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China cracks down harder on cryptocurrency, banning all transactions.

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China intensified its crackdown on cryptocurrency on Friday, declaring all financial transactions involving cryptocurrencies illegal and issuing a nationwide ban on cryptocurrency mining, the power-hungry process in which vast computer networks compete for newly created crypto tokens.

Bitcoin, the world's largest cryptocurrency, dropped as much as 7 percent, to around $41,100, on the news, but recovered somewhat as the day went on.

The clampdown in China comes as the country's central bank has been testing its own digital currency, the electronic Chinese yuan. A notice posted by the central bank explicitly called out Bitcoin and Ether, the two most popular cryptocurrencies, for being issued by "non-monetary authorities."

George Selgin, an economist and senior fellow at the Cato Institute, said that creating a central bank digital currency and making crypto transactions illegal were part of the Chinese government's broader effort to channel citizens away from popular private financial services providers, such as AliPay and WeChat. A state-controlled digital currency would allow the government to collect data and keep tabs on citizens' everyday transactions and would make it easier for the government to control access to an individual's funds, among other concerns.

“This is really about establishing a state monopoly in payments,” he said. “The most obvious implication is that the state will have more opportunities to monitor citizens’ economic activity.”

In a joint statement by 11 Chinese government entities, the authorities vowed to work closely to punish “illegal” crypto mining activities to help prevent the “hidden risks caused by the blind and disorderly development” of the industry and to help the country achieve its carbon reduction goals.

China’s central bank also announced that other activities tied to cryptocurrencies, like trading, token issuance and derivatives for virtual currencies, would be strictly prohibited. The bank reiterated that it was illegal for offshore crypto exchanges to serve customers in mainland China, one way that traders there have skirted a longstanding ban on domestic crypto exchanges.

The moves on Friday were the latest signal of Beijing’s determination to turn the screws on cryptocurrencies. China banned domestic cryptocurrency exchanges years ago, but trading has continued clandestinely by other means. And China has remained a major hub for cryptocurrency mining operations, in which computer farms compete to solve complex equations in return for Bitcoin, despite restrictions on the practice.

In May, China’s State Council, the government’s main administrative cabinet, vowed to crack down on Bitcoin trading and mining, leading local authorities in several parts of China to shut down crypto mining operations. As recently as 2017, Chinese mining groups generated more than two-thirds of all Bitcoin issued daily.

In terms of the environmental impact of crypto mining, there are probably only limited benefits derived from China’s latest announcement, said Alex DeVries, an economist in the Netherlands who studies the environmental effects of the crypto industry.

“Altogether, as long as other countries don’t implement similar policies, the overall effect on the global environmental impact of mining will remain low,” he said.

A regulatory blitz by the Chinese authorities is also cracking down on the country’s tech, education and property sectors.

China is not the only country to have restricted access to crypto exchanges and related services. But crypto traders have found workarounds, masking their locations or using peer-to-peer methods to buy and sell digital currencies.

U.S. officials have also recently expressed concern about users gaining access to offshore crypto exchanges that operate under different rules. The exchanges are required to block access to U.S. users, which has prompted some to hop countries in search of more amenable jurisdictions.

Worldwide, governments are racing to keep up with developments in the $2 trillion cryptocurrency industry, which is growing fast and beginning to disrupt traditional banking and finance. Some officials fear these digital tokens could become a systemic risk, threatening the wider financial system. The rules on what is allowed in cryptocurrency vary from country to country, to the dismay of industry executives who say a lack of regulatory clarity or overly prescriptive rules hamper innovation.

U.S. banking regulators have held interagency "crypto sprints" in recent months to lay out pathways for regulation. Financial regulators have met under the Treasury Department's guidance to prepare a report this fall on the risks of a particular kind of cryptocurrency, known as a stablecoin, that has exploded in use in recent months.

In some smaller nations, like El Salvador, which recently adopted Bitcoin as legal tender, the open, global financial network based on cryptocurrencies is being promoted as a tool to foster financial inclusion and economic growth.

The Bahamas created a digital "sand dollar" — a version of the Bahamian dollar that is the most advanced central bank digital currency in the world — and has welcomed crypto businesses interested in relocating. This week, the crypto derivatives exchange FTX, a large crypto platform, announced that it would move from Hong Kong to the Bahamas, which has "one of the world's few comprehensive crypto regulatory structures," the exchange's founder, Sam Bankman-Fried, said in a statement explaining the move.

Binance, the world's biggest cryptocurrency exchange, was founded by Changpeng Zhao in China in 2017, but moved to Japan within months, after Chinese officials cracked down on crypto trading platforms. After other moves, including at one point saying it had no official headquarters, Binance announced in July that it would create regional headquarters in every area of the world where it operated.

"Most people don't understand how much work we do to follow the rules," said Mr. Zhao, who is now based in Singapore.