonised regulatory framework for cryptocurrencies. In some cases, this leaves room for abuse and misuse, largely due to legal gaps and existing technological barriers.

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АНОТАЦІЯ УКРАЇНСЬКОЮ МОВОЮ

Тематичне дослідження

КРИПТОВАЛЮТИ НА ЗАХІДНИХ БАЛКАНАХ: АНАЛІЗ ПРАВОВОГО РЕГУЛЮВАННЯ ТА МАЙБУТНІ ПЕРСПЕКТИВИ

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АНОТАЦІЯ

Вступ. Криптовалюти здійснили революцію у світовому фінансовому секторі, кинувши виклик традиційним фінансовим системам. Вони відкривають нові можливості для інвестицій та переказу коштів. Однак правові проблеми, пов'язані з регулюванням криптовалют, численні, особливо на Західних Балканах, де наявна правова інфраструктура не пристосована до децентралізованої природи цієї фінансової системи. У цьому дослідженні проаналізовано правові перешкоди у регулюванні криптовалют у регіоні, розглянуто основні правові проблеми та наявне правове регулювання, що впливає на розвиток цього цифрового фінансового сектору.

Методи. Ця стаття досліджує спектр правового регулювання криптовалют у країнах Західних Балкан. Метою дослідження є оцінка рівня правового регулювання в шести країнах та виявлення правових прогалин. З огляду на характер теми, аналітичний метод був використаний для вивчення чинних нормативних актів щодо криптовалют та практичних кейсів, пов'язаних з криптовалютами; порівняльний метод був застосований для зіставлення правових підходів країн Західних Балкан; статистичний метод використовувався для кількісної оцінки масштабів та тенденцій діяльності, пов'язаної з криптовалютами, у регіоні.

Результати та висновки. Країни Західних Балкан ще не розробили стабільної та гармонізованої системи регулювання криптовалют. У деяких країнах Західних Балкан це створює передумови для зловживань та неналежного використання, здебільшого через технологічні бар'єри. Результати дослідження свідчать про те, що правове регулювання криптовалют у Косові та Боснії і Герцеговині є особливо слабким; відсутність відповідних судових справ або судової практики у цих країнах безпосередньо пов'язана з браком правового регулювання. Натомість Сербія та Албанія випереджають на крок у правовому регулюванні криптовалют.

У статті досліджується, чи були вжиті заходи для створення гармонізованої правової системи в регіоні Західних Балкан. Аналіз свідчить, що жодна з країн не визначила у своєму законодавстві чіткі рамки для діяльності, пов'язаної з криптовалютами. Більше того, не докладається жодних зусиль для створення гармонізованого регулювання. Ці країни все ще потребують набагато більшої наполегливості у реформуванні та зміцненні своєї національної правової інфраструктури. У випадку Косова законодавча прогалина викликає занепокоєння, оскільки вона також відображає нездатність боротися з незаконними діями, пов'язаними з використанням криптовалют.

Ключові слова: криптоактиви, вплив, законодавство, судові справи.