



12th International Conference on New Findings in Humanities and Social Sciences

22 – 24 August 2025
Oxford, United Kingdom

Impact Of Cryptocurrency Market Shocks on Emerging Market Currencies

Caroline Mohd Khan

Department of Economics, Faculty of Economics and Administration, King Abdulaziz University, Jeddah, Saudi Arabia

ABSTRACT

This study uses a Markov Switching-Vector Autoregressive (MS-VAR) paradigm to examine the regime-dependent effects of cryptocurrency market shocks on emerging market currencies. Digital assets interacting with fiat exchange rates under both stable and volatile regimes play a critical role in shaping the dynamics of global financial markets, as they can serve as alternative stores of value, speculative instruments, or hedging tools. The analysis focuses on high-adoption BRIC countries (Brazil, Russia, India, and China) and high-inflation or sanctioned economies (Egypt, Ethiopia, and Iran). The results show glaring disparities: in regimes that are prone to crises, cryptocurrencies like Bitcoin and Binance Coin significantly increase the volatility of weak currencies like the Egyptian Pound and Iranian Rial, whereas in markets that are more stable, governance tokens like Ethereum and Solana have more stabilising effects. Interestingly, economies with strict regulations, such as China and India, exhibit less vulnerability to cryptocurrency, highlighting the importance of institutional safeguards. The analysis provides important policy insights for monetary authorities in managing digital asset exposure amid increasing financial digitisation and emphasises crypto-fiat links' diverse, state-contingent character.

Keywords: Cryptocurrency market shocks, Emerging market currencies, financial volatility, Institutional safeguards, financial digitisation