

# Russia: towards a blockchain-based CryptoRuble?

## Description

**Since May 2016, Russia has been considering introducing a CryptoRuble. Yet the legality of cryptocurrencies is still unresolved in the country. The draft law on digital financial assets (DFA) submitted by the Russian Ministry of Finance to the Duma on 25 January 2018 is being debated within Russian institutions. It has not yet been voted on. At the same time, on a proposal from the Russian Direct Investment Fund (RDIF), the idea of a joint central bank digital currency (CBDC) was discussed at the BRICS summit in November 2019.**

The Russian authorities have been wary of cryptocurrencies from the outset. In January 2014, the Central Bank of the Russian Federation (CBR) issued a negative opinion, considering the use of bitcoins to be *“a potential involvement in the implementation of suspicious operations, by the legislation on the neutralization of the laundering of the proceeds of crime and the financing of terrorism”*(1). The Prosecutor General of the Russian Federation subsequently introduced *“specific solutions”* to combat bitcoin. Then, in October 2014, the Russian Ministry of Finance presented its draft law making it illegal to use *“currency substitutes (...) including in electronic form”*(2).



## The Long Road to a CryptoRouble

In June 2015, the Russian authorities' policy was relatively relaxed when Russian President Vladimir Putin declared on the Rossiya 24 channel that, although posing *“real problems,”* cryptocurrencies were not illegal in Russia.

It was not until May 2016 that the authorities first announced their intention to launch a CryptoRouble(3). They then suspended (in August 2016) the draft law to penalize the use of bitcoin. The following year, the Russian government announced its intention to develop computing infrastructures dedicated to cryptocurrencies, and in October 2017, V. Putin called for a balanced regulatory environment for cryptocurrencies. Indeed, according to him, *“the use of cryptocurrencies involves serious risks such as money laundering, tax evasion and terrorist financing”*(4). This shift has led to massive investment in mining infrastructure, particularly in Eastern Siberia(5). At the same time, a draft law On Digital Assets (DFA) was tabled in the Duma in January 2018. Due to strong dissension between Russian institutions, it has still not been adopted: the Ministry of Finance (which initiated the bill at the request of the President; Instruction List Pr-2132 of 21 October 2017) is in favor of legalizing cryptocurrencies, while the CBR defends maintaining their prohibition(6).

Against this backdrop, the Russian Direct Investment Fund (RDIF) tabled a motion on the creation of a joint central bank digital currency (CBDC) at the 11th BRICS (Brazil, Russia, India, China, South Africa) summit in Brasilia in November 2019.

## What is a CBDC?

If CryptoRouble sees the light of day, it will be a CBDC. The Russian project is part of a worldwide movement already affecting Cambodia, China, South Korea, Dubai, Estonia, France, Iran, Kazakhstan, Uzbekistan, Sweden, Switzerland, and Turkey. CBDCs are an unexpected and original development in cryptocurrencies, initially conceived in rejection of any form of central monetary authority(7). However, with CBDCs, central banks are taking control of these technologies.

A national CBDC can be defined as a digital asset issued and destroyed by the central bank alone, exchanged at par with banknotes and reserves, permanently available, used in peer-to-peer transactions, and circulating on digital media. The authorities commonly propose issuing a CBDC to offer a perfectly liquid, secure, and adapted payment instrument for technological developments, a feature that could reassure the audience about its utility.

A distinction is made between wholesale CBDCs, i.e., those accessible to all or some of a country's financial institutions, and retail CBDCs, i.e., those accessible to everyone (banks and financial institutions, public authorities, businesses, individuals, etc.).

### **What is the advantage of a CryptoRouble for Russia?**

The Russian authorities have not specified whether the CryptoRouble will be a wholesale or retail CBDC. All that is known is that its issuance would be strictly regulated, the identity of users established (which contravenes the 'pseudonymity' principle of cryptocurrencies), and exchanges authorized only on unique platforms. The advantages of a CryptoRouble (wholesale or retail) for Russia are severalfold:

- Benefit from the advantages of a blockchain-based payment system

The issuance of a CryptoRouble would offer the country's economic players an unprecedented payment system. There are two main possible models for the CryptoRouble.

The first is the token-based model, which means that CryptoRouble would be accessible to the public on dedicated wallets that are open and managed either by intermediaries (*token-based model with intermediation*) or directly by the CBR (*token-based model without intermediation*). The second is the account-based model, in which CryptoRouble is stored in an online account linked to its holder. Banks (account-based model with intermediation) or the CBR (disintermediated account-based model) can open and manage this account.

Whichever option is chosen, the resulting payment system will benefit from all the advantages of blockchain technology: speed of settlement, reduced transaction costs, security, time-stamping, and archiving of all transactions. Models without intermediaries (whether *token-based* or *account-based*), in which the central bank makes the monetary units directly available to users, are the ones that would enable the most significant reduction in transaction costs and timescales. However, adopting this model would be particularly restrictive for the CBR, which is not used to dealing with so many counterparties and is not designed to monitor the granularity of retail transactions carried out by all economic agents in Russia.

- Breaking free from the dollar and the constraints imposed by the United States

The Russian direct investment fund's proposal to set up a BRICS-wide CBDC is part of a drive to create an efficient international payment system with lower transaction costs that facilitates settlements within the group. The Russian proposal aims to break away from the dollar hegemony in currency settlements between the BRICS. In 2019, the dollar accounted for almost 50% of settlements within the BRICS (compared with 14% for the rouble, for example). The advent of an autonomous payment system between the BRICS would also make it possible to bypass the US SWIFT network for international payments. It would benefit countries (including Russia) targeted by US economic sanctions.

India and South Africa have declared their support for the joint CBDC project, highlighting its many advantages (reducing corruption, reducing the dependence of foreign workers on financial intermediaries for their current transfers, financial inclusion of the unbanked, and stimulating economic development). Brazil has not commented on the project, but it has officially (in August 2019) recognized cryptocurrencies as currencies and launched a study into whether to adopt the XDR (a *stablecoin* is a cryptocurrency with a stable exchange rate pegged to a basket of five currencies: dollar, euro, yen, Chinese yuan, and pound sterling) for the country's international remittances

- Keeping pace with China

Within the BRICS, Russia is racing with China to create a CBDC. In December 2019, the Chinese Central Bank (PBoC) announced the forthcoming launch (without giving an exact date) of a digital currency called DCEP (*Digital Currency Electronic Payment*), which it has been working on since 2015. The PBoC aims to offer an alternative to cash for retail payments. The DCEP would be issued based on a private blockchain, and its distribution would rely on commercial banks and Chinese web giants: Alipay, WeChat Pay, Industrial and Commercial Bank of China, Bank of China, Agricultural Bank of China, China Construction Bank, and Union Pay. These institutions would have direct access to DCEP and be responsible for opening and managing DCEP portfolios for the general public.

- Stimulating economic activity and supporting growth

Launching a CryptoRuble could ease the economic recession in Russia, a country hard hit by the Covid-19 pandemic. Economists at the Bank of England have attempted to assess the potential theoretical impact of a CBDC on the GDP of the issuing country: the result is an increase in the level of GDP that would result in part from the purchase of assets that the CBDC would finance. The authors estimate that a CBDC issue of 30 points of GDP (the equivalent of the average quantitative easing effort made by central banks after the subprime crisis) would generate a permanent increase in GDP of 3% due to « *the fall in real interest rates* » and « *a reduction in transaction costs* »(8).

- Curbing the use of historic cryptocurrencies in Russia

A CryptoRuble would function like a stablecoin: it could be backed by another asset (another CBDC, a basket of fiat currencies, gold, etc.). If no collateral backs it, the stability of its value could still be ensured by smart contracts (a kind of application stored on the blockchain that executes automatically when a series of conditions is met) that will automatically buy back the CryptoRuble in circulation when its price is too low (and sell it when it is too high).

As a stable, operational, and liquid payment instrument, the CryptoRuble should logically be preferred by users to volatile historical cryptocurrencies. At the same time, it would help preserve Russia's monetary sovereignty in the face of historic cryptocurrencies using public blockchains and private *stablecoins* with a global reach (such as Libra).

## Notes:

- (1) "[V tchastnosti, Bitcoin](#)" (In particular, Bitcoin), press release, Bank of Russia, 27 January 2014.
- (2) Ivan Petrov, Tatiana Alechkina, "[Prokouror dlja Bitcoin](#)" (A prosecutor for Bitcoin », Gazeta, No. 020, 7 February 2014.
- (3) "[Vlasti RF otkazalis vvodit ougolovnouiou otvetstvennost za oborot bitkoinov](#)" (Russian Federation authorities refused to criminalize bitcoin circulation), *Interfax*, 12 August 2016.
- (4) Nikhikesh De, "[Vladimir Putin: Cryptocurrency Poses 'Serious Risks'](#)", *Coindesk.com*, 10 October 2017.
- (5) Hugo Estecahandy et Kévin Limonier, "[Cryptomonnaies et puissance de calcul : la Sibérie orientale, nouveau territoire stratégique pour la Russie](#)", *Hérodote*, 2nd and 3rd quarters 2020, pp. 253-266.
- (6) Bill Fassinou, "[La Russie compte interdire l'émission et la vente de cryptomonnaies](#)," *Interfax*, 22 March 2020.
- (7) Maël Rolland et Assen Slim, "[Economie politique du Bitcoin : l'institutionnalisation d'une monnaie sans institutions](#)," *Economie et Institutions*, n° 26, 2017.
- (8) John Barrdear & Michael Kumhof, "[The macroeconomics of central bank issued digital currencies](#)," *Bank of England Staff Working Paper 605*, 2016.

**Highlighted by the editors:** [the Complete Guide to NFT](#).

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**To cite this article:** Assen SLIM (2020), "Russia: towards a blockchain-based CryptoRouble?" *Regard sur l'Est*, July 15th.

<https://doi.org/10.5281/zenodo.15037948>

**date créée**

15/07/2020

**Champs de Méta**

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