

Russian economy

Russia embraces China's renminbi in face of western sanctions



Shift away from using 'toxic currencies' for trade and reserves accompanies increase in yuan-denominated bank accounts

Anastasia Stognei in Riga 9 HOURS AGO

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Russia has adopted the renminbi as one of the main currencies for its international reserves, overseas trade and even some personal banking services as it pivots towards China in the face of western sanctions.

The shift has made Russia a rare example of a country adopting the renminbi rather than the US dollar or euro as a reserve currency, but poses risks for Moscow given Beijing's history of abrupt currency devaluations.

China's desire for international adoption of the renminbi has gone largely unfulfilled, but Russia has been driven towards the Chinese currency by international sanctions, the freezing of \$300bn of its international assets and moves to exclude its main banks from global markets.

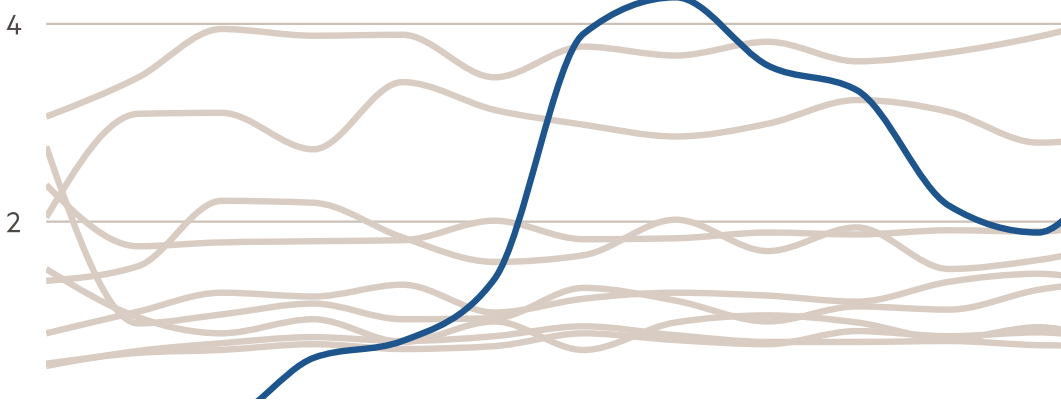
Russia was the fourth-largest economy, excluding Hong Kong, for volumes of renminbi trading in February, according to data from the Swift global payments system. It did not feature in the top 15 before Russia's full-scale invasion of Ukraine.

"A year ago, the renminbi was an exotic currency used only by those working with China. Now people use it for all types of foreign transactions, even those having nothing to do with China," said Natalia Revenko, a founder of HELPYOU, a company that assists Russian clients with opening foreign bank accounts.

Russia has rapidly joined the top offshore renminbi economies

Share of total use of renminbi outside of China (%)





The rise of renminbi trading mirrored Russia's economic pivot to China, as bilateral trade hit a record of \$185bn in 2022. Russian companies pay for most purchases of Chinese goods in renminbi – purchases that increased sharply after the invasion.

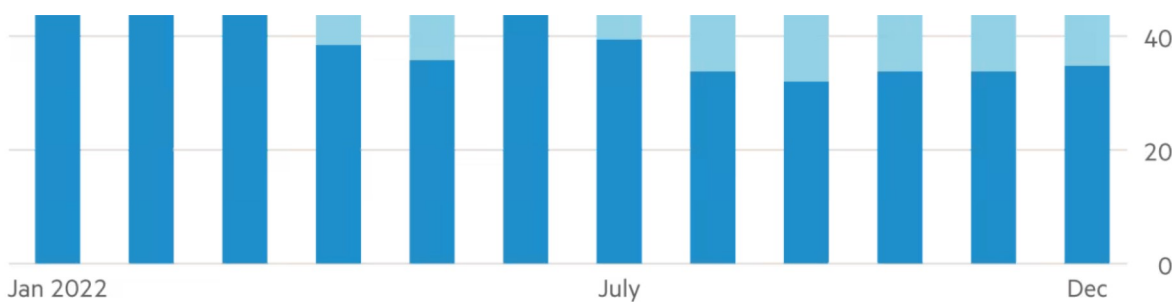
Before the invasion, more than 60 per cent of Russia's payments for its exports were made in what the country's authorities now refer to as "toxic currencies", such as the dollar and euro, with renminbi accounting for less than 1 per cent.

Now "toxic" currencies have dropped to less than half of export payments, while the renminbi accounts for 16 per cent, according to data from the Central Bank of Russia (CBR).

Russian president Vladimir Putin this month endorsed the broader international use of the renminbi. He said as he met with Chinese president Xi Jinping that he supported "the use of the yuan in payments between Russia and countries of Asia, Africa, and Latin America".

The share of renminbi in Russia's exports increased eightfold





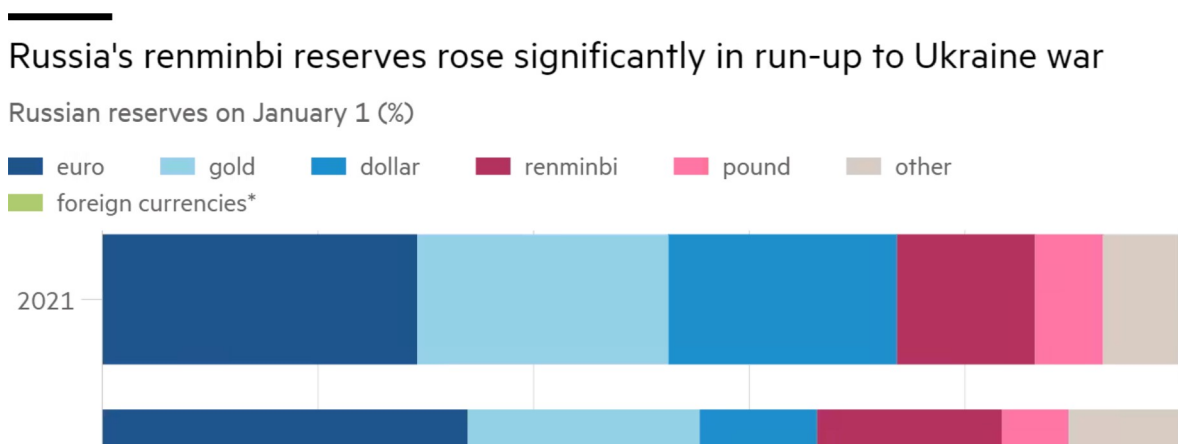
Source: Russian central bank
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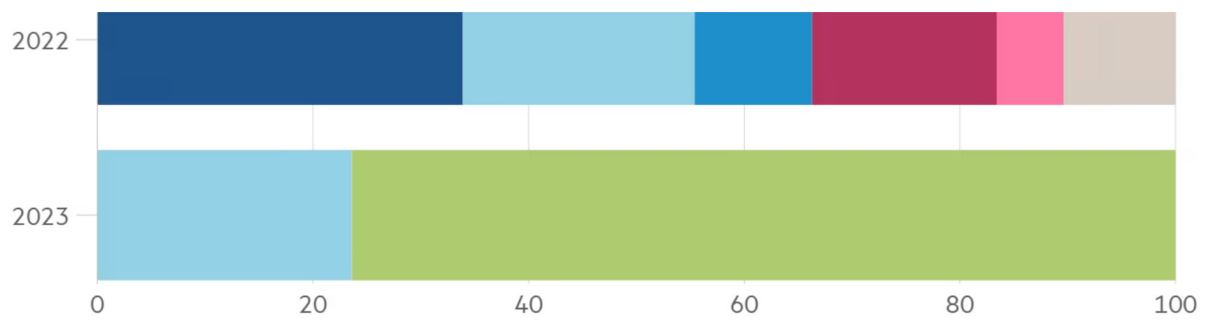
More than 50 Russian banks now offer renminbi-denominated deposits, often under names like “Silk Way” and “Crescent Moon,” attracting ordinary people with interest rates higher than US dollar-denominated accounts.

Russians are already accustomed to holding savings in dollars or euros after experiencing the abrupt devaluation of the rouble in the 1990s. But Victoria Shergina, a financial adviser with more than 800,000 Instagram followers, said: “When the rouble strengthened last summer, people panicked. ‘Is it true that the US dollar and the US are dead?’ they asked, repeating the state narrative. ‘Do I need to get rid of my savings in US dollars immediately?’”

The central bank began switching to renminbi even before the full-scale invasion of Ukraine, increasing its share from 13 per cent to more than 17 per cent of its currency reserves in the year to January 2022, when it disclosed details of its currency reserves structure for the last time.

The figure has likely remained unchanged, given that the central bank did not increase its reserves in 2022. It did not sell gold, which it could have used to buy renminbi, while its euro and dollar holdings were frozen, said Alexandra Prokopenko, a former CBR adviser and now a visiting fellow at German Council of Foreign Relations.





*Breakdown not disclosed
 Source: Russian central bank
 © FT

Those holdings are unusual: IMF figures [show](#) that less than 3 per cent of global central banks' reserves were held in renminbi-denominated assets.

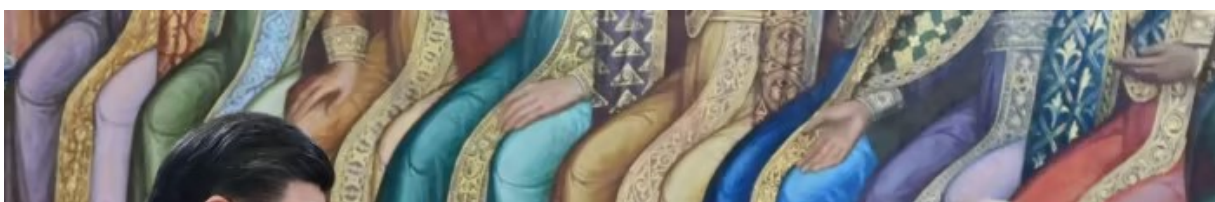
Now the Russian central bank has no option but to continue this strategy, as its access to most other reserve currencies is restricted, said Iikka Korhonen, head of research at the Bank of Finland Institute for Emerging Economies.

Natalia Lavrova, chief economist at BCS Global Markets, said the low share of renminbi in global foreign exchange reserves was a result of most commodities being traded in the US dollar. While China has recently been encouraging its trading counterparts to shift to renminbi, she added, the opacity of Chinese financial markets has weighed on the currency's popularity.

Russia added the renminbi to the basket of permitted currencies for its National Wealth Fund in 2021 and renminbi assets now account for about 30 per cent of the \$147bn fund, according to FT calculations based on data from Russia's finance ministry.

Among individuals, the renminbi was used above all for cross-border transfers, said Shergina, since anyone can buy renminbi on Russia's main exchange, MOEX, and transfer it to other countries.

By contrast, "the very few banks that still have Swift access set a minimum threshold of about \$10,000 for such transactions and charge high commissions for US dollar and euro purchases," she said. "Some people buy renminbi to top up their accounts in the US brokerages with it — and it works."





Xi Jinping, left, and Vladimir Putin toast following talks at the Kremlin on Tuesday © Pavel Byrkin/SPUTNIK/AFP/Getty Images

The Chinese currency still represents only 2 per cent of personal and corporate deposits, marking its limited reach in retail banking as many Russians still lack faith in the currency as a store of value. However, ordinary Russians are among those accessing renminbi on the MOEX exchange.

In February, the share of renminbi on MOEX reached almost 40 per cent from a fraction of a percentage point in early 2022, according to CBR data. Late last year the exchange even experienced a shortage of renminbi, which was overlooked by retail investors but apparent to analysts, who noticed yuan-rouble swap rates turning negative.

“It seemed to be a one-time occurrence, with an unknown player ‘hoovering’ the market to make a huge payment to China,” said Prokopenko.

Matteo Maggiori, professor of finance at Stanford Graduate School of Business, highlighted the unequal nature of Russia and China’s financial relationship. “Given Russia’s international situation, the dependence on the renminbi has been a forced choice,” he said.

This dependence posed risks, said Lavrova: “The problem is not the co-operation with China itself, but that Russia has replaced multiple trading partners with only one player.”

Russia’s problems had been “the greatest gift for China” in the light of its desire to internationalise its currency through foreign trade, Prokopenko said, adding that she did not think Russia would struggle to access renminbi liquidity. In August 2014, four months after annexing Crimea from Ukraine, Russia launched a swap line with the People’s Bank of China, which it can use to deepen liquidity.

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But she said the main risk for the Kremlin would be unpredictable currency shifts by Beijing, which Moscow cannot hedge against because they are so hard to foresee.

She said: "If Beijing decides to devalue its currency overnight, which it has done before, Russian reserves go down, trade contracts are disrupted — and Moscow can do nothing about it."

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