



EXPLAINERS

Out with the old As the Chinese yuan gains prominence in Russia's economy, are ordinary Russians ready to abandon the dollar?

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After the U.S. Treasury Department imposed sanctions on the Moscow Exchange and its subsidiaries this June, the exchange had to stop all trading in dollars and euros, effectively shifting these transactions to the over-the-counter market. Russians have traditionally used foreign currency for savings; at the beginning of the year, the population had accumulated nearly \$100 billion in cash. In its March report, Russia's Central Bank noted that 81 percent of the foreign currency bought by the public was in dollars and euros. Though the Central Bank has stopped publishing this data, preferences seem to be shifting in favor of the yuan, especially as the latest sanctions only strengthen the Chinese currency's reliability in the Russian context. Meduza explains whether the yuan can replace the dollar for ordinary Russians and how safe an option it is for savings.

The yuan is just one of 39 financial instruments listed on the Moscow Exchange, but trading in most of these has halted due to sanctions. Currently, only five currencies are available on the exchange: the Chinese yuan, Turkish lira, Belarusian ruble, Kazakhstani tenge, and Armenian dram. According to Russia's Central Bank, the Kyrgyzstani som, Tajikistani somoni, and South African rand are also being traded on the exchange, but

these currencies weren't visible in the broker's app used by Meduza's correspondent.

Russian banks offer more options, however. There, Russians can access not only U.S. dollars and euros, but also British pounds, Swiss francs, Japanese yen, Canadian dollars, Thai baht, Swedish kronor, Norwegian kroner, Danish kroner, Polish zloty, Israeli shekels, and other currencies (including, of course, the yuan).

SANCTIONS AND THE EXCHANGE

Russia's largest stock exchange has stopped trading in U.S. dollars and euros. What does this mean for the ruble?

Why choose the yuan?

Currencies like the lira, Belarusian ruble, tenge, and dram are all much more volatile than China's yuan and aren't yet suitable for investment or savings, according to economists.

The Chinese yuan stands out as a stable currency that isn't subject to any restrictions. Russia's Central Bank allows yuan to be withdrawn from bank accounts freely, unlike dollars and euros. The People's Bank of China hasn't formally prohibited sending money between the two countries or making transactions with Russian financial organizations. And while

there are still payment issues, these are caused by Chinese banks' fears of falling foul of U.S. sanctions rather than official restrictions.

This gives the yuan several advantages on the Russian market. The fact that it's still traded on the exchange means investors can monitor its dynamic rate. Banks can also offer Russians the option of making deposits in the currency, allowing the yuan to generate yields and be used for savings.

Moreover, China remains Russia's main trading partner, making the yuan essential for businesses. The Chinese currency already accounts for almost 36 percent of Russian companies' export revenue and 37 percent of import payments. The need for the currency has led Russian companies to issue bonds in yuan worth more than \$114.6 million every month. This has also attracted investors, and the yuan's share in currency transactions on the Moscow Exchange reached 54 percent even before the latest sanctions package, making it the main foreign currency in Russia.

SKIRTING SANCTIONS

'We have no choice now' Desperate to circumvent sanctions and do business with China, Russian companies resort to cryptocurrency and bartering

Does the yuan's popularity benefit Russia?

It's hard to say definitively, but the Russian economy has few alternatives. Of all the “friendly” currencies, only the yuan is included in the International Monetary Fund's basket of reserve currencies. In 2023, it ranked second in global trade settlements via the SWIFT system, though its share was 20 times smaller than that of the U.S. dollar. Russia is also using the yuan for transactions beyond those with Beijing: last year, a quarter of its trade with third countries was conducted in the Chinese currency. Egor Susin, the managing director at Gazprombank Private Banking, highlights Chinese statistics showing that Beijing is increasingly using the yuan in foreign trade, with payments in the currency exceeding dollar transactions by 10 to 20 percent.

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Russia's Central Bank is also increasing its yuan reserves. The Central Bank only publishes its total available funds, but last year, Bloomberg estimated that the bank had the equivalent of about \$45 billion in yuan. Raiffeisenbank analyst Stanislav Murashov believes that “under current conditions, the best options are yuan and gold, as other non-convertible currencies carry more risk than the benefits of diversification bring.”

The Central Bank expressed the same view, noting that further diversification of reserves is “limited by the risks associated with [friendly countries'] currencies and economies.” “The exchange rates of these currencies are highly volatile, the markets are illiquid, and several of these countries have capital movement restrictions that impede use,” the bank stated. However, the Chinese yuan isn't freely convertible either, leaving the stability of Russian reserves in question.

China's unique dual currency system means the country has two exchange rates for the yuan. On the mainland, the yuan (denoted as CNY) is tightly regulated by the People's Bank of China and subject to numerous restrictions, including requirements for export-import contracts and special accounts for currency conversion. In contrast, the offshore yuan (CNH) operates more freely under the Hong Kong Monetary Authority and isn't subject to mainland China's laws. However, Beijing can influence the offshore yuan through market actions, such as large purchases on the Hong Kong exchange, which can strengthen the CNH and weaken the

dollar. This strategy also benefits the CNY due to the legally established 1:1 parity between the two types of yuan, although they may differ slightly in value when exchanged for third currencies. Historically, the Chinese regulator has been very conservative in managing the foreign exchange market, and China uses various interventions to periodically adjust the yuan's value to meet its economic needs.

SETTING RATES

No fixed price A week after Russia's largest exchange halted dollar and euro trades, the ruble is behaving erratically

Could sanctions affect the yuan?

The situation remains uncertain. U.S. sanctions have effectively blocked trading not only in U.S. dollars and euros but also in Hong Kong dollars, leading to forced conversions into yuan. This indicates that the Moscow Exchange still maintains correspondent banking relationships with Chinese banks.

However, sources told Reuters that Russian subsidiaries of Chinese banks have suspended dollar and euro transactions due to sanctions imposed on the Moscow Exchange. Clients of the broker Sinara complained that they weren't able to withdraw yuan from their accounts, although the trading

platform issued a statement saying everything was operating normally.

Meanwhile, The Wall Street Journal reported that the U.S. is preparing to impose sanctions on Chinese banks that help Russia circumvent restrictions. If this happens, yuan trading on the exchange could be at risk, Russians might not be able to transfer money abroad even in yuan, and international transactions could become even more complicated.

For now, it's still possible to transfer yuan abroad, and such transfers still offer far more possibilities than those in dollars and euros. Banks are hesitant to work with these “toxic” currencies and have implemented prohibitive fees for transfers (even incoming ones) and deposits. In the case of the yuan, however, banks caution that much depends on whether the foreign recipient is willing to accept money from a sanctioned Russian organization.

GAZPROM'S PROBLEMS

A shrinking giant Gazprom's losses on the European market have left the company in the red. Increased exports to China might not be enough to compensate.

Are Russians ready to make the switch?

Speakers at the St. Petersburg International Economic Forum noted that the yuan has already become a core component of Russia's financial system. With sanctions impacting currencies like the dollar and euro, Russians are increasingly turning to the yuan for savings, seeing it as a stable investment amidst the ruble's volatility. (United Arab Emirates dirhams are a potential alternative, but the returns are lower.) Russians have also started using currency futures as a speculative tool, with demand surging following the new sanctions.

A SuperJob survey revealed a decline in the dollar's popularity as a savings tool over the past year, with only 30 percent of Russians now willing to use it, down from 37 percent. Yet, this percentage still exceeds that of the yuan, with only 27 percent of Russians open to saving at least some of their money in the Chinese currency. However, a different survey, conducted by Otkritie Bank, indicated that 40 percent of Russia's population views the yuan as a viable alternative to the dollar. VTB predicted that by the end of 2024, the yuan will make up a third of all Russians' currency savings. In some banks, the yuan already comprises a third of deposits, and the share is only growing.

Brokers have also started introducing their audiences to the yuan, explaining the risks and benefits of trading in the currency and comparing it with dollars and euros. Additionally, finance-focused Telegram channels are attempting to determine the market value of the U.S. dollar

using the yuan exchange rate. Sofia Donets, the chief economist at Tinkoff Investments, highlighted the significance of the Chinese currency to Russia's current economy: "If you haven't learned the ruble to yuan exchange rate yet — learn it."

GAS AND THE ECONOMY

Europe wants to keep Russian gas flowing through Ukraine. Meduza breaks down the options under discussion.
