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Overview: Development of Global Virtual Assets¹

Virtual assets (VA) have experienced rapid development in recent years, evolving as one of the most leading modern investment instruments in the global financial markets. It developed from a niche technological sample into a multi-trillion-dollar global market. It started with speculations in cryptocurrencies and now is becoming more regulated and structured. The expansion is mainly attributed to technological developments, the growth of the digital economy, and increasing institutional interest in block chain technology; in addition to the fact that, when main financial institutions and global investment funds have entered the virtual-asset market, it coincided with the growth of exchange-traded funds (ETFs) linked to digital currencies.

The below table is a good illustration of the development in the virtual asset market:

Table 1: Change in Market Value and Number of Users (2019 – 2025)

Year	Market Value* (USD trillions)	Number of Users (in millions)
2019	0.19	106
2020	0.76	221
2021	2.3	295
2022	0.83	420
2023	1.7	500
2024	2.6	540
2025	3.1	560

*Bitcoin represents more than 50%

1. This review is partially based on Union of Arab Bank (UAB) article, "The reality of Investments in Virtual Assets" . UAB Bulletin; May 2026

As per the International Monetary Fund, the mounting prominence of the virtual asset market is one of the main revolutions affecting the global financial system. Such rapid expansion in VA investments were driven by several factors that can be sub-grouped into technological, financial, and demographic factors.

Technological factors were represented by the increased adoption of block chain technology and decentralized finance. Moreover, fintech companies and global trading platforms have played a central role through the development of digital e-wallets, and custody services.

Financial factors were characterized by seeking alternative assets by investors especially in periods of diminishing global interest rates, raised inflation, and geo-political doubt. Also, US Securities and Exchange Commission (SEC)' s approval of Bitcoin ETFs encouraged large institutional investors to enter such investments category and thus resulting in billions of dollars of inflows to this digital-asset markets during the first months, thus raising confidence in such investments.

As for demographic factors, the fast spread of digital trading applications and smartphones has also enabled individual participation in the market, especially among risk tolerant younger investors.

However, there are some risks and challenges that are associated with these types of investments. We can divide these risks into four: namely market risk, cyber-security risk, financial-crime risk and finally financial-stability risk.

Extreme volatility represents the main market risk factor. In several periods, cryptocurrencies and mainly Bitcoin lost most of its value and year 2022 is such example. During that year, Bitcoin lost around 60% of its value (See Table 1)

Another risk is characterized by cybersecurity risk resulting from cyberattacks and hacking instances.

The third risk resulting from these investments is the financial-crime risk. As per Chainalysis, tens of billions of dollars in illicit transactions happened in recent years. Money laundering, terrorist financing, sanctions evasion, and fraud are typical types of such transactions.

Finally, financial-stability risk might emerge due to linkages between digital and traditional financial market as institutional investors increased their exposure in these sectors. As such, Bank for International Settlements (BIS) has cautioned from severe instability, and unregulated exposure to digital assets, could result in spread of jeopardies to the traditional financial system in case of market collapses.

Due to the above mentioned risks, governments and global regulatory authorities were required to accelerate the development of regulatory frameworks to improve transparency and protect investors through mitigating financial and operational risks.

Several countries are developing legislations to govern virtual asset trading such as Know-Your-Customer (KYC) standards, counter terrorist financing and anti-money laundering measures.

Internationally, the Financial Action Task Force (FATF) required virtual-asset service providers to audit these services similar to what is done in the traditional financial institutions.

In the United States, the SEC and other regulatory authorities increased regulatory scrutiny of digital trading platforms and virtual assets investment products.

Across the Atlantic, and within the European Union, the markets in Crypto-Assets regulation (MiCA) was established to provide a comprehensive regulatory framework for crypto-assets. The same is happening in the GCC, as we will elaborate below.

The GCC countries have begun several years ago to diversify their economies and to invest heavily in sectors other than oil and gas production. Technology sector was one of the main sectors that the GCC countries have invested in. They became some of the most advanced jurisdictions in growing and regulating VAs and fintech. This is attributed to digital transformation strategies and efforts utilized.

The United Arab Emirates symbolizes one of the region's most outstanding examples, in which Dubai Emirate established the Virtual Assets Regulatory Authority (VARA) in 2022. VARA's main task is to regulate and license VA activities and audit VA service providers. 70 VA service providers were licensed, and more than \$25 billion in cumulative investments were attracted.

As for Saudi Arabia, the Central Bank increased its involvement in Central Bank Digital Currency (CBCD) along with joining mBridge, an international initiative supported by BIS to develop cross-border payments. In a joint cooperation, Saudi and UAE central banks launched a project named Aber (عابر), which explored the use of CBCDs for cross-border payments between banks for the purpose of accelerating transfers, minimizing costs, and improving the efficiency of regional payment systems.

Last Gulf country to mention is the Kingdom of Bahrain. Bahrain was well-known as the Banking and Financial Center in the MENA region. It was one of the first countries that established dedicated regulatory frameworks for fintech, the "Sandbox" regulatory for fintech companies.

A question remains, however: Can the Gulf alter itself from a technology adopter into a global hub for regulated digital finance? Time will tell.

Emerging markets and Lebanon in particular could benefit from many opportunities in this sector. We will explore such opportunities next.

Virtual Assets in Lebanon: Capturing Digital Finance Without Reinforcing Financial Fragility

Lebanon's potential exposure to VAs should not be considered in isolation from the country's broader transition toward digital finance. The financial system has already been progressing toward greater reliance on electronic payments, digital banking and e-wallets, particularly as the post-2019 crisis accelerated the shift away from traditional banking channels. Large Lebanese banks have continued to expand digital banking platforms resulting in decrease in number of branches. Additionally, growing number of fintech companies and electronic payment providers have expanded the availability of e-wallets and digital payment services. This development is being maintained by regulation through Banque du Liban (BDL). In January 2026, BDL introduced a dedicated framework for Electronic Payment Services Providers through BDL Intermediate Circular #735, covering the operations, and setting conditions to be abided by e-wallet providers.

In line with BDL's December 2025 Macroeconomic Review, the number of active e-wallet institutions recorded 19 in December 2025 compared to 12 in December 2024 (58% increase), while the number of electronic payment service institutions stood at 25. Moreover, the number of points of sale (POS), including ATMs and cash kiosks, also grew considerably during 2025 by around 22.3% (4,836 in 2025 compared to 3,955 in 2024). This implies that Lebanon is gradually developing the infrastructure required for a more digital financial ecosystem.

The differentiation between digital finance and virtual assets, however, is critical. E-wallet denominated in U.S. dollars and backed by conventional funds is fundamentally different from a cryptocurrency or other virtual asset whose value is determined by market demand and which is not issued or guaranteed by a central bank. BDL's regulations maintains a firewall between regulated payment infrastructure and currently unauthorized virtual-asset activity such as cryptocurrency and other VAs.

It is important to note that the most immediate opportunity related to virtual assets may not necessarily be widespread cryptocurrency usage. Rather, the suitable economic opportunity lies in the technologies, infrastructure and business models surrounding digital assets.

Digital payments represent the most natural starting point as Lebanon's relatively high dependence on cash resulted in listing it on FATF's grey list and increased the size of the informal economy. The latest BDL framework is particularly vital since it institutes separate regulatory categories for e-money, domestic transfers, cross-border transfers, money collection and payment, and payment facilitation. The development of these services could progressively shrink the economy's dependence on cash without requiring clients to directly undertake the risks associated with volatile virtual assets.

Finally, digital finance could contribute to financial inclusion. E-wallets and low-cost digital payment accounts can potentially bring individuals and small businesses into formal financial channels.

However, the above opportunities are associated with some risks that should be identified and mitigated. First, insufficient supervision of virtual-asset service providers could generate reputational and correspondent-banking risks. This makes a risk-based AML/CFT framework vital rather than optional. Second, the failure of an unregulated exchange, wallet provider or token issuer could generate significant losses for retail investors, particularly where consumers misinterpret the distinction between a regulated e-money balance and a volatile virtual asset. BDL's current tactic already offers a significant protection by disallowing electronic payment service providers from dealing in virtual assets unless authorized under future regulations. Finally, the spread of digital assets outside regulated institutions could contribute to informal financial activity. If clients relocate from cash-based transactions into unregulated digital wallets, peer-to-peer platforms, the economy could become more digital without necessarily becoming more formal. Hence, digitalization must be

assessed by whether it improves transparency, financial intermediation and regulatory oversight rather than the number of electronic transactions executed.

That said, this brings us to a central policy question: How can the country benefit from digital financial innovation without permitting virtual assets to deepen monetary and financial instability?

VA activities should be introduced as soon as the institutional ability to oversee them is adequately resilient. The primary priority must be to consolidate the regulatory grounds of digital payments. BDL' s January 2026 framework is an essential step in this route. But digital financial innovation should be integrated into Lebanon' s broader financial-sector restructuring. The country should avoid creating a technologically sophisticated digital layer on top of an unresolved financial system. Digital payments, fintech and eventually tokenized assets can contribute to recovery, but they cannot substitute for restoring confidence in banks, strengthening financial supervision and rebuilding monetary credibility.

Lebanon thus, faces a choice between an uncontrolled expansion of privately issued digital assets or a regulated digital-finance environment, in which banks, fintech companies, e-wallet providers, payment institutions and eventually licensed virtual-asset service providers operate within a clearly defined supervisory perimeter. Lebanon has already commenced building some of the institutional infrastructure required for this model; but more should come.

Conclusion

The rapid developments in the VA market reveals that it is becoming an increasingly significant component of the new global financial system amid the digital revolution and rapid development in block chain, AI, and decentralized finance.

Even though several opportunities arise from VAs such as financial innovation, and investment systems and digital payments development, there are risks and challenges that should be taken care of. Main ones are financial stability, money laundering, cyber security, and financial crimes.

As for the case of Lebanon, the real opportunity is not to become a "crypto economy" , but to become a digitally enabled financial economy. Digital financial economy lowers transaction costs, reconnects households and businesses to formal finance, facilitates diaspora-linked capital flows and improves financial-market efficiency.

The strategic purpose should thus be: digitalize the channels of finance without digitalizing the sources of instability. If Lebanon succeed in establishing the distinction through credible regulation, robust AML/CFT controls, investor protection and controlled monetary policy, digital financial innovation could become a component of economic recovery instead of another channel through which financial instability is enlarged.

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