

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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1. RULES AND CONSEQUENCES OF THE DIGITAL RUBLE ADOPTION

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The digital ruble law, which is coming into force, essentially means the emergence of a new form of money in Russia. This is the Central Bank's digital ruble, intended for mass use by households and businesses. In this regard, it is important to assess the features, advantages and, at the same time, limitations of using the digital ruble, as well as the implications for the banking sector.

The digital ruble is a central bank digital currency (CBDC), being a liability of the monetary authorities in non-cash form, more precisely in the form of a digital code, and is part of the monetary base along with cash and reserves of commercial banks. The digital ruble belongs to the so-called retail CBDC, i.e. digital currencies designed for mass use by households and businesses, as opposed to wholesale CBDC, which are designed for large payments by banks and other financial intermediaries. Thus, the digital ruble can be considered digital cash, as CBDC combines the convenience of electronic money and the reliability of banknotes in terms of the absence of default risk of their issuer.

Results of the latest Bank for International Settlements (BIS) survey on central banks which were published in July 2023¹ show that five full-fledged retail CBDC projects have now been launched: the Sand dollar in the Bahamas,² the Dcash in the Eastern Caribbean Economic and Monetary Union,³ e-Naira in Nigeria,⁴ and JAM-DEX in Jamaica.⁵ Significant pilot projects in global practice also include e-CNY in China,⁶ Digital Rupee in India⁷ and E-cedi in Ghana.⁸ Separately, Uruguay's e-Peso⁹ is a successful project, according to both monetary authorities and the IMF,¹⁰ but was terminated after the pilot launch: the Uruguayan authorities considered that there was no demand from the population for the new form of settlement in the country as of 2018.

1 Kosse, A., & Mattei, I. (2023). «Making headway-Results of the 2022 BIS survey on central bank digital currencies and crypto». BIS Papers.

2 Central Bank of The Bahamas (CBB) (2019). «Project Sand Dollar: a Bahamas payments system modernisation initiative», December.

3 URL: <https://eccb-centralbank.org/d-cash>

4 Central Bank of Nigeria (2021). «Design Paper for the eNaira».

5 URL: <https://boj.org.jm/core-functions/currency/cbdc/>

6 People's Bank of China. (July 2021). «Progress of Research & Development of E-CNY in China». Working Group on E-CNY Research and Development of the People's Bank of China.

7 Reserve Bank of India. (October 2022). «Concept Note on Central Bank Digital Currency». Reports.

8 Bank of Ghana. (2022). «Design paper of the digital Cedi (eCedi)».

9 Licandro, G. (2018). Uruguayan e-Peso in the context of financial inclusion, ppt. «Basel University» 16.

10 URL: <https://www.imf.org/en/News/Articles/2018/12/12/ms121218-uruguay-staff-concluding-statement-of-the-2018-article-iv-mission>

However, after the COVID-19 pandemic, the global need to maximize the reliability of electronic payments has grown. The 2022 economic shock and the sanctions pressure on Russian banks and citizens to make payments and settlements have once again demonstrated the importance of diversification in payments and the need for greater sovereignty in this area.

The digital ruble is another form of the Russian ruble (along with the cash and non-cash ruble). Its issuance and implementation require amendments to a number of legislative acts of the country. These are, first of all, the Law "On Banks and Banking Activity", the Law "On the Central Bank", and the Law "On the National Payment System". The amendments also concern legislation in the sphere of bankruptcy, currency regulation and currency control, enforcement proceedings and customs regulation.

On July 12, the Bank of Russia released a draft regulation "On the Digital Ruble Platform".¹ On July 24, the State Duma adopted the Law on the Digital Ruble,² which comes into force on August 1. The legislative changes will allow the digital ruble to move to the stage of a full-fledged pilot project, namely, to conduct transactions with real digital rubles with the involvement of clients of banks from the pilot group.³ Such testing of the digital ruble is a major step towards its widespread use by households and businesses.

According to the Federal Law, the issuance of the digital ruble and its circulation are carried out within the framework of the so-called digital ruble platform – an information system through which three groups of economic agents interact in order to perform transactions with digital rubles and in accordance with a set of certain rules:

- 1) The operator of the digital ruble platform (Bank of Russia);
- 2) Participants of the digital ruble platform (money transfer operators, usually commercial banks and non-bank credit organizations⁴ or foreign banks⁵);
- 3) Users of the digital ruble platform (individuals or legal entities, as well as individual entrepreneurs).

The functioning of the digital ruble will be organized within the framework of a two-tier model. Global experience shows that such a model is typical for mainland countries with a developed banking network, which can be effectively used for the implementation of CBDC. The issuer of the digital ruble and the operator of the digital ruble platform is the Bank of Russia,⁶ but interaction with end users of the digital ruble in terms of opening digital wallets and receiving payment orders will be entrusted to commercial banks, which will transmit information to the platform operator. The principle of double verification of

1 Draft Regulation of the Bank of Russia "On the Digital Ruble Platform" (as of 12.07.2023) (drafted by the Bank of Russia), project ID 04/15/07-23/00139958).

2 Federal Law No. 340-FZ of 24.07.2023 "On Amendments to Certain Legislative Acts of the Russian Federation".

3 The pilot group of banks includes 15 banks: Sberbank, VTB, Alfa Bank, Tinkoff Bank, Gazprombank, Rosbank, Promsvyazbank, Sovcombank, Ak Bars, Dom.RF, Sinara, Soyuz, TCB, MTS Bank and Qiwi Bank.

4 The draft regulation "On the Digital Ruble Platform" defines platform participants as credit institutions.

5 At the same time, the draft regulation "On the Digital Ruble Platform" states that "the digital ruble platform ... shall open ... digital ruble accounts of money transfer operators, except for foreign banks (hereinafter – the digital ruble account of the platform participant)". In other words, according to the draft regulation, foreign banks may not be participants in the digital ruble platform, at least not direct participants.

6 The law explicitly states that the digital ruble is "an obligation of the operator of the digital ruble platform (the Bank of Russia)".

1. Rules and consequences of the digital ruble adoption

information about the payer, payment and digital wallet will apply to payments: first by the commercial bank before sending the payment order to the Bank of Russia and then by the Bank of Russia as the platform operator before executing the corresponding order of the platform user.

The platform users will be able to conduct transactions with digital rubles of three types:

- 1) Transactions to increase the balance of digital rubles in the digital ruble account by transferring funds from a bank account or decreasing the balance of electronic funds;
- 2) Operations to decrease the balance of digital rubles on the digital ruble account by transferring funds to a bank account or increasing the balance of electronic monetary funds and transfers of digital rubles;
- 3) Transfer of digital rubles, which is performed exclusively within the platform by simultaneous equivalent decrease and increase of the balance of digital rubles in the accounts of two users; this moment corresponds to the termination of the transaction.

Let's analyze the benefits and disadvantages of the digital ruble for end users and system participants.

The digital ruble for individuals has a number of advantages. Firstly, maintenance of the digital ruble account for individuals is free of charge, and no fees will be charged on digital ruble transactions. This will be a clear advantage of the digital ruble over other electronic payment methods (Faster Payment System or card transfers, which may incur fees depending on the terms of service at each individual bank). Secondly, the digital ruble platform implies the possibility of offline transfers in digital ruble, which is not possible for online bank chip cards, but the technical details of such transactions have not yet been determined. These advantages will be especially significant for the end user – an individual living in remote areas with unstable internet coverage and an underdeveloped banking services sector. Thirdly, the digital ruble is more reliable than “money in the bank” because the digital ruble is not a liability of a commercial bank, which may go bankrupt, but of the central bank. Fourthly, the digital ruble platform is expected to function in real time 24/7, i.e. around the clock every day, including weekends, non-working days and holidays. In terms of these parameters, the digital ruble will not be inferior to card transfers.

In the meantime, the digital ruble will be inferior to other settlement methods available to the population in terms of a number of characteristics. Firstly, the law explicitly states that a joint digital ruble account as well as a digital ruble account in precious metals and the formation of a group of digital ruble accounts are not allowed. According to these parameters, the digital ruble will be less attractive than the existing joint accounts on the market (bank card accounts or interest-bearing savings accounts), which give several people an opportunity to use one account. In addition, the principle of “one user – one wallet” will apply. Secondly, settlements in the digital ruble, unlike cash settlements, will not be anonymous. To gain access to the digital ruble platform, a user must be registered in the USIA system (in essence, on the Gosuslugi portal) and receive a simple electronic signature key. Further, it will be necessary to undergo an identification procedure in the bank – a participant of the platform. For some users, the need to bear such additional transaction costs may be an argument against the use of the digital ruble – especially in areas with developed payment infrastructure. Another type of costs associated with use of the digital ruble may include the need to install special software for

banks connected to the digital ruble platform. Such software can be installed, for example, on a smartphone or tablet. Along with that, a convenient option is that the client will be able to see his balance and make transactions through any bank connected to the platform.¹

The use of the digital ruble will be of great benefit to businesses as the cost of outgoing transactions for it will amount to 0.3% of the payment amount (for comparison, the fee in FPS is 0.5%). In addition, accepting payments from customers for goods and services using bank cards is accompanied by the need to pay acquiring commissions, which on average are equal to 1.2–2.2% depending on the type of card or type of business activity.² It is most likely that similar commissions paid by businesses to commercial banks when accepting payments from customers in digital rubles will be lower or even zero.

The digital ruble is in its form a digital code, so another advantage for businesses will be the ability to form smart contracts³ based on digital rubles. The ability to “tag” digital rubles in order to track the digital footprint of payment transactions, as well as (non)targeted spending, will also be important for the government.

A digital ruble is the same property of an individual or legal entity, individual entrepreneur, which means that digital ruble accounts can be foreclosed by various authorities.

What are the implications of the introduction of the digital ruble for banks participating in the digital ruble platform? Commercial banks will receive certain remuneration for their services, the maximum amount of which will be set by the Bank of Russia. However, it is likely that the potential losses from the launch of the digital ruble for banks will exceed the amount of such remuneration-commissions. The fact is that due to certain advantages of the digital ruble for households and businesses described above, there will be a partial outflow of demand deposits from the banking sector. For example, earlier Sberbank predicted an outflow of up to Rb4 trillion from banks into the digital ruble.⁴ To mitigate these risks, the Bank of Russia has the right to set limits on transactions with the digital ruble and the size of balances on digital ruble accounts. This is necessary for step-by-step testing of the consequences of the launch of the new form of the ruble. Bank of Russia officials confirm⁵ that “the digital ruble will result in a redistribution of some interest income in favor of holders of current/settlement accounts and deposits. In an attempt to avoid excessive overflow of highly liquid liabilities into the digital ruble and to preserve the opportunity to earn on such liabilities, banks will have to raise interest rates on balances on such accounts (payroll, settlement, current accounts)”. Such a policy may lead to an increase in interest rates on loans, and, therefore, to negative incentives for investment, consumer and mortgage lending and economic growth. Thus, setting limits on digital ruble account balances and digital ruble transactions

1 When closing a user's digital currency account, the balance of funds will be transferred to the user's correspondent account. In case of closure of a digital ruble account of a platform participant (bank), user accounts will not be closed, but will be transferred to another credit organization servicing such user. In general, access to the digital ruble platform can be provided to the platform user simultaneously through the software of several banks – platform participants.

2 URL: <https://cbr.ru/press/event/?id=12769>

3 Smart contract implies automatic transfer of funds when the counterparty fulfills the terms of the transaction.

4 URL: <https://www.rbc.ru/finances/15/12/2020/5fd86d479a79470af8e7e4f9>

5 *Grishchenko, V., Morozov, A., Petreneva, E., Sinyakov, A.* (2021). “What will change for banks and their customers with the introduction of the digital ruble”. Bank of Russia.


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is aimed at reducing the initial potential negative effects of the launch of the digital ruble on the economy.

Moreover, the law states that “a digital ruble account is a separate type of bank account”. The digital ruble can be used to pay for goods and services, as well as transfers between economic agents, but “attraction of digital rubles into deposits” is prohibited, i.e. digital rubles cannot be deposited (exactly in the form of a digital ruble): firstly, the digital ruble will have to be converted into a non-cash form and then deposited in non-cash rubles. Crediting of digital ruble accounts is also not allowed, which means that it is impossible to take a loan in them. This norm is designed to protect the interests of the banking sector, otherwise there will be a problem of interest payments on digital rubles, and the Bank of Russia will “compete” with commercial banks for liquidity or lending to households and businesses. This is one of the reasons why the law prohibits the accrual of interest on digital rubles.

Therefore the only opportunity for commercial banks to try to reduce losses from the introduction of the digital ruble is to be an active part of the payment system based on the digital ruble and to develop new more attractive products for their clients. In general, this should increase the level of competition in the banking services market, which may be beneficial for households in the area of payments, but not in the area of lending, where we expect a certain increase in interest rates due to the decrease in bank liquidity discussed above.

The new legislation on the digital ruble opens up the prospect of using the digital currency in international settlements.¹ Access to the digital ruble platform is granted to non-resident users through member banks or the digital ruble platform operator; and the Bank of Russia is authorized to interact with the operator of the digital currency platform of a foreign country (group of foreign countries). In addition, foreign CBDC are subject to currency regulation.

The changes in Russian legislation required for the introduction of the digital ruble are quite extensive and will require some restructuring of the banking sector and the payment sector as a new form of money is essentially emerging in Russia. However, in any case, the use of digital rubles for end users will be purely voluntary and they will still have an alternative in the form of cash and non-cash rubles. 

1 In the context of sanctions, the discussion about the use of cryptocurrencies to ensure settlements at the international level has intensified. However, in our opinion, cryptocurrencies are not a reliable solution to the difficulties at the level of cross-border settlements for a number of reasons:

- 1) The field of cryptocurrencies is not regulated, and the legislation of different countries regarding cryptocurrencies and other digital financial assets is different; there are no reliable mechanisms to guarantee that counterparties will fulfill the terms of the transaction when paying with cryptocurrencies;
- 2) There is external pressure on cryptocurrency exchanges regarding the ban on opening cryptocurrency wallets by Russian residents, restrictions on replenishing wallets using Russian cards and bank transfers, etc.;
- 3) Cryptocurrency rates remain highly volatile. We are talking not only about tokens like Bitcoin, Ethereum and Ripple, but also about stablecoins like Tether, the prices of which are pegged to the value of certain assets or baskets of assets.

All this entails significant risks of making payments in cryptocurrencies.

2. BALANCE OF PAYMENTS IN Q2 2023

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At the end of Q2 2023, the current account surplus of the balance of payments fell 14-fold compared to Q2 2022 as a result of a decrease in the value of exports and an increase in the value of imports. At the same time, the financial account deficit was formed as a result of the outstripping increase in foreign assets compared to the growth of foreign liabilities. The weakening of the ruble in Q2 2023 was facilitated by a decline in the trade balance and a reduction in the share of net sales of foreign exchange by the largest exporters in the total volume of exports.

According to preliminary assessment of the balance of payments released by the Bank of Russia, the current account balance of the RF balance of payments in Q2 2023 amounted to \$5.4bn, which is more than a 14-fold drop compared to the same indicator for Q2 2022 (\$76.7bn). At the same time, in monthly terms, in June 2023, the current account balance turned negative at \$1.4bn for the first time since August 2020 (in April 2023, it was \$1.4bn; in May 2023, \$5.5bn). Given the current low level of detail of the balance of payments of the Russian Federation published by the Bank of Russia, the structure of the current account can be described in terms of three main balances: trade in goods, trade in services, and the balance of primary and secondary income.

The balance of trade in goods amounted to \$24.1 bn, which is 75% less (by \$71 bn in absolute value) than in Q2 2022 (\$95 bn). The increase in the value of imports of goods – from \$56.8 bn in Q2 2022 to \$76.9 bn in Q2 2023 (by 35%) – while the value of exports fell from \$151.8 bn in Q2 2022 to \$101 bn in Q2 2023 (by 33%) played a decisive role in this.

Such export dynamics is due to the decline in prices for basic Russian export commodities (crude oil, gas, oil products, grain, coal, ferrous and non-ferrous metals) and incomplete redirection of export flows from the EU and other “unfriendly” economies.

The observed dynamics of imported goods is associated with the recovery of physical volumes of supplies due to the reorientation to supplies from neutral partner countries and some growth in prices for imported goods. Moreover, the growth in imports of goods was accompanied by the weakening of the national currency: according to the Bank of Russia, the decline in the index of the real ruble-dollar exchange rate in H1 2023 against H1 2022 amounted to -1.9% (despite the strengthening in Q1 by +19.6%), which means a significant appreciation of import supplies.¹

¹ On the impact of exchange rate dynamics on trade ref. A.Y. Knobel. Estimation of the import demand function in Russia // Applied Econometrics. // 2011. No.4 (24). P. 3–26; A. Knobel, A.

2. Balance of payments in Q2 2023

The balance of trade in services in Q2 2023 amounted to -\$8.5 bn, which in absolute value is 2.3 times the negative value of the balance of trade in services for Q2 2022 (-\$3.7 bn). As with trade in goods, there is a decline in services exports (mainly transportation) from \$11.1 bn in Q2 2022 to \$9.7 bn in Q2 2023 (down 13%) and an increase in services imports (mainly travel) from \$14.7 bn in Q2 2022 to \$18.2 bn in Q2 2023 (up 24%).

The balance of primary and secondary income in Q2 2023 amounted to -\$10.2 bn, which in absolute terms is 31% less than the same indicator in Q2 2022 (-\$14.7 bn). This being said, in Q2 2023, income receivable (capital gains from abroad) remained almost unchanged, however income payable (reduced withdrawal of income and repatriation of profits abroad, including due to restrictions on the cross-border movement of capital) decreased significantly. Income receivable decreased in Q2 2023 compared to Q2 2022 by a modest \$0.8 bn (from \$11.7 bn to \$10.9 bn) and income payable decreased by \$5.3 bn (from \$26.4 bn to \$21.1 bn).

In the short-term period, due to the persistence of low prices for basic goods of Russian exports, as well as restrictions on the part of the EU and the United States for counterparties of their jurisdictions and jurisdictions of neutral countries (secondary sanctions), the current account balance will remain at a fairly low level, comparable to the value of Covid 2020, being in the range of \$30–40 bn.

Since the assessment of the balance of payments, starting from Q1 2022, is published by the Bank of Russia in aggregate form, the financial account is represented by data on net external assets and liabilities of all sectors of the economy.

In Q2 2023, the financial account of the balance of payments due to the contraction of the current account balance also declined 14-fold compared to Q2 2022 and amounted to \$5.7 bn (\$78.2 bn in Q2 2022). Thus, the growth of foreign assets of all sectors (excluding reserve assets) was offset by the build-up of foreign liabilities.

Net lending to the rest of the world from the acquisition of foreign assets (excluding reserve assets) reached \$17.3 bn, down 30% from \$24.5 bn in Q2 2022. The build-up of foreign assets in Q2 2023 was mainly due to the outflow of foreign direct investment.

Liabilities of all sectors of the Russian economy to non-residents in Q2 2023 went up by \$11.6 bn (-\$53.7 bn in Q2 2022). The growth of liabilities in Q2 2023 resulted from the fulfillment in June 2023 by Russian companies of their obligations to pay dividends in favor of non-residents. At the same time, a substantial part of these dividends to non-residents from unfriendly countries is accrued to "C" accounts, i.e. it is not converted into foreign currency and does not exert pressure on the ruble exchange rate.

In Q2 2023, Russia's external debt went down by 2% to \$347.7 bn. The external debt of the public administration decreased to the greatest extent (by 8.5% in Q2 2023 to \$37 bn), which was due to the sale of Russian OFZs by non-residents. As a result, the share of non-residents in the OFZ market in April-May dropped by 0.4 p.p. to 9.1% as of the beginning of June 2023, which corresponds to the level of August 2012. In Q2 2023, other sectors of the economy reduced external liabilities by 2.7% to \$216.7 bn, including within the framework of the


Firanchuk. Russia in the world export in 2017 // Economic development of Russia. 2018. No.9. P. 17–21.

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mechanism of issuing substitute bonds. As a result of Q2 2023, banks and the Central Bank of the Russian Federation ran up their external liabilities by 2.6% to \$94.0 bn.

In Q2 2023, the dynamics of reserve assets was mainly due to foreign currency sale operations under the new budget rule. In Q2 2023, the Bank of Russia, by order of the Ministry of Finance of Russia, sold Rb200 bn worth of yuan. This is due to the budget's shortfall in oil and gas revenues compared to the baseline. As a result, in Q2 2023 the international reserves of the Russian Federation decreased by 1.9% and as of July 1, 2023 amounted to \$582.4 bn.

In Q2 2023, the weakening of the ruble against the US dollar amounted to 12.9%, as a result of which the ruble exchange rate rose to 87.03 rubles/dollar. The largest scale of weakening was observed in June (7.9%), which was due to a decrease in export revenues (\$32.5 bn in June 2023 vs. \$36.8 bn in May 2023 and \$53.9 bn in June 2022). Moreover, net foreign exchange sales by the largest exporters also fell 22.9% to \$7.0 bn compared to May 2023 (\$9.1 bn). While at the end of Q1 2023 the share of net sales of foreign exchange by the largest exporters in total exports amounted to 28.4%, at the end of Q2 2023 it fell to 21.5%. This is primarily due to an increase in the share of export proceeds received in rubles and currencies of friendly countries from 60.9% at the end of March 2023 to 65.9% in May 2023. Additional pressure on the ruble exchange rate in June 2023 was exerted by an increase in demand for foreign currency on the part of the largest exchange traders due to an increase in political risks.¹

According to our estimates, in the baseline scenario, with the Urals oil price at \$55–60/bbl, the key rate in the range of 7–8% and the current rate of decline in the share of non-residents in Russian assets, the ruble exchange rate may stabilize at the level of Rb 83–87/dollar in autumn. Under the pessimistic scenario, with falling oil prices and growing geopolitical risks, the ruble exchange rate may approach Rb100/dollar. 

¹ Financial Market Risks Review, No. 6 (75). June 2023 // Information and Analytical Stuff of the Bank of Russia.

3. SURVEY OF PAYMENT SYSTEMS IN H1 2023

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In 2023, the Russian market of payment systems keeps evolving at a rapid pace. Improvements in technology and updates of the regulatory framework result in major market changes. The confrontation between traditional banks and new fintech actors, as well as increasing competition between payment systems, are generating new technologies and services that are changing the way users interact with financial instruments. Users abandon traditional banking services more often in favor of mobile applications and other modern transfers, taking advantage of new opportunities and comfort provided by startups and large companies. In these conditions, the regulator has to take into account the evolution of the market and propose new rules and standards for safe and stable operation of payment systems.

At Q1 2023 end, the institutional structure of the national payment system did not undergo any major changes. The number of money transfer operators as of July 1, 2023 was 363 units (including the Bank of Russia, VEB and credit institutions). In 2023, two organizations were included in the register of payment system operators: JSC CB Sokolovsky (Astrasend payment system) and Bank 131 LLC (dengi.ru payment system). One organization NGO INKAHRAN (JSC payment system Astrasend) was excluded. As of July 1, 2023, there are 56 records on operators of payment systems in the register, of which 24 systems are active.¹ Thirteen payment systems are recognized as nationally important, 3 are socially important and 1 is systemically important.

The number of operators of payment infrastructure services has not changed as well since the beginning of the year: currently there are 24 operational centers, 25 payment clearing centers and 23 settlement centers.

The number of remittances within the Bank of Russia's payment system in Q1 2023 amounted to 1,648.0 million units, which is 90.6% more than in Q1 2022. Significant growth was recorded in transfers involving the fast payment service: compared to Q1 last year, growth in the number of transactions amounted to 185.4% and the volume grew by 124.1%.

Credit transfers involving use of payment orders prevail in the total structure of remittances.² The structure did not change in the previous year, however, certain growth in the share of settlements involving payment cards can be observed (Fig. 1).

¹ The register does not contain information about the Mir payment system and its operator NSPK, as they were created by virtue of Russian law.

² Money transfers through credit organizations involving payment instruments used by their clients who are not credit organizations when making payments, as well as when credit organizations make their own payments.

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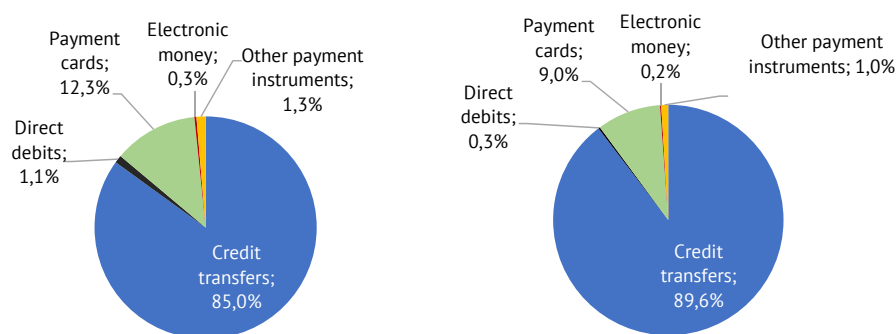


Fig.1. Structure of money transfers in Q1 2023 and Q1 2022

Source: own calculations based on Statistics of national payment system / Bank of Russia.
URL: <https://www.cbr.ru/statistics/nps/psrf/>

According to a sociological survey by the Central Bank of Russia¹, people increasingly prefer non-cash payments: 79% of respondents pay using bank cards, 38% use mobile banking and 18% prefer the Bank of Russia's fast payment system.

The main argument in favor of choosing card payments is the simplicity of settlements (55%), as well as the possibility of remote transactions (34%).

Despite growing popularity of non-cash payments, cash is still used as a form of savings (36%). About a quarter of respondents (24%) traditionally prefer cash paying for goods and services, 23% believe that cash is more welcome in stores, while some (11%) believe that cash is not exposed to cyber risks.

On July 11, the State Duma passed the second and third reading of the law which provides the basis for introduction of the digital ruble and settlements using the digital ruble.² The law defines the terms "digital ruble platform", "digital ruble platform rules", "member of the digital ruble platform", "user of the digital ruble platform", "digital account (wallet)". The list of subjects of the national payment system is supplemented by a new subject, the operator of a digital ruble platform. Requirements for organization of the digital ruble platform, procedure for opening, maintaining and closing a digital account and access to the digital ruble platform are being established.

The law differentiates the concepts of "electronic money" and "non-cash settlements in the form of the transfer of digital rubles", the concepts of "electronic money" and "digital rubles". The concept of "foreign currency" is being clarified and it will also include national digital currency issued by foreign central banks. It specifies the possibility of performing currency transactions between residents and non-residents, as well as between non-residents using digital rubles without restrictions.

Members of the digital ruble platform, the authorized banks or foreign banks that are digital ruble platform members and, in some cases, the digital ruble platform operator provide access to digital ruble platform to non-residents. Until December 31, 2024, the range of users of the digital ruble platform, the list of transactions types and their thresholds will be agreed between the Bank of Russia and the Rosfinmonitoring.

The platform operator status will be assigned to the CBR, as well as functions to organize and ensure the operation of the platform. Moreover, the liability of

1 URL: <https://www.cbr.ru/press/event/?id=16872>

2 URL: <https://tass.ru/ekonomika/18247131>

3. Survey of payment systems in H1 2023

the Bank of Russia for the safety of digital rubles and accuracy of recording information on transactions involving digital rubles is being established.

The law will take effect on August 1, 2023, except for provisions for which a different effective date is established.

The situation regarding changes to the legal structure for cryptocurrencies continues to evolve. At present, it is not about full legalization, however, it is planned to set up a special experimental committee issuing permits to individual operators to use cryptocurrency in foreign trade settlements.¹ The establishment of a special committee, which will include representatives of a number of ministries, the Bank of Russia and several law enforcement agencies, is envisaged in a bill under consideration by the State Duma's Financial Market Committee. The document assumes that if businesses demonstrate building-up of reliable schemes for settlements in cryptocurrencies, the committee will later support the proposed projects aimed for their implementation.

This year, it is expected that the latest technologies will be introduced in Russia's payment systems assuming the use of biometric customer data, facial recognition technologies and virtual cards. The use of such technologies will allow fast and secure online purchases of goods and services, as well as minimize the risks of fraud.

Internet banking continues to improve and spread, becoming more user-friendly and accessible to customers. By the end of this year, one should expect growth in the number of online services, such as card-to-card transfers, utility payments, as well as expansion of mobile banking capacity. This will help customers to make financial transactions faster and easier and save time visiting a bank office.

In 2023, it is expected to develop the electronic payment system, including its adaptation to modern technologies and improved functionality, which will enable customers to transfer money faster and more conveniently using mobile applications and online services, as well as new payment methods such as digital ruble and cryptocurrencies.

Another priority of development will be the improvement of security and customer data protection, which is one of the most important tasks of strengthening the payment systems in Russia. In 2023, it is planned to continue improving the data protection system, as well as raise the quality of customer data processing to prevent fraud and identity theft.

In today's environment, security is one of the major concerns in the payment system industry. There are numerous threats such as phishing, viruses, fraud and identity theft. Therefore, to ensure security in payment systems it is necessary to comply with a number of requirements, in particular, the requirement for confidentiality of users' personal data. This implies protection against unauthorized access and use as well as against data leaks.

Another important issue is the authentication requirement. In order to protect against attackers, it is necessary to ensure that users are authentic. For this purpose, new, modern methods such as biometrics and tokens will be distributed alongside traditional authentication methods (passwords).

It is also important to ensure the integrity of information transmitted within payment systems. This means that data must not be altered or corrupted during transmission.

1 URL: <https://tass.ru/ekonomika/17542637>


Reliability and availability of payment systems are important factors for ensuring security. Systems must be available to users at all times and must not be interrupted due to technical problems or cyberattacks, which in turn implies improving intrusion detection systems (IDS) or attack detection systems (ADS) to detect various anomalies that may indicate attacker's actions.

Contact and non-cash payment technologies will also continue to improve in Russia.

Contact payment is a method where the customer pays for goods and services using a card and pin code. This method of payment has been used for many years and remains popular, but has been gradually replaced by non-cash payment over the previous year.

Non-cash credit and debit card payment systems, key fobs, smart cards or various devices, including smartphones and other mobile apps, use radio frequency identification (RFID) or short-range near field communication (NFC, e.g., Samsung Pay, Apple Pay, Google Pay, Fitbit Pay) to make secure payments. The integrated circuit chip and antenna allow consumers to pay for goods and services without even touching their card, key fob or handheld device to the reader at the point-of-sale terminal. Non-cash payments are made in close physical proximity to the terminal unlike other types of mobile payments that use cellular or WiFi broadband networks and do not involve close proximity to the reader. These technologies have two main advantages: speed of settlement (due to reduced cashier and payer actions) and security (by reducing the risk of an outsider obtaining confidential information).

The development of technology makes it possible to use non-contact payment via mobile devices as well. For example, after popular electronic payment systems Google Pay and Apple Pay left Russia, many banks started to develop similar services. The Tinkoff Bank and the Alfa Bank have launched Tinkoff Pay and Alfa Pay services. They will be available for Android based smartphones and Mir card holders and thus, customers will be able to pay using their phones wherever contactless payment is accepted.

Economic instability has greatly stimulated the introduction of technology in the payments system. Both banks and their customers are interested in the simplicity, accessibility and low cost of payment services. In 2023, the accumulated experience and flexible regulation by the CBR will help the Russian banking sector and fintech to master new technologies. The main trends of this year and the next few years will be the introduction of artificial intelligence, the spread of OpenAPI, development of billing technologies and improvement of cybersecurity methods. 

4. RISKS OF RUSSIA'S INCLUSION IN THE FATF "BLACK" OR "GREY" LIST

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The Financial Action Task Force on Money Laundering (FATF) conducts regular monitoring of countries with serious deficiencies in their anti-money laundering and combating terrorist funding (AML/CFT). In this regard, the FATF forms 2 lists of countries showing weak AML/CFT measures, which are published 3 times a year: "black" and "grey." The "black" list includes jurisdictions showing grave AML/CFT faults. The "grey" list includes jurisdictions with deficiencies in AML/CFT regimes that express their willingness to cooperate with the FATF to address these faults. Given the suspension of Russia's membership in the Task Force, there are risks of Russia's inclusion in one of these lists.

The FATF regularly monitors countries with weak measures in their AML/CFT regimes and works with these countries to address them. The Task Force compiles 2 lists of countries having poor AML/CFT measures;¹

- Statement on high-risk jurisdictions subject to a call to action ("black list"). The document identifies countries evidencing grave faults in combating money laundering and terrorist financing. The FATF encourages jurisdictions to use enhanced due diligence procedures in respect of such countries and, in the most serious cases, to apply countermeasures to protect the international financial system from ongoing AML/CFT risks emanating from the country. As of June 23, 2023, three countries are blacklisted: DPRK, Iran, Myanmar;
- Statement on jurisdictions under increased monitoring ("grey list"), that identifies countries that are actively working with the FATF to address strategic deficiencies in their AML/CFT regimes. When a jurisdiction is placed under increased monitoring, it means the country has committed to resolve swiftly the identified strategic deficiencies within agreed timeframes. As of June 23, 2023 the "grey list" includes 26 jurisdictions: Albania, Barbados, Burkina-Faso, Cameroon, Cayman Islands, Croatia, Congo, Gibraltar, Haiti, Jamaica, Jordan, Mali, Mozambique, Nigeria, Panama, Philippines, Senegal, South Africa, South Sudan, Syria, Tanzania, Turkey, Uganda, UAE, Vietnam, Yemen.

The FATF publishes relevant lists at the end of each plenary meeting 3 times a year: in February, June and October.² The Statements provide a brief overview of the actions taken under each jurisdiction's action plan, as well as a list of

1 URL: <https://www.fatf-gafi.org/en/countries/black-and-grey-lists.html>

2 URL: <https://www.fatf-gafi.org/ethen/topics/high-risk-and-other-monitored-jurisdictions.html#:~:text=The%20FATF%20publishes%20two%20statements,deficiencies%20remaining%20to%20be%20addressed.>

strategic gaps to be addressed. For example, since the last update in June 2023, Cameroon, Croatia and Vietnam have been added to the “grey list.”

Ukraine has repeatedly appealed to the FATF with a demand to add Russia to the FATF “black list.”¹ In particular, Kiev submitted several applications in advance of the FATF plenary meetings in June and October 2022, as well as the plenary meeting in February 2023. According to the Ukrainian government, these efforts resulted in the FATF tightening of the restrictive measures against Russia.² However, Ukraine is not a FATF member state, it only has the status of a member in the regional group akin to FATF MONEYVAL. For Russia to be blacklisted, a relevant proposal must be submitted to the FATF by a member state or FATF regional body (FSRB). Thus, Russia was not included in the “black list” in June 2023.

It should be noted that Russia has previously been on the FATF “black list.” It was included in this list in June 2000 followed by significant reforms in the field of tightening AML/CFT legislation. Russia was removed from the FATF “black list” in 2002, and in 2003 it was granted the status of a member state of the Task Force.

Despite the Russian Federation's membership in the FATF, following the outbreak of the conflict in Ukraine, the FATF decided to severely limit Russia's role and influence in the Task Force. In particular, in 2022, Russia could no longer perform any leadership or advisory functions, participate in decision-making on standard setting, FATF peer review processes, governance and membership matters or provide its assessors or other experts to FATF assessment (review).³

On February 24, 2023, the FATF decided to suspend Russia's membership in the FATF.⁴ The procedure for suspension of membership is not defined in the Task Force founding document, the FATF Mandate. The Plenum, as the decision-making body of the FATF, must act by consensus.⁵ The FATF Mandate does not regulate the possibility of decision-making in the absence of consensus.

According to the Task Force Statement, Russia remains responsible for fulfilling its obligations to implement the FATF Standards and should continue to meet its financial obligations.⁶ Russia remains an actor in the FATF global network as a member of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) and retains its rights as a member of the EAG. In its statements, the FATF continues to call on all jurisdictions to remain vigilant against threats to the integrity, safety and security of the international financial system arising from the current situation in Ukraine.

In June 2023, the FATF emphasized in a statement following a plenary meeting that Russia's suspension of its membership in the Task Force remains in effect.⁷ Following statements issued since March 2022, the FATF reiterated that all jurisdictions should be vigilant with respect to current and emerging risks

1 URL: <https://www.kmu.gov.ua/en/news/ministerstvo-finansiv-ukrainy-zaklykaie-fatf-vnes-ty-rosiiu-do-chornoho-spysku-na-plenarnomu-zasidanni-u-paryzhi>

2 URL: <https://www.kmu.gov.ua/en/news/ukraina-zanepokoiena-shan-tazhem-rosii-chleniv-fatf-naperedodni-chervevoho-plenarnoho-zasidannia-orhanizatsii-serhii-marchenko>

3 URL: <https://www.fatf-gafi.org/en/publications/Fatfgeneral/Ukraine-june-2022.html>

4 URL: <https://www.fatf-gafi.org/content/fatf-gafi/en/publications/Fatfgeneral/fatf-statement-russian-federation.html>

5 URL: <https://www.fatf-gafi.org/en/the-fatf/mandate-of-the-fatf.html>

6 URL: <https://www.fatf-gafi.org/content/fatf-gafi/en/publications/Fatfgeneral/fatf-statement-russian-federation.html>


7 URL: <https://www.fatf-gafi.org/en/publications/Fatfgeneral/outcomes-fatf-plenary-june-2023.html>

4. Risks of Russia's inclusion in the FATF "black" or "grey" list

from non-compliance with measures taken against the Russian Federation in order to protect the international financial system.

The Russian Financial Intelligence Unit (Rosfinmonitoring) believes that the decision to suspend Russia's FATF membership is politicized, groundless, does not rely on established procedures and goes beyond the FATF mandate.¹ At the same time, Rosfinmonitoring believes that this FATF decision does not entail any obligations or restrictions for financial institutions in Russia and abroad. The Russian anti-money laundering system will continue to function in accordance with the current legislation.

The inclusion of a jurisdiction on the FATF "black" or "grey" lists has serious reputational consequences, preventing counterparties and financial institutions from dealing with such a country. Inclusion in the lists may affect the emergence of additional transaction costs, which in turn impacts the reduction in the volume and increase in the timing of cross-border payments, reduction of mutual trade and foreign direct investment. Conducting enhanced due diligence procedures results in longer transaction times, more documents being required, and in some cases, denial of transactions with customers or financial institutions on the FATF "black" or "grey" lists.

IMF experts in the 2021 study based on the data analysis on 89 emerging market and developing countries for 2000–2017, 78 of which were included in the FATF "grey list" at least once, conclude that a country's inclusion in such a list has a significant negative impact on capital inflows.² The empirical results show that capital inflows fall by an average of 7.6% of GDP when a country is on the "grey list." Moreover, the inflow of foreign direct investment reduces by an average of 3.0% of GDP, the portfolio capital inflow drops by an average of 2.9% of GDP, while the inflow of other investments decreases by an average of 3.6% of GDP. Thus, the analysis of expert estimates allows us to conclude that a 10% reduction in Russian foreign trade can be expected as a result of the country's inclusion in the FATF "black" or "grey" lists. 

1 URL: <https://www.fedsfm.ru/releases/6372>

2 URL: <https://www.imf.org/en/Publications/WP/Issues/2021/05/27/The-Impact-of-Gray-List-ing-on-Capital-Flows-An-Analysis-Using-Machine-Learning-50289>