



The Cryptoruble: Not Exactly a Hard Currency, Not Exactly the Russian Bitcoin

OE Watch Commentary: After several months of publicly struggling with the undefined status of Bitcoin and other cryptocurrencies in use by the Russian public, the government announced that it has decided to issue its own cryptoruble in the near future. Despite this seemingly decisive move, the announcement leaves the market and the Russian public as unclear as ever: Bitcoin and other cryptocurrencies remain unregulated, and are officially neither legal nor illegal in Russia.

At least one popular media platform has expressed skepticism regarding any economically motivated need for a cryptoruble. According to the author, there are several factors driving the rush to issue a national cryptocurrency.

First, the Minister of Communication and Mass Media, Nikolay Nikiforov, has suggested Russia must get out in front of other Eurasian Economic Union countries, especially Kazakhstan, which has already announced plans to create a state-issued cryptocurrency. Several experts, across popular media sources, have characterized this move as a matter of national pride, rather than a purely economic decision.

Second, according to the author, once a national cryptocurrency is created, it will be easier for the government to both control that particular financial instrument, as well as outlaw or at least better control other cryptocurrencies.

The third factor the author mentions is Russia's long-held desire to unseat the dollar as the primary reference currency worldwide. The author suggests Russia's contribution of the cryptoruble could move it one step closer to creating a convertible (hard) currency, which could be adopted by other countries as a form of payment.

Fourth, the author suggests this move is considered to be part of the government's "Digital Economy" project much lauded in official circles and scheduled to be complete by the end of the next presidential term in 2024.

As the author emphasizes, the cryptoruble is in no way an independent hard currency, the way Bitcoin, Ethereum, and others are, because the emission and circulation will be government owned and controlled, and transactions will be taxed as personal income. Also unlike Bitcoin, there will likely be no mining, and if there is, it will be government regulated.

According to the article, the cryptoruble is postured as creating a safe option for Russian citizens. President Putin has suggested that unregulated "Western" cryptocurrencies provide an opportunity for money laundering, avoiding paying taxes, financing terrorism, and running scams on Russian citizens. The Head of the Central Bank, Elvira Nabiullina, has compared the circulation of cryptocurrencies with pyramid schemes. **End OE Watch Commentary (Hall)**



Cryptoruble –The Russian National Cryptocurrency.

Source: via Pixabay.com, <https://pixabay.com/en/ruble-money-russia-coin-russian-2152534/>, Public Domain.

Source: Anatoliy Alizar, "Путин распорядился выпустить российскую криптовалюту – крипторубль (Putin has ordered the issuing of a Russian cryptocurrency, the cryptoruble)," *Geek Times*, 15 October 2017. <https://geektimes.ru/post/294373>

President Putin has ordered that Russia issue its own cryptocurrency, the cryptoruble. The decision was announced by the Minister of Communications and Mass Media, Nikolay Nikiforov, at a closed-door meeting with members of the Moscow Capital Club. The details of the closed-door meeting were made known to journalists at Argumenty i Fakty.

"I am so certain we'll issue the cryptoruble for one simple reason: if we don't, our neighbors in the Eurasian Economic Union (EEU) will do so in two months," he said.

The unique thing about the cryptoruble will be the complete government control over its emission and circulation. A personal income tax of 13% is also being considered on purchases and sales [of cryptorubles], if the owner is not able to explain how they were obtained.

The Minister strongly emphasized that the creation of a cryptoruble in no way indicates the legalization of Bitcoin and other cryptocurrencies, insofar as they are based on Western cryptographic protocols, not on certified Russian cryptography.

It is likely there will be no independent mining of the cryptoruble at all...

[Mikhail Maschenko, an analyst for eToro, a social network for investors in Russia and the Commonwealth of Independent States:] "The creation of some type of cryptoruble may be helpful enough to solve the country's internal problems, like controlling the movement of money flows and rooting out corruption, nevertheless, this "upgrade" can't become a fully functioning instrument of trade on a global level."

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The Cryptoruble: A Test-Tube Baby among Natural Cryptocurrencies, or Just an Electronic Ruble?

OE Watch Commentary: According to the Russian Minister of Communications and Mass Media, Nikolay Nikiforov, President Vladimir Putin has decided Russia will develop and start issuing its own cryptocurrency in the near future. This announcement follows a discussion of how to best handle Western cryptocurrencies as used in Russia, culminating just five days prior, in President Putin's directive to the Minister of Finance, Anton Siluanov, to start regulating the process of all cryptocurrency emission, mining, and circulation throughout the country.

On the heels of this announcement, a number of experts as well as citizens have expressed doubt regarding the advisability and feasibility of the announced quick launch of the cryptoruble. According to the two experts interviewed in the accompanying article, several factors have led to this growing skepticism.

The compressed timeline announced for the currency launch suggests the move is more politically motivated than economically, as far as the Russian domestic economy is concerned. The idea of a cryptocurrency is fashionable in the current economic climate, and Russian bureaucrats appear anxious to show the President that they can execute. This was evidenced as well in the development of the recent "Digital Economy" project earlier this year. The potential release of a cryptocurrency elsewhere in the post-Soviet space would bruise Russia's ego. Russia has also demonstrated concern over China's potential launch of a cryptoyuan that could potentially disrupt the hegemony of the dollar, given China's economic powerhouse status.

The name "cryptoruble" is misleading, because the government will control its emission and circulation, and there will be no mining. It will effectively be another form of electronic money and the exchange rate will likely be pegged to the regular ruble. It will have no inherent value because it is not independent of government control, the way real cryptocurrencies are, and it is not convertible, the way hard currencies are. Experts speculate the government may require government bodies be paid in cryptorubles, simply to generate demand.

The use of any cryptocurrency in Russia is cause for concern, as no bank in Russia currently processes such operations. Cryptocurrencies have heretofore been considered to occupy a grey zone, with authorities taking actions that tend towards criminalizing rather than legalizing them. **End OE Watch Commentary (Hall)**

"A cryptocurrency whose emission is regulated by the government is, forgive me, an oxymoron."

- Aleksey Rayevskiy, General Director of the company Zecurion

Source: Игорь Серебряный, "Зачем России крипторубль: эксперты в недоумении (Why does Russia need a cryptoruble? Experts are Stumped)," Rambler, 16 October 2017. <https://news.rambler.ru/markets/38165540-eksperty-obyasnili-neobhodimost-sozdaniya-kriptorublya/?updated>

Where and how this news was announced creates a strong sense that the launch of the cryptoruble was more a political decision than an economic one, suggests Aleksey Rayevskiy, General Director of the company Zecurion.

"When such projects are launched in a hurry, there's no hiding their effort to take advantage of the economic climate. The top boss was told about cryptocurrencies and, having caught "digital economy fever", he demanded that we should have it at least as good as they do. In Nikiforov's initiative I see nothing more than a mindless attempt to report back to the leadership, so the leadership will be happy with how quickly its wishes are fulfilled," Rayevskiy told Ridus in his version of the apparent all-hands-on-deck effort.

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The unique thing about cryptocurrencies (including Bitcoin) is that they forge together both technological and economic aspects. If you "melt it down", in place of bronze you'll get tin and copper. That's impossible in chemistry and it's impossible in the world of finance. It's either "crypto", or it's centralized emission, like in that old joke, "either take off your cross or put your knickers back on".

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Economic factors are built into the very protocol of cryptocurrency. The parts of this system behave one way or another, not because someone programmed them to do so, but because one or another algorithm generates (mines) a greater reward. In the project as announced by Nikiforov, some emission center takes on the function of choosing the algorithms," suggests Rayevskiy.

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