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## Russia Turns to China's Yuan in Effort to Ditch the Dollar

Moscow has jettisoned longstanding concerns about giving China too much leverage over its economy

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Russia's economy, restricted from Western financial networks and the U.S. dollar, has embraced a burgeoning alternative: the Chinese yuan.

Energy exporters are increasingly getting paid in yuan. Russia's sovereign-wealth fund, a war chest to support government spending burdened by battlefield costs in Ukraine, is using the Chinese currency to store its oil riches. Russian companies have borrowed in yuan, also known as renminbi, and households are stashing savings in it.

The Chinese currency's rise inside Russia deepens ties between two countries that have long rivaled each other for global influence but have grown closer amid shared discontent with the West. It also serves China's long standing but mostly frustrated campaign to make the yuan a more prominent feature of global finance and commerce.

Moscow has jettisoned concerns about giving China too much leverage over its economy, said Alexander Gabuev, a senior fellow at the Carnegie Endowment for International Peace.

"Now it's the only rational choice for Russia and for Putin," Mr. Gabuev said. "If depending on renminbi is the lifeline that helps you to be less exposed and less dependent on hostile currencies, then you take this route."

A spokesperson for the Russian Ministry of Finance said the yuan is "taking an

increasingly important role” in its sovereign-wealth fund, which doubled the share of yuan it can hold to 60% in December. The ministry started selling yuan in January to plug its widening budget deficit.

The share of Russian exports paid for in yuan rose to 14% by September, according to data from the central bank. That is up from 0.4% before the start of the war.

Spokespeople for China’s central bank didn’t respond to a request for comment.

Russia began cutting its dependence on the dollar in 2014 after its annexation of Crimea. By 2018, as the U.S. imposed additional economic sanctions, the country began to sell its holdings of U.S. Treasury bonds and explore trade in rubles and other currencies.

De-dollarization went into overdrive, and widened to include the euro, last year. Western countries froze some \$300 billion of Russia’s foreign reserves and banned some of its banks from the SWIFT messaging system that underpins most global payments in response to Russia’s invasion of Ukraine.



The Russian Finance Ministry started selling yuan in January to plug its widening budget deficit.

PHOTO: KONSTANTIN KOKOSHKIN/RUSSIAN LOOK/ZUMA PRESS

Russians don’t face an outright ban on using dollars or euros, and non-

sanctioned banks continue to do business in foreign currencies.

Booming trade between Russia and China added to the yuan's appeal. China has become a major buyer of Russian oil that is shunned by the West, while Russia has grown more dependent on China for semiconductors and other technology.

Russian companies have also turned to the yuan and issued bonds in the Chinese currency worth the equivalent of more than \$7 billion last year, according to Refinitiv data. In recent weeks, the yuan-ruble was often the most traded currency pair on the Moscow Exchange based on daily volume.

Aluminum giant Rusal was the first company to issue yuan bonds inside Russia last August, and other commodity exporters like oil firm Rosneft followed. Most trade with China and can use yuan raised for everyday business, for example to pay invoices.

Bistrodengi, a Russian lending platform, started selling yuan bonds last year despite not doing any business in the Chinese currency. The company's chief finance officer, Yakov Romashkin, said borrowing in yuan was far cheaper than rubles. Its bonds offer a coupon rate of 8% instead of the 19% that it likely would have had to pay to borrow in rubles.

The Russian broker that arranged Bistrodengi's previous ruble bond offerings ran the deal, and buyers were predominantly individual Russian investors, he said. It swapped the yuan back into rubles.

Mr. Romashkin said there were technological hiccups. Some brokers weren't fully set up to sell yuan securities, with some displaying incorrect information about Bistrodengi's bonds, he said. Some didn't allow investors to buy bonds using their app, instead requiring trades be done over the phone.

"Gradually we are solving these problems and subsequent placements have had fewer technical problems compared to when we started the process late last year," he said.

Households are warming up to the yuan. Nearly 50 financial institutions offer

yuan savings accounts, according to comparison site Banki.ru. The first yuan-denominated exchange-traded fund launched on the Moscow Exchange in January.

Households held almost \$6 billion worth of yuan deposited at the end of last year at Russian banks, according to data from the central bank. That is up from zero at the start of the year, and is now more than a 10th of the \$53 billion in foreign currency that households held.

Russian financial blogger and consultant Olga Gogaladze, who has more than 2 million Instagram followers, in October published a guide to the yuan after being inundated with questions about the currency last year. Russians have long bought dollars and euros to protect themselves against the ruble's volatility. That changed last year as banks instituted fees on those accounts and many worried about the impact of Western sanctions.

"Conversations were going around about the end of the dollar," Ms. Gogaladze said. "The yuan was presented as an available alternative."

She has a yuan bank account at Russian digital bank Tinkoff but still prefers to hold most of her money in rubles, euros and dollars. She said yuan accounts typically have lower interest rates than those for rubles, but they still can be a good option for people worried about a devaluation of the ruble.



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at Russian banks.

PHOTO: VLAD KARKOV/ZUMA PRESS

"When people see the ruble is getting weaker and weaker, they don't care about the yield, they just want to save their money," she said.

While still in its early days, some see Russia's yuan use as a test case in a debate that has long captivated the financial world: Will the yuan eventually rival the dollar as the world's dominant currency?

But building the infrastructure to circumvent the dollar-based financial system built up over decades is slow, difficult and expensive, said Eswar Prasad, a professor at Cornell University and former head of the International Monetary Fund's China division.

China launched a cross-border payments system known as CIPS in 2015 that has been billed as an eventual competitor to the 50-year-old SWIFT network. But its system hasn't yet been widely adopted by other countries, according to Mr. Prasad. Instead, Russian and Chinese banks rely on networks of local branches and correspondent banks to process transactions without SWIFT. The Russian central bank this month set up an international settlements department it said would focus on expanding settlements in national currencies.

While Russia's use of the yuan doesn't mean the end of dollar supremacy, it may usher in the beginning of a more fractured system that could ultimately blunt the U.S.'s ability to use financial sanctions as a weapon, said Daniel McDowell, a professor at Syracuse University who recently wrote a book on the topic.

"The more countries you force to find those alternatives," Mr. McDowell said, "effectively what you're going to do is increase economies of scale and experience in those areas."

—*Rebecca Feng contributed to this article.*

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