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Alexandra Heidsiek

All That Glitters is Crypto?
Russia Between Institutional Distrust
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julia.glathe@fu-berlin.de

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All That Glitters is Crypto? Russia Between Institutional Distrust and Digital Currencies

Informationen zur Autorin:

Alexandra Heidsiek
aheidsiek@posteo.de

MA European Studies

Abstract:

Russia's activities with cryptocurrency were put into the global spotlight last year. The West expressed concerns the RF would use the technology to avoid sanctions imposed as a response to the war in Ukraine. However, cryptocurrency enthusiasm has swept over Russia even before 2022. For example, statistics on Bitcoin trading volume against domestic currencies in 2020 show that Russia traded more than twice as much as the rest of Europe. Given the RF's real economic weight, its share of the global crypto market is astounding. Despite this, the legislation surrounding cryptocurrency in Russia is not coherent. On the contrary: the Central Bank and the Ministry of Finance cannot come to an agreement on whether to ban or regulate it, and if the latter, how. Yet, the market is booming. Why did such a large crypto market emerge in Russia? So far, scholarship has largely neglected the subject. This thesis connects the deeply rooted distrust towards Russia's financial institutions with the country's high market participation in cryptocurrency. In my research, I have identified the desire to circumvent banks as an important driver for Bitcoin adoption—despite its volatility. The currency has three distinct advantages: it operates independently from governmental institutions, it offers protection through anonymity, and it provides fast and easy access to monetary transfers. These features paired with the lack of institutionalization make it especially interesting for those who wish to conceal gray business practices or offshore their wealth. I employ a mixed set of methods including news, survey, policy and data analysis to analyze crypto consumption behavior under various circumstances. As the analysis will show, cryptocurrency trade tends to rise during times of economic turmoil when the ruble is depreciating. But while transaction output is high, general public adoption is not. On top of that, the rules of the game keep changing—in Russia as well as globally. Taking these various factors into account, large-scale investors with high financial literacy are most likely leading Russia's crypto currency boom. As a wealthy group that is open towards risk and highly distrustful towards banks, they have the means, motive, and background to choose crypto over conventional methods of capital allocation. This thesis is the first in-depth analysis of cryptocurrency market dynamics in Russia and paves the way for further research concerning the interdependencies between crypto, politics, and market economy.

Keywords:

Russia, cryptocurrency, Bitcoin, war in Ukraine, financial institutions, institutional distrust, investment, economic sanctions

Table of Contents

1. Introduction	3
2. Trust as a Scientific Concept	8
2.1 Trust in Post-Soviet Russia.....	10
2.2: The Role of Trust in Cryptocurrency.....	13
3. Methods & Data	16
4. Cryptocurrency in Russia: A Matter of Distrust and Broken Regulation?	19
4.1 Inception and Legal Development	19
4.2 The Connection Between (Dis-)trust and Finance	22
4.2.2 The Development of Trust in Economic Institutions	25
4.2.3 Russia's Banking Landscape	27
4.3 Investment in Cryptocurrency.....	32
5. Cryptocurrency in Action: The Cases 2014 & 2018	33
5.1 2014: Foreign Policy and Digital Money	33
5.2 2018: Domestic Policy and Digital Money	40
6. Discussion and Concluding Remarks.....	45
References	49
Data	55

1. Introduction

*Everyone needs money, and what is money?
So many days I've suffered from resentment
Everyone needs money, and what is money?
Everyone needs money, and outside is beautiful spring
Money, what is money? A discarded shadow
They say that with it everything is stupidly more fun
Everyone needs money, and what is it?
Everyone needs money, but why is it depriving me of sleep?*

Zemfira - Money

When cryptocurrencies came on the financial scene in 2009, economists around the world had to return to a question they thought had been resolved long ago: What is money? For all its criticism, cryptocurrency gained a substantial number of followers—even if its use appears limited. A little over a decade later—in March 2022, to be exact—another question followed: Are Russian oligarchs going to use cryptocurrency to circumvent Western sanctions? Broadsheet newspapers from all countries tried to get to the bottom of this. Business Insider India reported that, yes, some Russian Oligarchs do indeed use crypto to move their millions around (BI India Bureau 2022). Bloomberg maintains, “Cryptocurrency Is a Potential New Tool for Billionaires to Avoid Sanctions” (Egkolfopoulou 2022). In Spain, El País led with an article titled “Cryptocurrency: A lifeline for Russian oligarchs?” (Pascual 2022) One of several New York Times headlines claimed, “Russia Could Use Cryptocurrency to Blunt the Force of U.S. Sanctions” (Flitter & Yaffe-Bellany, 2022). Lastly, German newspaper Süddeutsche Zeitung argued that the Russian economy is not advanced enough to deal with crypto (Bovermann 2022). Russia is considered to be a hub for cryptocurrencies, and not without reason. Mikhail Mishustin, Moscow’s finance minister, estimates that Russians possess around 10 trillion rubles worth of cryptocurrency (Bartenstein 2022). The Bank of Russia has also issued a consultation paper called, “Cryptocurrencies: Trends, Risks, and Regulations” (Bank of Russia 2022) in which it estimates the flow of cryptocurrencies at \$5 billion annually. But what exactly are cryptocurrencies? And why have they suddenly become so relevant?

Put simply, cryptocurrencies are entirely virtual currencies, distributed not by central banks, but by enthusiasts around the globe. The underlying technology they use is called ‘blockchain’. The blockchain stores and records all transactional data to make sure no coin is spent more than once. It is exactly what it sounds like: A digital chain of blocks, each block containing a new set of data. To prove the validity of this data, computers need to solve complex problems.

Whoever adds the next block first gets coins in exchange for their work. This process is called 'mining'. It is a time-consuming, resource-intensive task, where the reward is related to the difficulty of the problem. Recompensing the miners with currency ensures the release of more coins for circulation as well as incentivizing people to continually participate in the process. Now, why bother with such complexities if one can just stick to conventional fiat or commodity money? There are several reasons. With respect to the Russian case, these include:

1. Cryptocurrencies operate independently from governmental institutions, thus overcoming trust barriers.
2. They offer an additional layer of protection when it comes to covering the tracks of potentially illegal activities.
3. They provide fast and easy access to transfers into other currencies, such as euros or US dollars, easing fear of inflation.

Notionally and in reality, cryptocurrency plays an important role in the Russian market. In April, May, and March 2022, the country took second place in monthly downloads of the MetaMask Wallet—a place to store your digital currencies, like a bank account—surpassed only by the United States (Statista 2022a). All in all, Russia is number 5 in lifetime downloads of the popular crypto wallet. On top of that, the Russian Federation (RF) is among the top 3 countries for Bitcoin mining (Berenstein 2022). Statistics on Bitcoin trading volume against domestic currencies show that Russia traded more than twice as much as *the rest of Europe*, coming second once again behind the US (Statista 2021a). Taking a look at traffic on crypto currency exchange platforms Huobi and Bittrex reveals that Russians make up 17.86% and 10.29% of visitors, comprising the largest and second largest group, respectively (Statista 2022b, Statista 2021b). As of early 2021, Russia is in the top ten of countries with cryptocurrency ATMs or the possibility of in-store crypto payments. It leads countries like the UK, Switzerland, and Japan (Statista 2021c).

However, the citizens are not the only ones driving this development. Being blocked from the international banking system leaves Russia with little wiggle room when it comes to financial transactions. Thus, it is no surprise that the country is dabbling with its own cryptocurrency. The first stage of rolling out the "Cryptoruble", backed by Russia's biggest bank, Sberbank, was supposed to be set in motion last year (Frankenfield 2022). Sberbank itself announced a new cryptocurrency called the Sbercoin that should be launched at the same time (SberPraym, 2022). However, at the time of writing, launching the Cryptoruble has not made significant progress.

Now, crypto is a global game. And Russia is not even its biggest player. El Salvador became the first country to make Bitcoin legal tender in 2021, although the results of this financial experiment are mixed ([BBC News 2021](#)). Taking into account the Russian Federation's real

economic weight—its share of the global GDP is far behind China's, the United States's, and India's (World Economics 2022)—its share of the worldwide crypto market is surprising. This spawns a rather straightforward question: *Why did such a strong cryptocurrency market emerge in Russia?* The present MA thesis is an attempt to answer it.

My approach to this study has been guided by the assumption that the development of a strong cryptocurrency market is connected to a lack of trust in governmental financial institutions. In the past, Russian depositors have experienced immense financial losses when they relied on banks. Inflation, political instability, and economic crises have repeatedly eliminated their savings. Crypto provides, at least in theory, an investment alternative that allows them to protect their wealth from national turmoil or interference.

It goes without saying that cryptocurrencies are highly volatile. And the Russian government has taken an ambiguous stance towards them, with frequent changes in the legislature. As of now, cryptocurrencies are not illegal in Russia, but their use as a means of exchange is highly restricted. However, for those who do not trust the state, its institutions, or intermediaries, they might still be the most viable option for capital allocation and movement.

In the academic literature, there have been very few attempts to analyze the roots of the crypto phenomenon. One notable exception is Stix (2019), who analyzed survey data from Austria gathered in 2018 to understand what compels consumers to buy crypto assets. Stix finds that most owners display a clear risk-tolerance and possess higher financial literacy. He also highlights the role of institutional trust when making purchasing decisions. While he does find a correlation between distrust in banks and a larger rate of crypto ownership, he concludes that it is challenging to find a definitive causality, conceding that trust attitudes could have changed over time.

Another important referent in the sphere of crypto research was a study by Fujiki (2021). He juxtaposed owners and non-owners of crypto assets in Japan. He reveals that crypto asset owners are a heterogeneous group whose financial literacy and tendency towards cash hoarding depends on previous investment experience, thus substantiating Stix's (2019) finding on the relationship between financial literacy and cryptocurrency adoption. His study concludes that experienced investors who own crypto assets exhibit higher financial literacy and tend to hoard more cash as opposed to the average person without crypto assets.

Surveys on cryptocurrency adoption are a crucial investigative method as they reflect on individual consumption, personal preference, and reasoning. However, they do not help to uncover the structural roots of the occurrence. Thus, I employ another strand of literature for my positioning: trust research. This sphere is well established thanks to groundbreaking work on trust by Fukuyama (1999), Uslaner (2002), Coleman (1991) and Putnam (1993), which I will discuss in detail in the next chapter. For my study on the RF, special attention should be paid to the particular dynamics around trust in post-socialist Europe, because democratic

institutions had only little time to gain acceptance so far. On top of that, corruption and frequent fraudulent elections have taken a toll on society's willingness to trust. As a result, this thesis is building on research by Mishler and Rose (1997, 2001) and Shlapentokh (2006). For many contemporary researchers such as McKee et al (2013), these are still vital reference works. In their 1997 article on trust in post-socialist Europe, Mishler and Rose analyze the outcome of the New Democracies Barometer. These surveys conducted between 1993 and 1994 across seven Central and East European countries asked respondents to indicate how much they trusted a variety of civil and political institutions. They find that evaluation of political and economic performance tends to have a higher effect on trust than communist socialization. They also find that skepticism, rather than outright distrust, is the prevailing stance towards institutions. The author's later work confirms the importance of performance evaluation to political trust. They add that the new democratic institutions should be able to generate trust by working quickly and effectively, protecting new-found liberties, weeding out corruption, and ensuring to provide economic wealth.

Shlapentokh (2006) notes the extent of distrust Russians have towards their social institutions. He underlines the severity of pessimism towards the future that many Russians share as a consequence and draws the conclusion that Russia is likely going to be riddled with disasters that may impede economic development. However, he also remarks that while trust is undoubtedly important to growth, it is not the only factor that needs to be considered. Thus, he concludes that industries such as extraction will continue to make profits even if the political and economic environment is not perfectly conducive.

The last building block in the literature that contributes to my argumentation analyzes financial behavior in Russia. Semenova & Kolkova (2016) study why Russians prefer to borrow informally instead of asking for loans at the bank. They suggest that a combination of reasons factor into the decision to stay away from traditional financial operators, including credit rationing, missing discipline, and financial literacy as well as distrust in the banking sector. This thesis tries to bridge the gap in literature between cryptocurrency consumption behavior and institutional trust. Russia makes for an interesting case, because the large market share is, at first glance, unexpected, given its weaker economic power and lower financial literacy compared to Western Europe. While Russia displayed the highest financial development across Eastern Europe in 2017, it was still far behind the West (Cwynar 2021). However, the RF displays a huge problem with institutional trust. As Shlapentokh (2006: 154) states: "A climate of mutual distrust dominates Russian life at all strata" and as my analysis will show, not much has changed since then.

My chosen methods are a mix of quantitative and qualitative data analysis. On the one hand, I will analyze various surveys that were conducted on topics such as crypto usage, investment behavior, and approval of political and economic institutions. I will also discuss data that the

Central Bank of Russia has gathered concerning the financial environment in Russia. On the other hand, I will examine the Central Bank's policies and publications on cryptocurrency. In summary, I argue that Russia's crypto boom is not driven by a population that is unsatisfied with its government, as my analysis of the events of 2014 and 2018 will show. On the contrary, the main accelerators are large-scale investors with high financial literacy and low trust towards conventional banking, who invest in crypto when the economic opportunity arises.

The structure of the thesis is comprised as follows. In the next section, I will introduce my theoretical background. I will give an overview of the research on trust and then turn to post-soviet Russia. Consequently, I will weave in the relationship between trust and financial operations with special regard to digital currencies. In doing so, I will use Bitcoin as a proxy for the general crypto trade. Even though the cryptocurrency market started to diversify after 2017 (before, Bitcoin's share of the market swayed roughly between 75 - 90%), Bitcoin is still the most dominant coin at over 38% market share in 2022 ([Statista 2023](#)). The third chapter will lay out the methodology and the utilized data. Next, I will examine how crypto set foot in Russia and trace its legal development. The analytical study will first outline the relationship Russians have with their political and economic institutions. Building on this, I will depict Russia's banking landscape and discuss why it contributes to a conducive environment for crypto. The Russian annexation of Crimea in 2014 and the pension reform in 2018 shall serve as concrete examples demonstrating the intertwinement of politics and the digital economic sphere. Lastly, the conclusion will offer an outlook on further research prospects based on an appraisal of the present thesis.

2. Trust as a Scientific Concept

Trust is a core element of a functional democracy. When the Soviet Union dissipated, establishing trust was one of the main challenges for the so-called new democracies (cf Letki 2017). But what exactly is trust? Sociology broadly considers it to be the sum of an individual's education, social and economic circumstances, and life experiences (Paxton & Ressler 2017: 39). At the bare minimum, trust is defined as the rational expectation that those around me will not deliberately act with ill intent (Freitag & Traunmüller 2009: 782, Offe 1999: 47) or at least act in a manner that is beneficial for themselves, me, or even both (Coleman 1991: 124). Uslaner (2002) calls this type "moralistic trust".

Recently, the literary corpus on trust research has expanded rapidly—and with it the number of definitions, theories, and ideas. As one of the most influential scholars to examine the importance of trust in societies, Luhmann (2014 [1968]) defined it as a fundamental mechanism that helps reduce social complexity, thus, as Coleman (1991: 123) adds on, enabling actions that would not have been possible otherwise. In his own definition, Coleman (1991) considers trust a type of risk calculation in a situation where one person's (the trustor's) success is dependent on another (the trustee).

For Fukuyama (1995), trust is a type of faith or non-rational social habit that is a basic social virtue essential for achieving economic prosperity and welfare. A definition adopted by Paxton & Ressler (2017) constitutes that trust is "the glue that joins society together" (ebd: 38), which is reminiscent of Uslaner's (2002: 1) conception of trust as "the chicken soup of social life". Uslaner (2002) considers trust the reflection of an optimistic worldview that compels people to act morally. In his later works, Uslaner (2017) also describes trust as a bridging mechanism whose effectiveness depends on income equality. Lastly, scholars of social capital, most notably Putnam (1993), view trust as a commodity, especially one needed for democratic consolidation.

Clearly, trust and distrust are not a matter of black and white contrasting. They range along a continuum and can take many shapes. At this point, it becomes important to differentiate between at least two types of trust: social and political trust.¹ The former can be further divided into generalized and particularized trust (cf. Freitag & Traunmüller 2009), while the latter can also be called institutional trust.

Simply put, generalized trust is the core belief that most people are trustworthy. Bottom-up theories suggest that this belief develops through socialization or experience (Mishler & Rose 2001, 2005; Newton, Stolle & Zmerli 2017: 39). Top-down approaches consider generalized

¹ There is no real consensus on the terminology, since what one scholar calls social trust can be called interpersonal trust by the next. For example, Freitag & Traunmüller 2009 call it interpersonal trust, Uslaner (2002, 2017) calls it social trust.

trust the result of income equality (Uslaner 2002, 2017) or wealth (Paxton & Ressler 2017): once a society's standard of living has reached a certain level, general trust levels will be higher, too. Generalized trust is a vital factor when explaining an individual's decision to invest, as households that reported low generalized trust levels indicated less interest to participate in financial markets as those with higher generalized trust (Kersting et al 2015).

Particularized trust is intimate confidence only in those close to me. Contrasting these two types, Freitag & Traunmüller (2009) argue for a spherical model of trust, saying that trusting those around you is a fundamental precondition to trusting strangers. To them, particularized trust extends to generalized trust through positive experiences, for example with political institutions (Freitag & Traunmüller 2009: 798). Through this extension, this type of trust influences, for example, the likelihood with which individuals trust intermediaries in the financial market (Kersting et al 2015). Specifically, it impacts whether an individual is ready to invest in risky assets, as more trust in their financial institution increases the probability for such investments (ibid.)

On the other hand, political trust refers to trust in political systems and institutions (Uslaner 2017: 4). Sticking to the bottom-up approach, it can be a projection of social trust (Mishler, Rose 2001, Freitag & Traunmüller 2009). Institution-based theories, however, believe that institutional performance is the key to public confidence (Mishler, Rose 2001, McKee et al 2013). If a society is constantly evaluating their institutions, political trust must be subject to fluctuation. Thus, it can be assumed that an individual's behavior in dealing with these institutions will change according to their trust levels.

Some ways a society legitimates its country's institutions include participating in elections, taking up credits, or pursuing (higher) education inside the borders. These actions demand trust in their effectiveness. If a citizen does not believe that their vote matters, their money is handled well, or that their education is worth its price, the corresponding institutions threaten to erode. Vice versa, if they work well and therefore, public trust in them is high, it enhances regulation compliance and respect for property rights as well as reducing the likelihood for tax evasion. Furthermore, it is economically important since it boosts both consumer and investor confidence (Perry 2021).

Veselov et al (2016) even go as far as to say that trust is a precondition for any economic interaction. Paxton & Ressler (2017) find a correlation between wealthiness and high trust levels in a society. In his foundational work, Uslaner (2002) discussed that institutional trust develops proportionally to income equality. The less income disparity a society has, the more political trust they exhibit. Vice versa, if the gap between rich and poor is particularly deep, people display less confidence in institutions.

Putnam (1993) and the social capital school argue that the connection between social and political trust is what makes democracies work. Institutional performance and political trust

exhibit a reciprocal relationship: trust in institutions causes them to perform better, which in turn makes them more trustworthy (Mishler, Rose 2001). Conversely, this means that a trust deficit between a society and their leaders causes democratic projects to fail. Collective action problems hamper the effective performance of institutions (Putnam 1993), thus contributing to (renewed) authoritarian consolidation across post-socialist Europe. Or, as Mishler and Rose put it: "Trust cannot survive unless citizens perceive the performance of political and civil institutions as providing some reasonable measure of individual and collective good" (Mishler & Rose 1997: 420).

This thesis adopts the stance that trust constitutes the expectation that the other party would not intentionally perform actions that would harm either myself or them, regardless of our ability to monitor this. Along the line of performance-based theories such as followed by Mishler & Rose (1997, 2001) or McKee et al (2013), it also posits that citizens constantly evaluate the performance of their political and civil institutions and in doing so adjust their trust levels accordingly. As the case of post-soviet Russia demonstrates, pretend elections and a presidential personality cult are not enough to strengthen a society's trust in its country's institutions.

2.1 Trust in Post-Soviet Russia

After 1991, the newly independent countries of the former Soviet Union needed to spontaneously create and reorganize their political institutions. As a result of this ad-hoc transformation, underdeveloped institutions contributed to rising 'grey' business practices (Kuznetsov & Kuznetsova 2003). Russian institutions are weakened by excessive rent-seeking, patrimonialism, and missing infrastructure. What is more, the country is plagued by a substantial informal economy and great income disparity (Kuznetsov & Kuznetsova 2003). All of this does not seem particularly trustworthy to begin with, even if Russians do not exhibit a socially inherited predisposition for distrust, as Mishler & Rose (2001) argue.

Research has evidenced a significant correlation between the quality of institutions and trust levels in Russia (cf. Spicer, Okhmatovsky 2015; Zak, Knack 2001). Negative experiences with institutions, in line with Traunmüller & Freitag's (2009) argument for the opposite case, can lead to a decrease in generalized trust. This has also been shown by van der Crujssen et al (2013) in their study of trust in banks after a financial crisis. Regime transition did not seem to spark a renewed flame of generalized trust in Russia. While some argue that confidence towards governmental institutions might have risen as a result of communism becoming a ghost of the past (Mishler & Rose 1997), others view the socialist legacy as a major reason for generally prevailing skepticism (Rose-Ackerman 2001). The problems of missing trust continue to this day: As the Edelman Trust Barometer for 2021 shows, Russia still ranks last when

queried on trust towards NGOs, government, business, and media.

Considering Uslaner's (2002, 2017) argument that income levels affect trust, it is crucial to consider Russia's transformation to a market economy. Mass privatization had disastrous effects on inequality levels in the now former Soviet Union. Russia, which privatized particularly rigorously, felt these effects across large parts of the population (Ghodsee, Orenstein 2021). A select few had the chance to make enormous profits on the newly emerged market, creating a social class that has become known as the oligarchy. But most citizens were not so lucky and found themselves suddenly unemployed, fighting with dwindling savings and increasing inflation. In Uslaner's (2002, 2017) view, this experience would be a central reason for Russia's low trust levels.

Consequently, a variety of scholars have called modern Russia a low-trust society (cf. Mishler & Rose 1997; Kuznetsov & Kuznetsova 2008, Veselov et al 2016), albeit for different reasons. Kuznetsov & Kuznetsova (2008) point toward Russia's vastness and heterogenous ethnic landscape as a potential source of distrust. Strong family and kinship ties built the backbone of trust, excluding those who did not belong to the same community. The Soviet Union's shortage economy exacerbated the necessity of such extensive informal networks. Privatization, a process many perceived as unfair, further seemed to confirm the validity of this practice (ibid.), which remains relevant today. For Mishler & Rose (1997), these networks were the most trusted institutions of the Soviet Union.

Data from a Levada-Center poll from 2016 asking respondents how they perceive corruption levels in their country underlines the assumption that Russians are not incredibly trusting towards their regime. 76% of respondents said that there is full or large-scale corruption in the Russian government, while 13% admitted it existed but do not deem it significant. In 2017, the share of those who agreed that the Russian government was fully permeated by corruption rose from 25 to 32%, elevating the overall number of participants who considered the government to be at least significantly corrupt to 79% (To what extent do you think the government of Russia is affected by corruption? Levada-Center, 2017).

This view is also backed by Transparency International's Corruption Perception Index from 2021, where Russia ranks 136 out of 180, together with Mali, Liberia, and Angola. The CPI employs a 100-point scale, with 100 meaning there is no corruption in the country, and 0 indicating the country is wholly corrupt. Russia's score worsened from 30 to 29 in comparison to 2020 but improved when compared to 2014, where it was 27. A score of 29 was also given for 2015, 2016, and 2017 (Transparency International 2021).

A variety of factors may affect institutional or political trust. For one, crises can diminish or strengthen trust, depending on how the population perceives its government's performance. To illustrate, data gathered from 2020 suggests that at least in the onset of the COVID-19 pandemic, trust levels in governments were generally higher (Perry 2021).

In Russia, COVID-19 restrictions were especially harsh. In cities such as Moscow, citizens were temporarily not allowed to leave their homes without registering via a QR code. In the context of institutional trust, the restoration of individual freedom after the repressions during the Soviet Union was a highly relevant factor, along with economic stability and perceived corruption (Mishler, Rose 2001). The pandemic delivered strong blows to both personal liberty and economic prosperity. Thus, it might not come as a surprise that President Vladimir Putin's approval rating experienced a slight downturn in May 2020 compared to March 2020, where it dropped from 63% to 59%. (Overall, do you approve or disapprove of Vladimir Putin's actions as president of Russia?, Levada-Center 2020).

The tainted relationship between the Russian public and institutions created a vicious cycle. Trust that has been sinking since the dissolution of the Soviet Union—exacerbated by the chaotic economic transition in the 90s (Veselov et al 2016)—contributed to what Volkov (1999) called 'violent entrepreneurship'. Companies that could not rely on the help of the state anymore had to turn to private firms for 'protection'. Since the state had effectively lost its monopoly for violence, Volkov argues, so-called enforcement partners helped to settle disputes as well as acquire registrations and licenses. Tax evasion became rampant. The already ineffective institutions that got strapped for money lost more of their crumbling competence, making them even less attractive. On top of that, these private security firms fulfilled more than their basic security functions. They also comprised blackmail files on clients and competitors of banks. Many heads of security at banks belonged to the KGB or the Alpha Group, a sub-unit of Russia's security service, FSB (Ledeneva 2002). As a result, consumers became even more skeptical about this new concept of private banking.

On the flipside, while this type of generalized trust has not improved much since the Soviet Union, particularized trust in Russia is thriving. White and Mcallister (2004) confirm that Russians' readiness to trust their social networks secured their survival during the socialist period. Furthermore, Kuchenkova (2017) finds that high trust levels in members of the inner circle are still widespread. Keeping in mind the aforementioned relevance of particularized trust for the readiness to purchase risky assets, this is the first crucial building block to Russia's cryptocurrency adoption.

To sum up, new democracies not only had to restore individual and property rights. They also needed to rebuild a basic belief in the rule of law (Mishler, Rose 2001) and introduce a capitalist financial system. With no prior experience as a cohesive nation-state that could have functioned as a first foundation for trust, this task proved specially daunting in Russia. On top of that, the country's citizens had to learn how to extend the trust they had in their informal networks that secured their survival during the Soviet Union (cf. Kuznetsov & Kuznetsova 2008) to formal institutions. However, witnessing the disastrous effects of privatization facilitated the search for informal options for many. In the financial sector, especially in the

realm of savings, the problem has become particularly prevalent. In times of missing trust in banks, Russians prefer to keep their savings in cash (Spicer, Okhmatovskiy 2015). What is more, this lack of confidence² meets sky-high interest rates for credits and generally unattractive banking conditions—giving Russians even more incentives to turn away from traditional banking. It is into this vacuum of satisfactory financial solutions that in 2009, a new player steps into the game: cryptocurrency.

2.2: The Role of Trust in Cryptocurrency

Trust constitutes a necessary precondition for financial systems. Some scholars consider trust so essential that they assume transactions would cease to exist without it (cf. Sapienza & Zingales 2012). Most monetary exchanges are built on an asymmetric relationship of debt and the expectance to pay said debt. In case the person purchasing a good or service does so in instalments or on invoice, the seller must trust them to fulfil their end of the bargain. If the buyer fails to pay, the seller has the option to withhold the desired commodity, cancel the transaction, or, in severe cases, file a lawsuit. If the seller fails to deliver, the buyer has similar options to withhold the money, cancel the transaction, or go to court.

For both parties, the respective identities are an important factor in building trust. But in an online setting, face-to-face transactions that could increase trustworthiness are rare. To deal with this problem, the internet has invented numerous methods to replicate the possibility to gauge someone's reputation and trustworthiness and verify their identity without seeing them. These methods include, for example, customer reviews, 2-factor-authentications, and affiliate programs. Cryptocurrency ruins these efforts to make online purchases more transparent by keeping the identities of both partners in a transaction veiled while still promising to be a secure payment method.

As such, digital money has probably been one of the most globally discussed technological innovations of the last two decades. In 2018, Russian independent Newspaper Meduza ran a special project called “Novye Alchimiki” (New Alchemists) on the blockchain—the digital currency's underlying layer of technology—and its spheres of influence. But how do Bitcoin & co manage to create trust? Conventionally, monetary trust consists of the three layers acceptance, stability, and liquidity (Lascaux 2012): Money has to be accepted as a payment method, it has to have a predictable value that mostly remains constant, and debts need to be repaid according to previously agreed upon amounts and conditions. An institutional framework is crucial to hold these principles together and govern transactions (ibid). Due to

² There is debate within the institutional-based trust literature whether to call it “trust” or “confidence” (Spicer & Okhmatovskiy 2015, Child & Möllering 2003, Hardin 2002 – look those two up). I will use these terms interchangeably because I consider the difference irrelevant for my analysis.

the absence of such regulatory bodies, cryptocurrencies had to find another way to create trust in its system: the blockchain.

Simply put, the blockchain utilizes three core tenets: encryption, record keeping, and distributed ledgers. Through encryption, the blockchain ensures that no unauthorized person can read its data. Every transaction is hidden behind a complex code that the recipient must decrypt before being able to read it. Encryption and decryption are only possible with a specific key that sender and recipient need to share. This information—and information on all past transactional data—is recorded in blocks. Each transaction adds a new block to the chain. This mechanism ensures no coin is spent more than once. Every computer that becomes part of this economy stores and shares certain blocks, or ledgers. This technology, called “distributed ledger”, ascertains that the blocks are decentralized. The “nodes”, that is the networked computers that work independently from each other, synchronize the information on the blocks in their respective ledgers. The nodes cannot delete the blocks—they can only append more (World Bank 2018).

This way, the technology omits intermediaries such as banks or financial advisers. There is no central institution that could produce more coins, issue credits, or regulate interest rates. In the case of cryptocurrency, trust shifts from human or institution to machine. And it prevails, even though most digital money is neither widely accepted, nor stable, nor liquid. This opens the opportunity to treat it not like a monetary substitute, but like an investment option similar to commodities such as gold. Now, what makes consumers invest in commodities? Gold is considered a safe option, a protection against inflation (Yale 2023). It is something investors fall back to when the market looks gloomy. Another reason a person invests is because they hope to receive more money in return than they initially spent. Cryptocurrencies are risky, but potentially equally rewarding. They are known for heavy fluctuations and high rewards. As a commodity, they do not have to contend e-payment systems such as PayPal, Qiwi, or WebMoney. Instead, they compete with buying shares, valuable metals, or fiat currencies. Furthermore, investing can be a way of saving. Thus, they also compete with storing money in cash or in an account, where one also hopes to collect interest over time. In short, its biggest rival—next to mattresses—are conventional banks. Following this, it is plausible to assume that a generally low trust in banks compels investors to scout the market for alternatives if they are looking to make a profit. Since crypto has gained lots of traction globally, it is no surprise that someone who wants to turn their backs on conventional banks for storing and accumulating money quickly stumbles upon crypto. Since Russians are particularly inclined to distrust the banking sector (cf. Semenova, Kulikova 2016), it appears logical that proportionally, the country seems to display an overly large interest in the new digital currencies.

At this point, the notion of financial literacy becomes important. According to a definition by

Cwynar (2021), financial literacy comprises attitudes, skills, and knowledge in the realm of financial operations. He separates these from financial behavior, which he views as a “domain of action that is performed based on cognitive resources” (Cwynar 2021: 404). Financial literacy helps us make informed financial decisions and influences our readiness to invest. Studies have shown that investments into the sphere of digital money are mostly favored by risk-friendly males with higher financial literacy (cf. Stix 2018, Fujiki 2021). Kersting et al (2011) find a negative correlation between trust in financial markets and financial literacy: the more inexperienced the investor, the more they believe that the market operates in a way that is beneficial to them and vice versa. Since in Russia, distrust towards financial institutions is generally high, it would follow that financial literacy among investors is high. Remembering that particularized trust, which, as discussed, is higher than its generalized equivalent, facilitates receptiveness towards risky assets, we already have three preconditions needed to make cryptocurrency an attractive investment: the desire to circumvent traditional banks, high financial literacy among investors, and reasonable levels of particularized trust. Thus, the first assumption is that the Russian cryptocurrency market is driven by few experienced, risk-savvy, large-scale investors.

However, the new phenomenon could also be attractive for others: from the perspective of a post-socialist consumer with poor financial literacy on the one hand, and little trust in the conventional banking system, but extensive experience with the informal market on the other, crypto might have been a revelation. There is no more need for complex financial calculations concerning interest rates and other confusing things. No involvement of trust in systems that have proven to fail time and again. Russians that participated in informal banking already enjoyed these benefits (cf. Semenova, Kulikova 2016). Now, they can fall back on this known framework without having to fear potential social ostracization if they fail.

Superficially, Bitcoin does not seem to be the most trustworthy investment. Yes, the blockchain implements mechanisms to prevent fraud. But that does not mean scamming is impossible. Only half a year ago, crypto exchange market FTX had to declare bankruptcy after allegations of financial abuse led depositors to withdraw their funds (Handelszeitung 2022). Cryptocurrencies are notoriously unstable, with values fluctuating at the speed of posting a twitter bio (Browne 2021). No one knows who created it, there is no institutionalized oversight or support. This prompts a straightforward question: why are so many consumers still so intrigued? The diminishing faith in (financial) institutions might lead to an answer.

In short, Russian society displays low trust levels in its political institutions but take a warmer attitude towards their personal informal networks. Cryptocurrency creates trust through decentralization, thus providing an alternative to conventional financial organizations. They are, however, still a risky asset to invest in. Under the assumption that both of the following groups were initially encouraged by the missing trust in the Russian banking system, two

possible explanations for the substantial market size in Russia can be extracted from this: a) few large-scale investors with high financial literacy drive the development. They are intentionally interested in taking risks because they promise to yield a higher profit. Or b) many consumers with, on average, poor financial literacy are responsible for the expansion of digital money as a simple alternative to complicated investment portfolios.

3. Methods & Data

To gauge potential structural factors that may bear responsibility for Russia's crypto market share, I employ a mixed set of methods including news, survey, and data analysis. To be exact, the data I interpret is survey data from the Levada-Center, FOM (Fond Obščestvennoe Mnenie, Public Opinion Foundation), and NAFI as well as reports from the Central Bank of Russia and the World Bank. For economic comparison, I also analyze ruble to euro exchange rate data from the European Central Bank.

First, the Levada-Center is a non-governmental research institution which typically samples about 1600 adults across Russia in face-to-face interviews³. FOM is a non-profit organization carrying out sociological surveys. Their respondent pool usually consists of around 1500 participants from different parts of the country which are interviewed face-to-face. Lastly, the NAFI Research Centre is a multidisciplinary center for analytics that conducts opinion research for government bodies as well as commercial companies. Due to their commercial nature, sample size varies depending on order. The news clippings I review stem from various Russian news sites such as Izvestiya, RIA, Interfaks and TASS. I use them along with the publications by the Central Bank of Russia to trace the development of cryptocurrency legislation in the past two decades.

This thesis mostly relies on trust ratings for various institutions conducted yearly by the Levada-Center. The ones in my time frame (2014—2022) happened between August and September. The question asked is: "To what extent, in your opinion, are the following deserving of trust?". The two parts of the survey that are relevant for this thesis regard a) the parties, regional government, government, state дума, federation council, local government, and president and b) unions, big business, SMEs, and Russian banks. Unfortunately, for the latter, there is no data for big business, SMEs, and banks between 2013 and 2015 so I had to start in 2016. The data aggregated in the graphs is the percentage of respondents who replied with "fully deserving of trust".

The second type of Levada survey I base my analysis on is aimed at measuring performance. It asks, "Is Russia moving in the right direction or is this course a dead end?" with possible

³ They used phone interviews during the pandemic years but switched back to personal ones later. The same is true for the other research organizations.

answers being “In the right direction”, “On the wrong track” or “Difficult to answer”. It is conducted on a monthly basis with a similar sample of about 1600 adults over 18 interviewed face-to-face until 2020 when they moved to telephone surveying.

The two questions allow for a differentiation between performance-based trust evaluation and confidence in specific political incumbents, in this case the president of the Russian Federation, Vladimir Putin. This is vital to understand whether the trustworthiness of institutions is dependent on the trustworthiness of the head of state. Since Russia is a highly personalistic autocratic regime (Baturo, Elkink 2021), it is possible that its citizens do not distinguish between different types of institutions on the one hand, and the president on the other.

Other surveys I consult query, among other things, about savings behavior (Levada-Center), trust levels towards various financial institutions (NAFI), and financial literacy (FOM). I will cite the studies by quoting the question in parentheses. While sometimes the question asked might be obvious, this is often not the case. However, for the sake of context I consider it relevant to include it. Furthermore, some studies have been conducted on different months throughout the years. For simplicity, I rounded them up to the beginning of the next year. E.g., if a study was conducted in August 2016, September 2017, and October 2018, the y-axis displays 01/2017, 01/2018, and 01/2019, respectively.

On top of that, I analyze Search Trends from Google⁴. Google provides a sample of real-time and historical data consisting of actual search requests on their platform. They are categorized and aggregated, making it easy to filter for a specific time, query, and location. The result is graphs representing popularity relative to itself. The value points on the graphs are scaled on a range between 0 and 100, where 100 means “highest proportion of searches” and 0 means “lowest proportion of searches”. Popularity trends are calculated in relation to the graph’s peak at 100. I compare the Russian curve with the global, US, and Kazakh one to see if there are similarities. I chose the US because of its large market size, and Kazakhstan because on the one hand, it is a big player when it comes to mining. On the other, it shares a socialist past with Russia, meaning that some societal structures are broadly similar.

The last building block of my investigation is quantitative data on Bitcoin 24-hour trading volume on exchange platform EXMO in rubles from coinmarketcap.com. Coin Market Cap has been gathering data from different exchange platforms since 2014. Their interactive graph allows for period selection and displays the current Bitcoin price, 24-hour trading volume, and market capitalization. EXMO claims to be Eastern Europe’s biggest crypto trading platform, although it only operates in Russia, Belarus, and Kazakhstan. Its most valuable advantage is its historical data, which goes back to February 2014.

⁴ I realize Yandex would have been a better choice, but they have only started collecting query data a few years ago and do not go back far enough for my analysis.

I combine this with the Google Search Trends to match time spans of interest in crypto with trust in institutions and ruble exchange rates. After doing it on a general level, I will pinpoint this to the military operation in Crimea in 2014 and the pension reforms in 2018. The events created a significant enough ripple in public opinion that if institutional trust and crypto consumption are connected, it should be able to serve as an example providing a distinct before/after picture.

The emergence of cryptocurrency in Russia has been an understudied subject so far. It is also a phenomenon that could have a myriad of explanations. Because of this, I decided to utilize a multifaceted approach that hopefully illuminates which structural aspects possibly contributed to its materialization and which ones can be ruled out. The downside of this procedure is its broadness. This thesis does not have the means to explore one factor in all depth, nor does it aspire to. Given the fact that the literature on the topic is, as mentioned, scarce, its value lies precisely in its bird's eye perspective. For a first overview, the next chapter traces how Russia has been treating digital currencies institutionally.

4. Cryptocurrency in Russia: A Matter of Distrust and Broken Regulation?

Crypto's decentralized nature has gained global attention from those wishing to escape government interference and opaque bank fees. As Vijai Maheshwari, a journalist for Politico, puts it, it “promised to reinvent the concept of money in the digital era” (Maheshwari 2017). Because of this, it is vital to understand how it set foot in the global economy. This chapter will briefly trace the development of crypto legislation in Russia, reviewing Nikiforova's (2021) findings on the same matter. After laying out the legal status of cryptocurrencies at key points in modern Russian history, I will focus on the development of trust in political and economic institutions. Lastly, I will give insights into Russia's banking landscape to find out why the country's financial institutions are so seemingly undeserving of confidence.

4.1 Inception and Legal Development

The first Bitcoin came into being in 2009, right after the global financial crisis. It was created by a group or individual whose real identity is unknown to this day. However, the idea of virtual money was not new at the time. First drafts go as far back as the 80s (Daskalakis, Georgitseas 2020). What finally made the new currency worthwhile was the solution of the double-spending problem: how do you make sure that a token that was digitally traded is marked as used? The blockchain elegantly circumvents the issue. However, it was not until 2013 that Bitcoin started to become globally relevant. That year marked the first time Bitcoin's price reached \$1000—just to crash again a few months later (Marr 2017).

In Russia, the history of Bitcoin legislation is a story of disagreement between the Central Bank and the Ministry of Finance. It begins on January 27th, 2014, when cryptocurrency had finally made it into the eye of Russian lawmakers. The Russian Central Bank issued a press letter “On The Usage of ‘Virtual Currencies’ In Transactions, Bitcoin In Particular” (Bank of Russia 2014). The release warned about the “risky, speculative character of cryptocurrencies” (ibid.) and reiterated Article 27 of the federal law “On the Central Bank of The Russian Federation”, which says: “The ruble shall be the official monetary unit (currency) of the Russian Federation. [...] The issue of any other monetary units or quasi-money shall be prohibited in the Russian Federation.” (On the Central Bank of the Russian Federation (Bank of Russia) 2002). As a result of this publication, Bulgarian exchange platform BTC-e removed the option of ruble trading and referred to its prohibition by the Russian Prosecutor's Office (Caffyn 2015). Ever since these first words on the matter, the Russian government's—as well as the Central Bank's—official position on cryptocurrency has been oscillating like a pendulum. This section is going to provide some examples.

The next mention that included cryptocurrency was published one month later, in February,

after a meeting that included not only the Central Bank, but also the prosecutor's office, representatives of an interdepartmental working group on combating economic crimes as well as the FSB and the MVD (Nikiforova 2021). The following months doubled down on illegalizing cryptocurrencies on the grounds of being money surrogates. The ministry of finance decided to criminalize production of these so-called surrogates as well as downloading programs to do so and spreading information on how to buy and sell cryptocurrencies, putting these actions under hefty fines (Nikiforova 2021).

According to data by Coindesk, one of the biggest news sites for cryptocurrencies, Roskomnadzor blocked access to several bitcoin-related websites in 2015 (Caffyn 2015). No information on this is found on Roskomnadzor's website (Roskomnadzor 2014), even though some of these pages are still not accessible today. Yet, things changed in the summer of 2015 when Putin issued his first personal statement on cryptocurrencies. He endorsed the Central Bank's newly adopted position not to reject digital currencies, but warned that there are still "serious, real, fundamental problems [...] concerning their broader usage, at least today" (TASS 2015, author's translation). After this turn of events, the Central Bank started a working group that was supposed to study the risks and possibilities of blockchain (Interfaks 2015), however still blocking access to information about virtual currencies (Nikiforova 2021).

On October 3rd 2016, Russia's Federal Taxation Service published a letter citing Article 27 again but adding that in the Russian Federation's legal codex "concepts of money surrogates, cryptocurrencies, digital currencies are not enshrined" (O kontrole za obraščeniem kriptovalyut, v tom čisle bitkoynov, na territorii Rossiyskoy Federacii 2016, author's translation). The same paper also considers transactions made via cryptocurrencies potential grounds for legal investigations against money laundering and terrorist financing, although it concludes by saying there is no official prohibition on cryptocurrencies for Russian citizens and organizations.

One year later, in June 2017, the Ministry of Finance suggested to legally treat Bitcoin as "another possession" (inoe imuščestvo), while the Central Bank was opting to consider it a digital commodity. The difference influences the taxation: financial assets under the category of "another possession" are exempt from VAT, digital commodities are not (Eremina, Kholjavko 2017). The public discussion caused Russian social media network VKontakte to publish Bitcoin advertisement for the first time in in August 2017 ([Izvestiya 2017](#)), while the country first considered issuing its own cryptoruble (Russia Today 2017).

But in fall, the Central Bank and the Ministry of Finance were still fighting over their opposite views on how to proceed with cryptocurrencies. While the latter was still pushing for some kind of legalization of trading on certified platforms for qualified investors the former was now calling for a complete ban. Sergei Shvetsov, the Central Bank's First Deputy Governor at the time,

considers virtual currencies “dubious” (Pinchuk, Fabrichnaya 2017). Yet again, prohibition prevailed (Interfaks [2017](#)).

Eventually, the Department of Taxation and Customs Policies of the Ministry of Finance joins the discussion to reiterate that cryptocurrencies are money surrogates whose circulation is forbidden across the Russian Federation (Nikiforova 2021). The Ministry of Finance declares that taxes on bitcoin transfers between individuals can be paid voluntarily based on missing tax legislation regulation (ibid.). Nikiforova concludes that at that time, “certain segments of the same cryptocurrency structure are perceived as monetary surrogates as well as financial instruments on which one (ideally) should pay taxes” (ibid⁵., author’s translation).

But the saga goes on. In January 2018, the Central Bank still believed that cryptocurrencies should not be legally exchangeable into rubles ([Izvestiya 2018a](#)). In contrast to this, on January 25th, 2018, the Ministry of Finance published a draft bill on a new law called “On digital financial assets”, suggesting the possibility to exchange cryptocurrency for other financial assets through specialized operators on the stock exchange ([Izvestiya 2018b](#))⁶.

The back and forth between the Central Bank and the Ministry of Finance continues to this day. In 2020, the State Duma signed law N 259-F3 “On digital financial assets, digital currency and amendments to certain legislative acts of the Russian Federation”, which went into effect in January 2021. It defines digital currency and recognizes it as a means of payment, but not as a monetary unit for the Russian Federation (Rossiyskaya gazeta 2020). The law allows the purchasing, selling, registering, and issuing of digital assets within a unique framework. Authority to supervise this system is given to the Central Bank ([TASS 2020](#)).

In February 2022, Russian news agency TASS reports that the Russian Finance Ministry submitted a bill according to which payment via digital currencies will be prohibited but using them as an instrument for investment will be legal (TASS 2022). Two months later, In April 2022, the newspaper Kommersant published an article saying the Finance Ministry is looking to turn cryptocurrencies into legal tender in the near future (Kulikova 2022). However, the Central Bank of Russia once again does not share this sentiment concerning digital assets, calling to ban cryptocurrencies. The former was pleading for proper regulation (Choo 2022a). In July 2022, president Vladimir Putin signed a law that banned crypto payments, marking what seemed like a final win for the Central Bank’s proposition (Choo 2022b). Yet, only several months later, in October 2022, the Russian government finally decided not to outlaw crypto, but to regulate it like foreign currency (Baydakova, Wang 2022). In November, a new bill was proposed to the State Duma to legalize and define cryptocurrency mining, amending the already existing law “On Digital Assets”. Bitcoin.com reports that the idea was initially rejected because it had not yet been coordinated with the Bank of Russia. However, efforts are made

⁵ The article does not include page numbers.

⁶ The Ministry of Finance’s website was not accessible at the time of writing.

to get the law into force in 2023 (Tassev 2022).

In February 2023, the Central Bank was toying with the idea to legalize cryptocurrencies for international transactions (TASS 2023). On March 16th, 2023, Izvestiya reports that a new bill concerning the cryptoruble has been signed into law, making the Bank of Russia responsible for ensuring Russia's new digital currency's smooth operation. This comes after head of the Central Bank Elvira Nabiullina declared last December that Russians will be able to choose to receive their pension in digital money once it has launched (Izvestiya 2023a). At the same time, a new law concerning cryptocurrency mining is expected to come into effect in July 2023. Mining will be made legal; it will, however, be mandatory to declare all income received through this activity (Izvestiya 2023b).

Evidently, the Russian government's and Central Bank's treatments of digital currencies have been less than straightforward. The list of events I have presented here is not exhaustive, but it illustrates the confusing path that Russian cryptocurrency legislation has been on since 2014. One could argue that the untransparent legislature should act as a deterrent for Russian crypto enthusiasts. Given the still respectable market size, this does not seem to be the case. Thus, the next chapter will deal with the connection between distrust and finance to illuminate potential factors that weigh heavier than legality.

4.2 The Connection Between (Dis-)trust and Finance

After having explained how cryptocurrencies paved their way into Russian legislature, it is time to explore the trust component of financial interactions. Extensive literature exists on the relationship between trust and financial behavior in Russia (cf. Kulikova & Semenova 2016, Kuznetsov & Kuznetsova 2003, Veselov et al. 2016). However, so far, this research has not extended into the crypto sphere. Here, attention has been mostly paid to tracing the history of the digital currency or illuminating the perspectives and legal aspects (cf. Dubyansky 2017a, b; Nikiforova 2021; Dorokhova et al 2020; Danilyants, Volik 2021). This chapter is trying to fill this gap, by first outlining the development of institutional trust in Russia and then using that lens to analyze the crypto market.

First, I am going to trace the development of institutional trust in Russia from 2014 to 2022. In doing so, I will highlight those moments that brought significant changes to public opinion. I will start with trust in political institutions and follow up with trust in economic institutions. Of course, the figures must be looked at carefully. Russia is not a country that endorses free speech. People might overstate their enthusiasm for the government out of fear. Still, these numbers are the best proxy that scholars have for gauging the country's social environment. The period was chosen for two reasons. Number one, cryptocurrencies slowly gained traction in 2013. In this year, the price of one Bitcoin climbed to \$1000 for the first time. It was also the

year of the first big crash. Consequently, Mt. Gox', at the time the largest bitcoin exchange, declared bankruptcy in April 2014, after months of users complaining to have problems with withdrawals (Marr 2017). Following these turbulences, everyone had heard of Bitcoin.

Second, early 2022 saw the Russian invasion of Ukraine. Ever since, the country and the global economy have changed. Western-imposed sanctions prevent access to basic international financial services like the SWIFT system and visa or master cards. Crypto has gained a new meaning for those wishing to keep their ties to Europe and other places outside Russia. It reached a novel clientele that had to resort to virtual currencies out of necessity. Because of this, the market that emerged after the war has little to do with the reasons that initially contributed to the country's crypto-friendly atmosphere.

With these markers in place, I believe that the period between 2014 and 2022 will provide a good glimpse into the relationship between cryptocurrencies and distrust in Russia.

4.2.1 The Development of Trust in Political Institutions

From 2014 to 2022, Russian society had to respond to a multitude of world-shattering experiences like the interventions in Crimea (2014) and Syria (2015) or the COVID-19 pandemic (2020). It is not surprising that these events should be reflected in governmental approval ratings. As noted earlier, it is crucial to remember that, if overall approval of the government is low, it feeds back into approval of its individual institutions. Furthermore, the government might look at its approval ratings when deciding on specific actions.

As an example, the annexation of Crimea in February and March 2014 has helped boost President Putin's approval to 80% but the extensive confidence Russians feel towards their president has not spilled over to other political institutions. They are all markedly below the 50% threshold, especially since late 2015. The parties are the institution inspiring the most suspicion: only about a fifth of respondents consider them trustworthy.

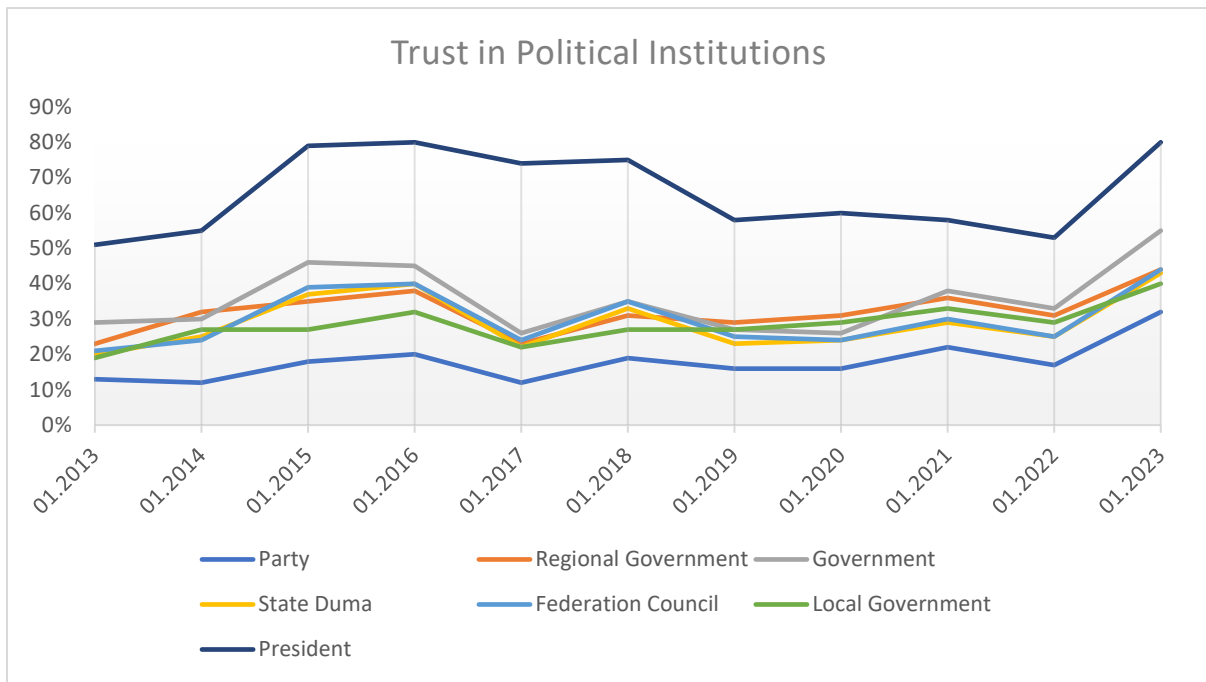


Figure 1: Trust in political institutions in % of those who answered “fully deserving of trust” from 2013 - 2023 (Levada-Center 2023).

Malkina et al (2020) suggest that these low levels of trust in local government can partially be explained by the high levels of perceived corruption. However, a Levada-Center study on corruption asked respondents to indicate how much they considered Vladimir Putin to be responsible for the scale of corruption in the country’s leadership (In your opinion, does Vladimir Putin bear responsibility for the scale of high-level government corruption and financial abuse which are frequently cited by his opponents?, Levada-Center 2017). 67% of respondents opined that he is at least largely responsible for financial abuse, another fifth believes him to be at least partly responsible. It seems unreasonable that Russians believe that the local government is corrupt and that the president is at least partly to blame for that but at the same time punish the former with skepticism for corruption and showering the latter with praise. Without going too much into detail because it would break the scope of this thesis, I believe it is more likely that Putin was successful in developing a personalistic regime while at the same time dismantling its institutions.⁷ This way, citizens can believe in his leadership while at the same time discrediting other political institutions as untrustworthy, thus not having to believe in their country’s political system as a whole.

Since his coup in Crimea, Putin has remained fairly popular. His popularity only started to dwindle to the high 60s again after his re-election and the controversial pension reforms in 2018. Russia’s involvement in the Syrian civil war did not seem to have any discernable effect on his approval ratings, nor did the pandemic. Only at the start of the new war in Ukraine did

⁷ For a more in-depth analysis of this topic, see Baturo & Elkin: 2021.

the endorsement of his actions soar back to 80%, along with the approval for the other political bodies. They all experienced all-time highs in late 2022. However, this new-found love for Russia’s government comes at a price: the economy has suffered in the past decade, largely due to Western-imposed sanctions. Were economic institutions still able to use the political slipstream to inspire confidence?

4.2.2 The Development of Trust in Economic Institutions

The answer is: partly. The trust curve for economic institutions looks very different than the graphs for political ones, displaying almost the inverse trend until 2022. The most trusted institution are small and medium enterprises, followed by unions and banks, which boast approximately the same amount of confidence. Least trusted is big business. Trust in banks had been steadily on the rise from 2016 to 2019, climbing to 25% by the end of 2018. Surprisingly, even though the COVID-19 pandemic of 2020 caused global recessions, trust in banks reached an until then all-time high in 2021 with as much as 30% of Russians saying they consider them trustworthy.

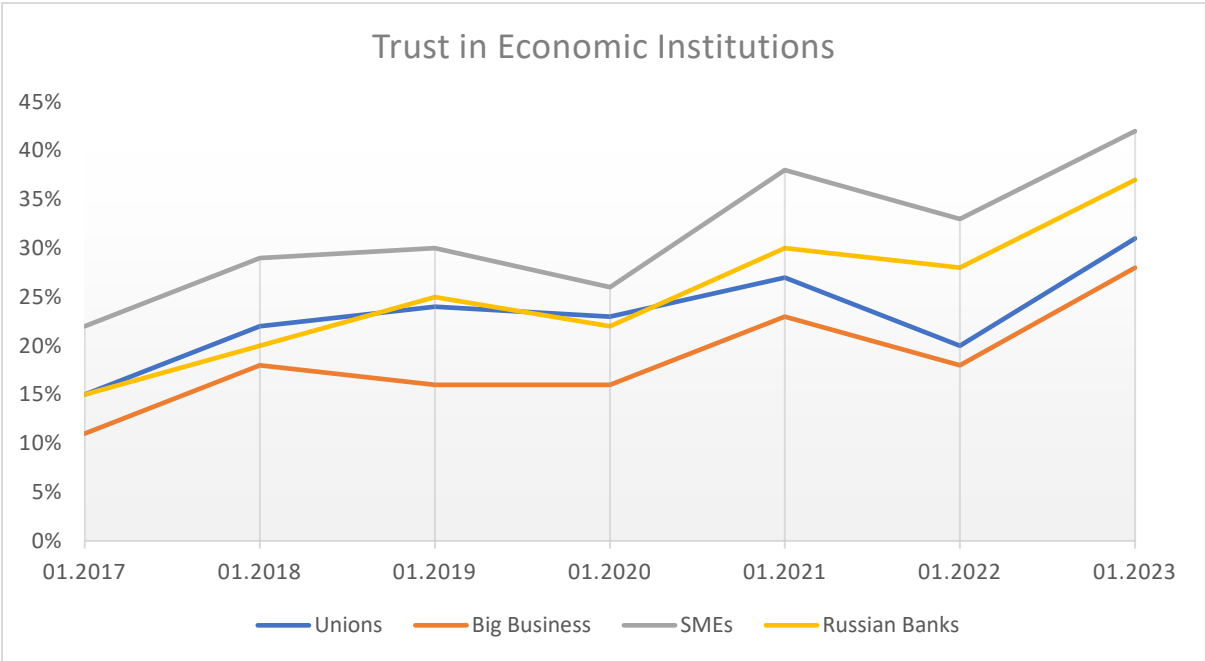


Figure 2: Trust in economic institutions in % of those who answered “fully deserving of trust” from 2017 - 2023 (Levada-Center 2023).

The figures presented show that economic institutions are on average less trusted than their political counterparts. If we take the median percentage of trust across all institutions and leave out trust in the president, political institutions score 28%. For economic institutions, the figure is only 23%. With the president, the gap is even more pronounced, as the first number

increases to 33%. One might argue that this finding contradicts scholars who believe that Russians traded democracy for socio-economic stability (cf. Sil, Chen 2004) since, if they believed their economy to be stable, their trust in the institutions protecting the status quo should be higher. Rose and Mishler (1997) try to explain the phenomenon by arguing that the population of post-communist Europe has not yet gathered enough experience to differentiate between the civil and political institutions. Possibly, Russians cover most institutions with a general blanket of skepticism. The singling out of Vladimir Putin suggests that they attribute positive economic developments to him. Most likely, the depicted discrepancy stems from the fact that the economic crisis that followed the dissolution of the Soviet Union affected Russians immediately and personally. Democracy, on the other hand, was a vague notion that many of them did not favor to begin with (Gerrits 2010). In a way, there was not much to lose for political institutions.

Be that as it may, the figures for trust in economic institutions, particular banks, are abysmally low. In 2018, Russian research center NAFI conducted a study on trust towards financial institutions. The data points are a combined percentage of respondents who chose “I completely trust” and “I somewhat trust”. When asked which of the following they trusted the most, Russians overwhelmingly chose banks. In 2017, they received the highest confidence at 67%. About a third of respondents deemed insurance companies to be trustworthy, followed by investment companies and non-governmental pension funds. Microfinance organizations are the least popular, mostly not even crossing the 10% mark (Please indicate in how far you trust the following financial organizations, NAFI 2018, author’s translation).

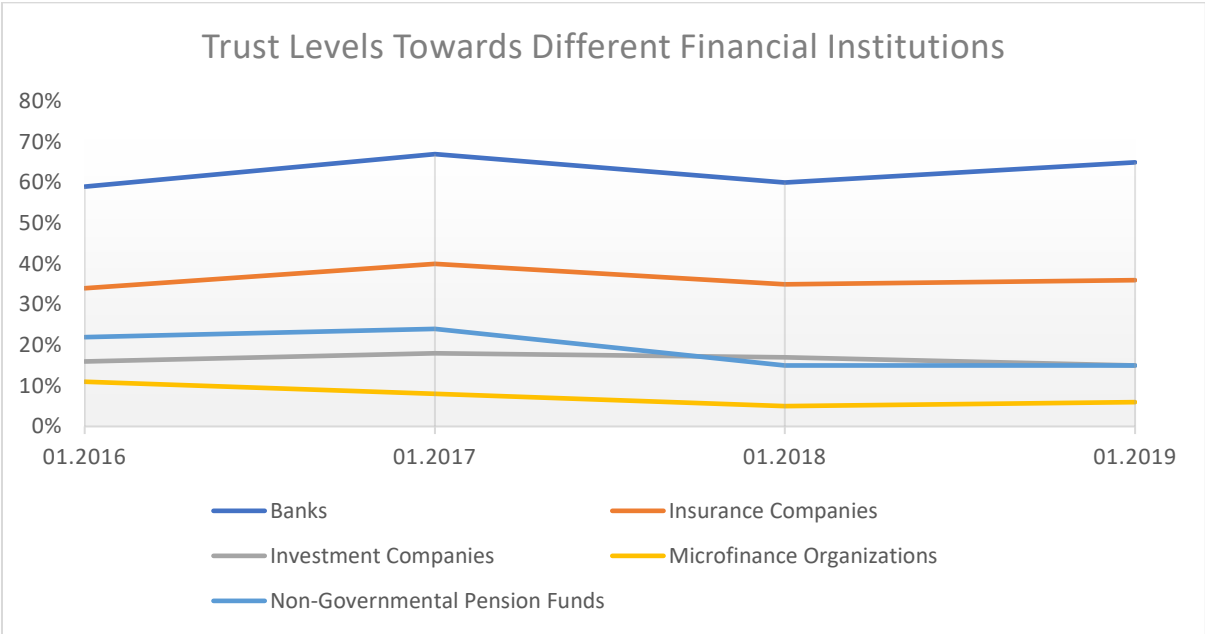


Figure 3: Trust in financial institutions from 2016 - 2019 in % of those who answered, “I completely trust” and “I somewhat trust” (NAFI 2018).

Levada-Center's and NAFI's surveys do not necessarily need to contradict each other. Firstly, NAFI combined "I completely trust" and "I somewhat trust", which Levada did not. Secondly, framing matters. In the first survey, banks are juxtaposed with other economic institutions; in the second, specifically with financial institutions. Unfortunately, neither of them discloses the entirety of their scale and the percentage of answers to the other options. What can be seen, however, is where Russians prefer to store their money.

This is in line with findings by Karopva & Panova 2018, who declared that, in 2015, only 0.2% of Russia's GDP was held in private investments (Karopva & Panova 2018). At the same time, a mere 0.1% of Russians used the securities market for capital allocation. To combat this, the government introduced a new law coming into effect in 2015. It created the individual investment account and the tax rebate on investment (ibid.). The bid worked: another Levada-Center study revealed that in 2021, the percentage of Russians investing in the securities market was 7%. When it comes to saving, the most preferred option (31%) was classic bank deposits. Another third of respondents opts for real estate. At 22%, the third most favored option is to store it in cash—that is more than every 5th person (What is the best way to currently save money?, Levada-Center 2021, author's translation). On top of that, those who replied that their financial situation has worsened over the past year preferred to store their money either in cash or real estate, another factor indicating low trust in the country's banks (ibid.). In numbers, household debt, debt securities, and loans comprise 17.01% of the Russian GDP in 2019—compared to 53.19% in Germany for household debt alone (Cwynar 2021: 403).

Russian investors do not share the general public's preference for bank accounts to safekeep their wealth. Interest rates for bank accounts are higher in Russia than elsewhere (International Monetary Fund 2021), but time has shown that interest rates can be subject to unexpected fluctuations. In March 2022, half of Russian investors agreed on securities as the best way to save money. 46% considered cash in foreign currency the most viable option, followed by real estate and cryptocurrencies (30 and 29%, respectively). Bank accounts only take the 5th place (What is currently the best way to save money? Levada-Center 2022b, author's translation). In sum, investors trust banks even less than the average Russian does. But how did it get so far? The following section will reveal some historical and structural reasons.

4.2.3 Russia's Banking Landscape

Three decades ago, the Russian banking system had to be forged from the rubble of communism. During the time of the Soviet Union, all financial flows were centrally controlled by state authorities. Because of this, the banking and insurance systems were crippled, the financial sector underdeveloped. A single financial institution was responsible for all operations: the Central Bank (Cwynar 2021). In the 1990s, when the formerly communist

countries were transitioning into a capitalist market economy, all this had to change rapidly. However, policies that were supposed to guide this transition proved disastrously chaotic. The number of banks—and with it, pyramid schemes—exploded. Many Russians fell victim to at least one of those fraudulent financial schemes (Yurevich, 2019; Rock & Solodkov, 2001). In the mid-90s, an estimated 2,000 unregistered financial companies operated in Russia (Spicer, Okhamotvskiy 2015). During the transitional phase, the GDP fell, and hyperinflation swept the country. By 1998, the financial collapse eliminated Russian savings large and wide (Rock, Solodkov 2001).

Nowadays, the country's most popular bank is Sberbank, which used to be part of Gosbank, the Soviet Union's overlooking financial institution. It was the designated household savings bank but back then, banking was mostly a means to funnel money to state enterprises (Johnson 2000). Under communism, most individuals were not concerned with banking. Since there were no types of currency or capital markets and thus, no market competition, Russians first and foremost had to learn how to choose between a variety of products when the old system disintegrated (Cwynar 2021: 401). They had to learn the rules of capitalism—while (illegitimate) banks wanted to use them to make profits.

After many of the private operators collapsed, household savings deposited into commercial banks dropped sharply (Spicer, Okhamotvskiy 2015). Lots of Russians preferred to store their money at home and in cash: government estimates calculated that about \$40 billion were kept away from the formal financial system (ibid). As the former savings bank, partially state-owned Sberbank profited from this tumultuous period. In comparison to its private competitors, it was perceived as the safer option and as a result held a share of three quarters of the personal savings market by 2000 (ibid). In 2020, Sberbank still boasted 45.4% of the market share of private deposits (Sberbank of Russia 2021).

The skepticism towards bank savings prevails in recent times of uncertainty: according to Bloomberg News citing a report by the Bank of Russia⁸, as of February 1st, 2023, Russian households possessed approximately \$105 billion dollars in cash (Bloomberg News 2023). This inclination to keep money away from banks is systematic: Semenova and Kulikova (2016)'s study of borrowing behavior in Russia finds that most Russians rather borrow from informal sources, such as relatives, friends, and colleagues than banks. They identify two main reasons for this: lack of trust in the banking sector and missing financial literacy. Almost a decade has passed since then and trust levels remain low, proving the continuing relevance of their findings.

However, a history of traumatic experiences with the banking sector is not everything that contributes to Russia's dislike of financial institutions. Earlier, I have established that trust in institutions increases the better they perform, and vice versa. For financial institutions,

⁸ Bank of Russia's website was not retrievable at the time of writing.

trustworthy performance means for example stability, ease of access, and transparency (Yurevich 2019). For starters, Bulyga et al (2020) note the relevance of transparency to create trust and the lack thereof in Russian banks. Defined as full disclosure of information, the Russian Federation's federal code requires transparency from the Bank of Russia as the main regulatory oversight of the country's credit institutions. Yet, the highly regulated environment makes this objective nigh impossible (ibid.). Consequently, the authors assess a low level of accessible information compared to foreign credit institutions and other entities across economic sectors.

A second important factor is stability. Russians had to maneuver through multiple economic shocks in the past decades. The economic crash in the 90s, the global financial crisis in 2008, and the recent sanctions regimes from 2014 and 2022 all took their toll on the country's economy. As a result, the ruble fluctuated intensely, and interest rates fluttered. The average lending interest rate in Russia skyrocketed from 9.5% in 2013 to 15.7% in 2015. After that, it gradually decreased, reaching 7.2% by 2021. For comparison, in the US, from 2013 to 2019, the lending interest rate slowly rose from 3.3% to 5.3% in 2019 but fell back to 3.3% in 2021 (International Monetary Fund, 2021).

Since 2013, Russian banks have started to hand out retail credits only to very reliable customers as many borrowers are already struggling to pay back their loans (Zubova 2014). In 2021, 35% of respondents to a Levada-Center study on consumer credits replied that they had taken up a credit that needed to be paid back (Do you or any of your family members living with you currently have a consumer or mortgage loan that needs to be paid back? Levada-Center 2021, author's translation). Out of those, 64% indicated they experienced at least some trouble paying it back (Do you or your family members experience difficulties repaying credits? Levada-Center 2021, author's translation)

The last problematic point is access. Banks are unevenly distributed across Russia. In 2019, the entire North Caucasian Federal District with a population of over 9 million housed only 10 head offices, 32 branches of banks, and 607 additional offices. Inside this district, the Republic of Ingushetia, after all home to half a million residents, had exactly 0 head offices, 5 branches, and a mere 8 additional offices. The city of Saint Petersburg alone, on the other hand, which is inhabited by some 5 million people, boasted 25 head offices, 57 branches, and 737 additional offices. Even Krasnodarski Krai inside the South Federal District, which is almost scratching the 6 million mark in population, had 907 additional offices, though it also inhabits only 8 head offices, 23 branches (Bank of Russia 2019).

These institutional problems combine with a social one: financial literacy. According to a study conducted by Kuzina (2015), Russian adults display the lowest financial literacy in the categories "longterm orientation towards the future" and "saving". Out of 100 points, which indicate full financial literacy, the average respondent reached only 49 and 47, respectively.

The result in the savings category was even worse for young adults between 18 and 24 and those with a low income, comprising 36 and 39, respectively.

A monthly survey FOM conducted in 2016 seems to further confirm this finding. When the general public was asked if they knew about the insurance system that saves deposits in case the bank loses its license, the majority of respondents reacted with “I have never heard about this” (Russia has an insurance system for bank accounts in case the bank’s license gets revoked. What do you know about this system? FOM 2016, author’s translation). Even among those who indicated to regularly make bank deposits, about a third still reacted with the same response. In both cases, the figure was rising towards the end of the year. What is more, about two thirds of Russians do not currently have bank deposits, although that percentage tended to decrease from 68% in 2014 to 65% in 2016 (Do you currently have an account at any bank? If you do, then where—at Sberbank or at a different bank? FOM 2016, author’s translation). Out of those who do, for most of 2016, more than 40% say that deposits at Russian banks are unprofitable (compared to close to 50% among the general public) investments (Do you think that accounts at Russian banks are currently a profitable or unprofitable way of investing money? FOM 2016, author’s translation).

In January 2014, 43% of Russians were convinced that deposits at Russian bank accounts were no reliable way of saving money, as compared to 35% who thought they were. In February 2016, the opinion had flipped: 42% now opined that deposits were a good thing, while 38% held the opposite view (Do you think that deposits at Russian banks are a reliable or unreliable way to save money? FOM 2016, author’s translation). At the same time, a third of respondents mentioned that they prefer to store their money at home (What do you think is more reliable today: to save money in a bank account or in cash at home?). Considering only those who held bank deposits in January 2014, 48% shared the opinion that they were reliable, while 37% did not. Two years later, those figures were 59% and 27%, respectively. Out of those, only 13% believed it was better to save money at home in 2014 and 2016, as opposed to 70% (69%) who viewed banks as the better option.

Yet, the money stored in bank accounts in Russia’s biggest bank, Sberbank, decreased slightly: from 1,589,127 million rubles in January 2014 to 1,561,367 million rubles in January 2015. The number of bank accounts in general declined to 1,561,367 (January 2015) from 1,589,127 (January 2014) (Sberbank Annual Report 2015). At least partially, this will be connected to an exceptionally large number of emigrants in 2014 that extracted their money from the market. A clearer manifestation of distrust towards the banking sector is the spike in mortgage loans. As shown earlier, a third of Russians considers real estate a better option to safeguard their savings than bank deposits. Indeed, mortgage loans have soared between 2013 and 2018: from around 1 trillion rubles in January 2013 (Sberbank Annual Report 2013), to roughly 3 trillion rubles in January 2018 (Sberbank Annual Report 2018) this number has

more than tripled, and it continues to rise.

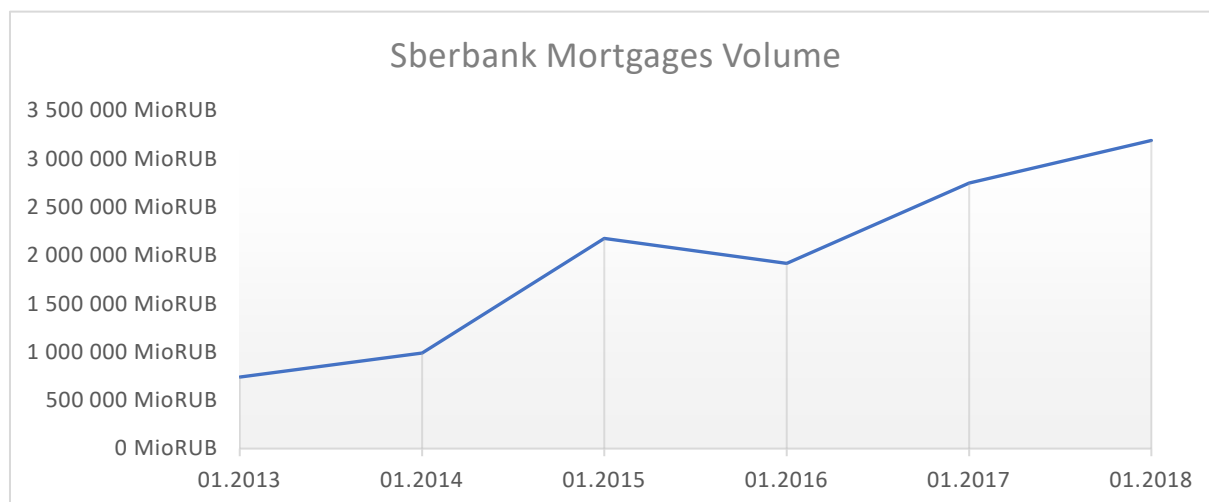


Figure 4: Volume of mortgages issued by Sberbank in Mio rubles, 2013-2018 (Sberbank of Russia 2014, 2015, 2016, 2018).

The total volume of mortgages increased remarkably since 2014—arguably a reaction to the insecurity that the Crimean annexation has caused. The trend slows down in 2015 but picks up again afterwards to continue its steady incline. Certainly, there are multiple possible influential factors. One of them is that housing consistently got pricier over the years, as statistics gathered by Rosinfostat on price dynamics and costs per square meter also evidence (Rosinfostat o.J.). Most importantly, however, sanctions and the resulting economic instability and ruble devaluation play a role. Real estate purchases gain popularity even though the market gives less than ideal conditions, as shown by a report from Russian newspaper Vedomosti. It describes the upwards trend in mortgage transactions in 2014. They note that less houses were bought 'out of pocket': even for the premium and comfort class sectors, the number of estate purchases via mortgages comprised 30% and 50%, respectively (Sokolova, Samarina 2014).

In January and February 2014, the average rate on mortgage loans in rubles per annum rose from 12.1 to 12.3 %. In general, the Central Bank reports that on April 1, 2014, since the beginning of the year, the weighted average interest rate on loans amounted to 12.4%—a 0.4% drop against the same period the previous year. Many banks raised their interest rates in 2014: Gazprombank by 1%, KB MIA from 11,5 to 12%, Kredit Evropa Bank from 16.5 to 19%. The bank Vozrozhdenie shelved a program where the single interest rate comprised 12.5% regardless of the size of the down payment and the term (ibid). Currently, the weighted average interest rate for mortgage loans is at 8.05 % (Bank of Russia 2023). For comparison, in Germany, the average interest rate for a mortgage credit is currently 3.85 % but used to be just under 2% a year ago and around 2.5% in 2014 (Deutsche Bundesbank 2023).

The government has tried to address the banking sector's problems. For example, in July 2014, it introduced a new law on consumer credits. According to this, banks will no longer be able to

hand out credits at a rate that is a third higher than market average. Furthermore, they will have to disclose the full cost of credit for each of their products. This includes the effective interest rate as calculated by the Central Bank, which considers all expected payments of the borrower. Furthermore, Russia had attempted to raise financial literacy levels, for example in 2011. A joint project of the World Bank and the Ministry of Finance was supposed to implement strategies to combat the problem, however so far without success, which can be partly accredited to a lack of institutional trust (Aleksandrova et al 2020).

To summarize, in Russia, a low-trust society meets uncondusive banking conditions. Popular alternatives to bank deposits include real estate, securities—and cash hoardings. Because of this, those who want to increase their wealth are often driven to less conventional options—like cryptocurrencies. Fujiki (2021) has pointed out that usually, owners of crypto assets tend to display higher levels of financial literacy. He also notes that crypto asset owners often hoard cash (Fujiki 2021: 4567). It is plausible to assume that investors have a higher financial literacy than the average person, given that their active involvement in the financial market creates experience. In the case of Russian investors, I have mentioned that almost half of them consider non-ruble denominated cash savings best practice. In combination with their distrust towards banks, it is hardly surprising that they turn towards cryptocurrencies.

4.3 Investment in Cryptocurrency

At this point, it is necessary to have a look at investment behavior towards crypto in particular. First and foremost, it is important to note that the wealthy part of Russian society does not consist of so-called “old money”. Those who are rich now mostly made their fortunes in the 90s by exploiting the fragile transitional economy. They invested in gas and oil and/or befriended political cadres to gain influential positions. Modern oligarchs had to strategize to make it to the top. The result is an economic elite that distrusts the financial market, partly because they know how to manipulate it.

To finally pinpoint whether Russia’s crypto boom is coming from “professional” investors or the general public, I will analyze cryptocurrency trading volumes. In 2020, 7% of Russians indicated they either used or owned cryptocurrency. In Nigeria, another country that frequently tops the lists when it comes to cryptocurrency adoption, that figure was 32% (Statista 2022). However, when looking at the Bitcoin trading volume, Russia stands at \$421,38 million in 2020, while Nigeria traded only \$400,08 million. This makes the Russian Federation the global #2, even though its population is much smaller than Nigeria’s (150 million vs. over 200 million). It is only surpassed by the United States, which traded more than \$1.5 billion (Statista 2021).

A report from Chainalysis—one of the leading platforms for cryptocurrency-related research—on cryptocurrency adoption shows that the cryptocurrency activity in Russia, while still

significant, falls short on p2p exchange trade volume (Chainalysis 2021). This means that fewer residents put a smaller share of their overall wealth into p2p cryptocurrency transactions, as opposed to, for example, Vietnam or Pakistan. Both of these countries rank significantly higher than Russia, generally as well as in terms of p2p exchange trade volume.

On top of that, the Chainalysis report reveals that most of Russian cryptocurrency transactions happen internationally: they estimate that only 14% are sent within the country (Chainalysis 2021: 63). Along with the comparatively low adoption rate, it supports the thesis that it's large investors such as oligarchs attempting to hide their wealth from officials and thus offshoring parts of their fortune by investing it in crypto.

5. Cryptocurrency in Action: The Cases 2014 & 2018

In the previous chapters, I have laid out the theoretical foundation for my argument that most likely, professional investors are the drivers behind the cryptocurrency boom in Russia. Now, I will attempt to prove it empirically. I will utilize the foundation I have built so far to analyze crypto consumption behavior during and after two concrete events: the Crimean annexation in 2014 and the pension reform in 2018. I aim to examine in how far crypto consumption is tied to economic vs. political factors. On the political side, both events have caused governmental support to change drastically: Crimea gave Putin an unprecedented boost in approval, while the reform caused his ratings to tumble. Considering economic factors, Russia's military operation led the West to issue sanctions that caused the ruble to devalue. Vice versa, the unpopular legislation change had no discernible economic effect on the country.

5.1 2014: Foreign Policy and Digital Money

In 2014, Russia showed that it was not ready to give up its imperialistic ambitions. After weeks of unrest in Ukraine, the country's neighbor exploited its instable political situation to regain access to the Crimean Peninsula. Looking at surveys that FOM conducted after the annexation, it is obvious that most Russians endorsed the action. 44% believed that citizens of Crimea lived better after becoming part of Russia, as opposed to 4% who say that their lives actively became worse (In March 2014, Crimea has become a part of the Russian Federation. Do you think that life of the citizens of Crimea has become better, worse, or did not change after the accession to Russia?, author's translation). Furthermore, 67% of respondents agreed that the annexation was overall good for Russia, while 5% were convinced of the opposite. 15% said that it had neither positive nor negative effects on the country (If you think about the big picture, was the accession of Crimea overall good or bad for Russia?, FOM 2014, author's translation).

Yet, the event was followed by an unprecedented wave of emigrations. According to data from Rosstat, Russia’s federal statistics service, net outmigration in 2014 comprised 310,496 people. In comparison, 2013 saw the departure of 186,380 Russian citizens. In 2012, it was 122,750—the first time since 2002 that this number had reached 6 digits (Rosstat 2022).

The incident shows that crypto can be tightly linked with the political situation. In 2014, a large wave of sanctions hit the country as Western nations searched for ways to punish Russia for annexing Crimea. As a result, the Russian stock market dropped from 10.3 to 7.8% of the GDP in 2014, climbing back to 8.6 in 2015 (World Bank 2016). It was considered “the worst in the world” because compared to the dollar backed RTS, it fell by more than 50% (Krym. Realii 2014).

Daily trading volume for Bitcoin on EXMO skyrocketed for the first time that year on March 19th to double the amount of the previous day. Possibly, this could have been a reaction to the first case of bloodshed in Crimea, where a Ukrainian soldier and a Russian paramilitary were killed. As the year progresses and the ruble devaluates, trading between Bitcoin and ruble increases. (Clinch 2014).

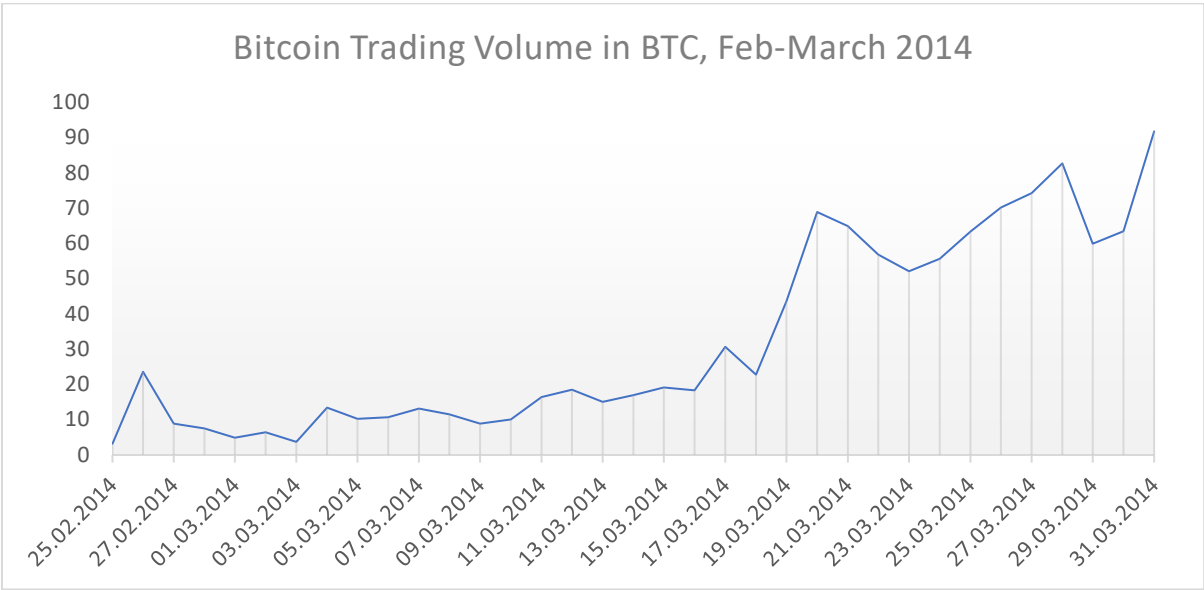


Figure 5: Daily Bitcoin 24h trading volume against the ruble in BTC from February to March 2014 (Coinmarketcap 2023)

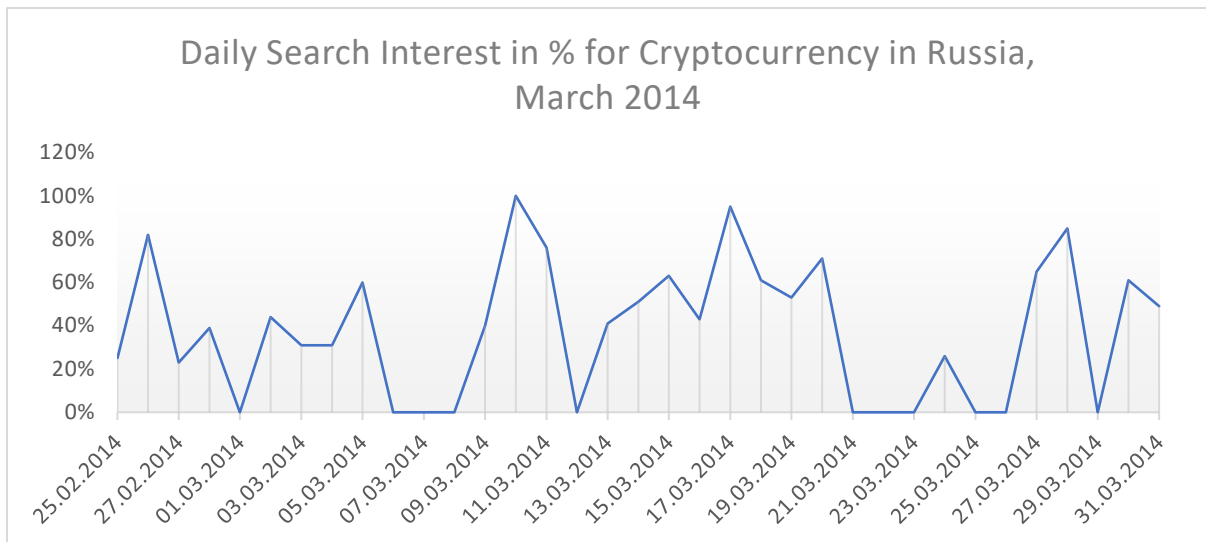


Figure 6: Daily search interest in % for the topic of cryptocurrency in Russia in March 2014 (Google Trends 2014)

The Google Trends curve shows a 95% popularity of cryptocurrency on March 17th—a day after the Crimean referendum—indicating a general uptick in interest in the topic. It is possible that the query volume is connected to the intensified trading two days later, suggesting that users were preparing for trade by analyzing the market beforehand. However, the overall graph differs drastically from the actual exchanges. This suggests that consumers display continuous interest, but do not always follow through with purchasing. In the yearly view, the Trends graph reveals that search interest for cryptocurrency in Russia was highest in the last week of January. It then declined steadily until it reached its low point in late April.

On the other hand, the trading volume on EXMO has increased throughout the year, following the ruble devaluation: CNBC reports that it reached its highest point of the year on Dec. 16, after the ruble had depreciated 11 % against the dollar on the same day—and even though cryptocurrencies were illegal in Russia at the time.

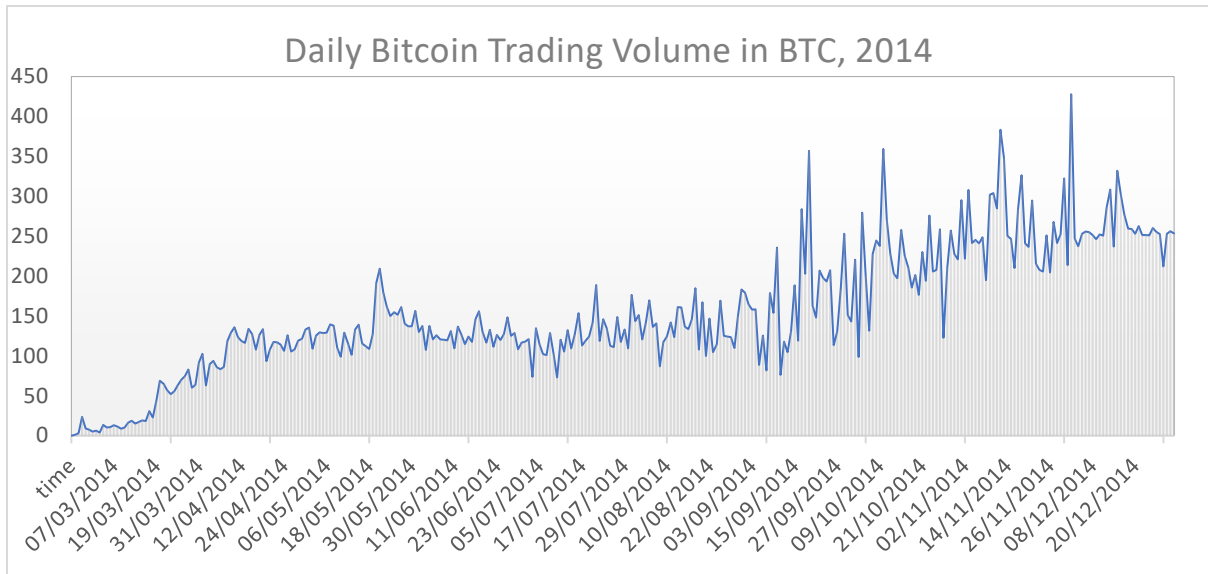


Figure 7: Daily Bitcoin 24h trading volume against the ruble in BTC in 2014 (Coinmarketcap 2023)

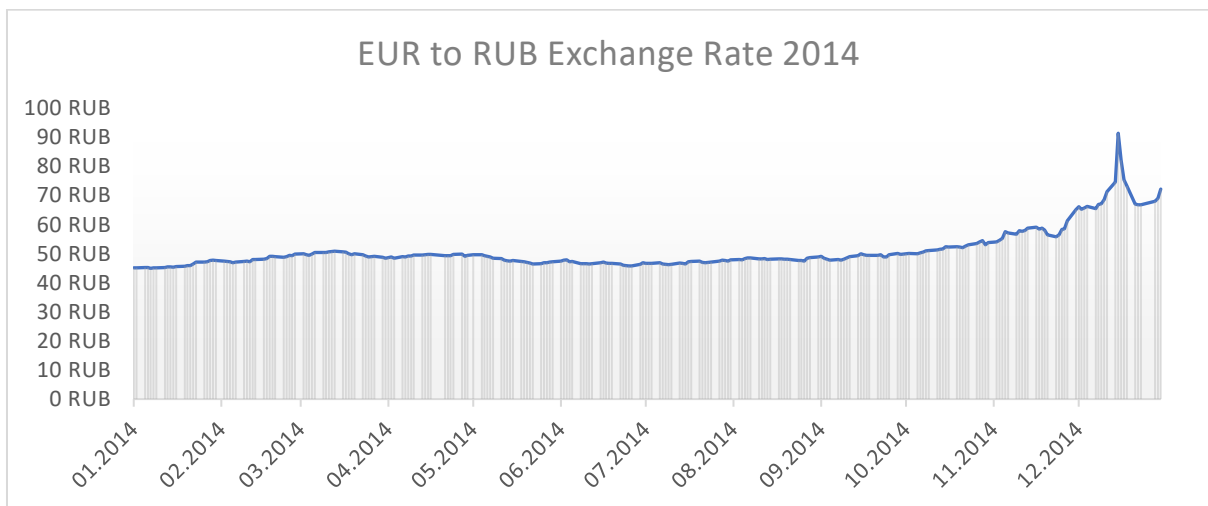


Figure 8: Monthly euro to ruble exchange rate 2014 (European Central Bank 2022)

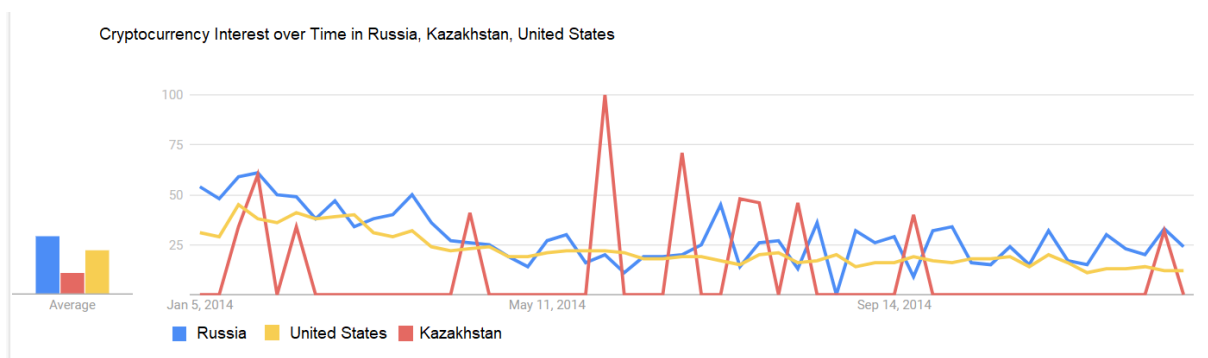


Figure 9: Daily search interest for the topic of cryptocurrency in Google in Russia, Kazakhstan, and the United States in 2014 (Google Trends 2014)

The parallel trend is backed by the ruble exchange rate during that time, which reveals that the Russian currency did not immediately take a plunge at the start of the year. On the contrary, on February 18th, the daily low of the trade between ruble and euro bottomed out at 39,60 rubles per euro. At 22,81867 BTC, this day also marks the lowest point of daily trading volume for Bitcoin for the rest of the year. The exchange rate reached 50 rubles per euro in March, however extensive devaluation began only in October. The year closed with an exchange rate of one to 73,49—and an inflation of consumer prices that capped at almost 15%, a more than 9% increase compared to the previous year (Tregub et al 2015).

The Trends curve in comparison with other country's search interest appears to be highly erratic, although less so than Kazakhstan's (which could be related to a lack of data for the country at that time). The interest at the beginning of the year is likely explained by the widespread news coverage on Mt. Gox and the fact that Bitcoin's value climbed until January 2014 (Coingecko 2014). All compared countries show an increase in search interest around that time. Yet, the graph clearly shows that search interest in Russia specifically spiked around the time of the occupation, while it did not in the US or Kazakhstan. It is also visible that trading jumped around the same time in late March.

For the rest of the year, search interest and exchange volume are barely correlated: curiosity over cryptocurrency does not necessarily indicate desire to invest. The average interest is similar to that of the US. In general, the trading graph displays that trading follows the economic situation rather than the political. Distrust towards institutions did not rise towards the end of the year; on the contrary, approval ratings across almost all political institutions rose between 2014 and 2015. Unfortunately, there is no monthly data for Levada-Center's survey on all institutions. However, if Vladimir Putin is singled out, it becomes visible that his approval changed drastically after February 2014. Even the rest of the government profited: for the first time, it managed to flip opinion so that most people endorsed its actions.

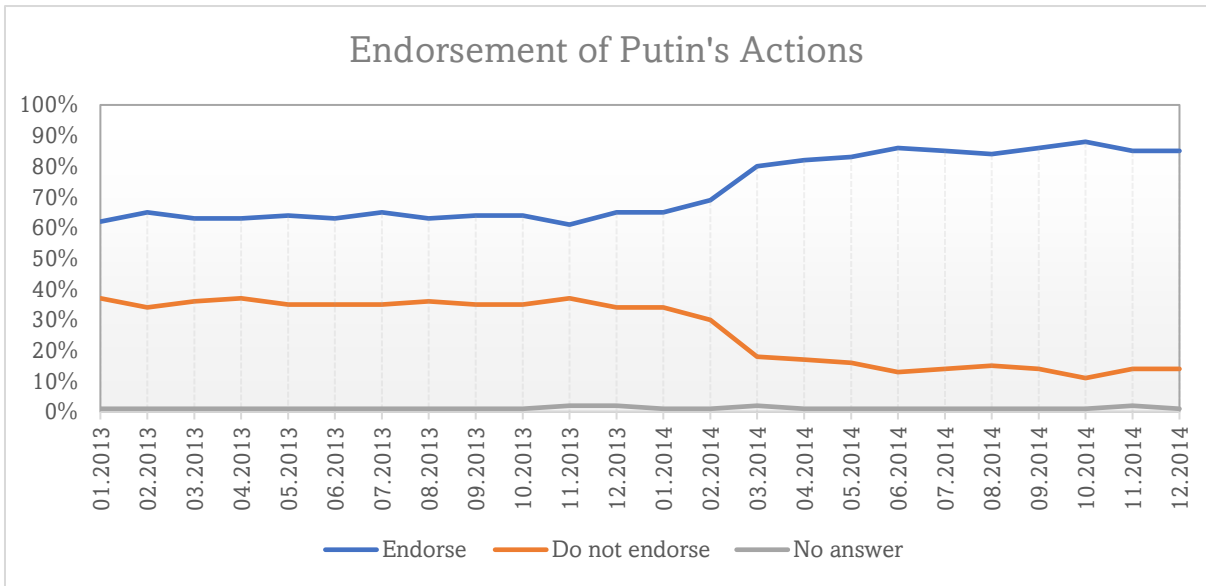


Figure 10: Approval ratings of Russian president Vladimir Putin from 2013 - 2014 in % (Levada-Center 2023)

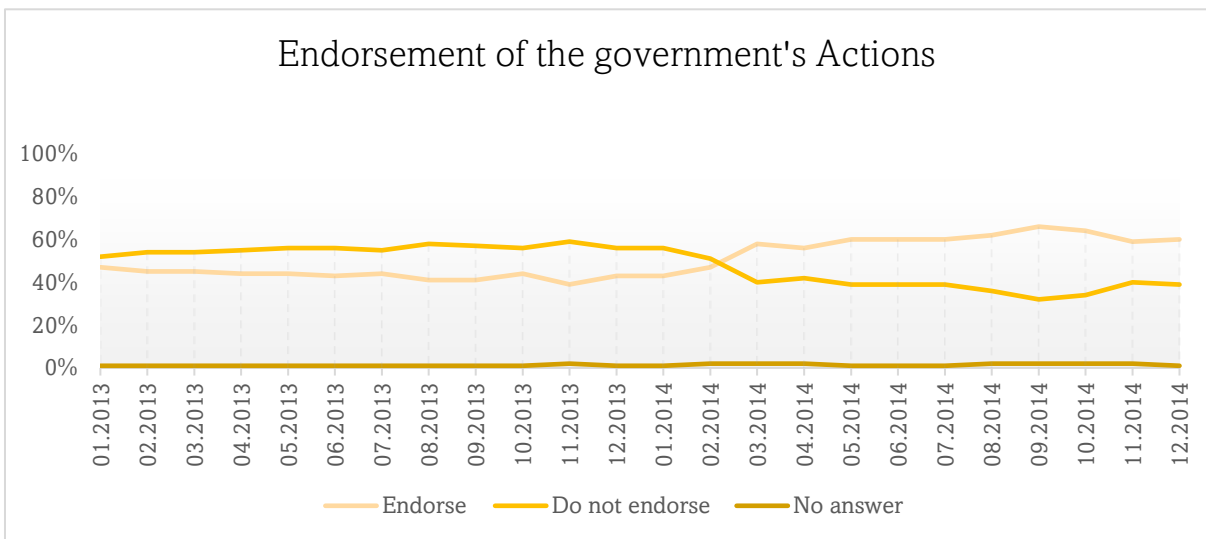


Figure 11: Approval ratings of the Russian government from 2013 - 2014 in % (Levada-Center 2023)

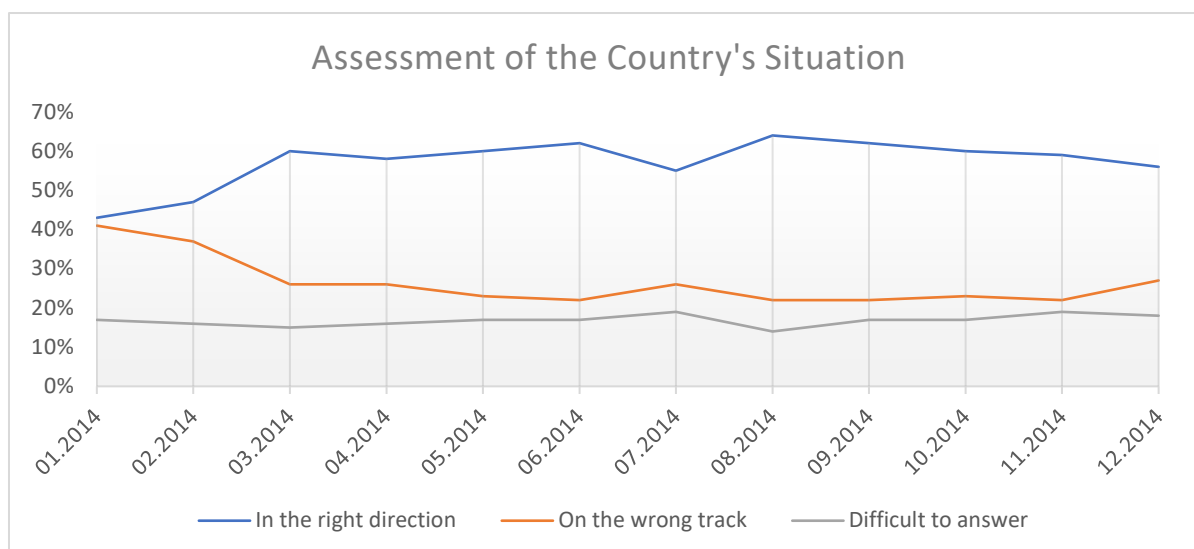


Figure 12: Assessment of the country's situation in % of those who answered the country is 'Moving in the right direction' or 'Is on the wrong track' in 2014 (Levada-Center 2020)

The same tendency is true for the overall percentage of people who opine that Russia was overall on the right track, although this took a dip in July, which is not reflected in the search queries. There is no apparent immediate correlation between query curve and distrust fluctuations.

But not all that glitters is crypto: while digital currencies experienced their first serious upswing in mid-March, so did gold. High demand early in the year caused its price to peak at \$1385 per ounce in March 2014 (Tregub et al 2015). Sberbank reports that between January 2014 and January 2015, gold investment rose from 90,148 million rubles to 128,8555 million rubles (Sberbank Annual Report 2016). Usually, gold is purchased as a preventative measure for a pessimistic future. If crypto is bought at the same time as gold, it emphasizes the nature of crypto as a fail-safe investment.

To sum up, the military operation in Crimea caused a significant ripple in the Russian financial market. Many emigrated and took their money with them. The ruble devaluated after the sanctions hit fully. Demand for mortgages skyrocketed and so did interest rates. Gold became a much sought-after commodity. Bitcoin trade reached its first peak in late March. General interest also swung up during this time. It is possible that emigrees bought Bitcoin before leaving the country to detach themselves from the Russian financial system. However, if they did that, they would have swapped one currency expected to fluctuate for another. On top of that, converting Bitcoins back to fiat money can cost high fees. The necessity—unlike in 2023, when Russia was cut off from international banking systems—did not exist. Furthermore, Bitcoin was illegal in Russia in 2014. It seems more plausible that investors began to broaden their portfolio with Bitcoin as a fail-safe against an economic recession, especially because more Bitcoin was purchased towards the end of the year when the ruble was low.

5.2 2018: Domestic Policy and Digital Money

The analysis of 2014 has shown a small correlation between foreign policy and Bitcoin trade. However, it has revealed a much larger correlation between ruble exchange rates and crypto investment. As a next step, this chapter investigates in how far domestic policy has the same effect.

In July 2018, the president presented plans to delay pension entry: from 60 to 65 for men and from 55 to 63 for women. The announcement was followed by heavy protests. In the end, the government had to backpedal and promise to raise it only to 63 and 60, respectively (ZEIT Online 2018). Because of this, for the first time since November 2013, those who consider the country to be on the right track vs. those who do not share this view are divided almost equally—clearly displaying a dissonance between evaluation of institutional performance and the president.

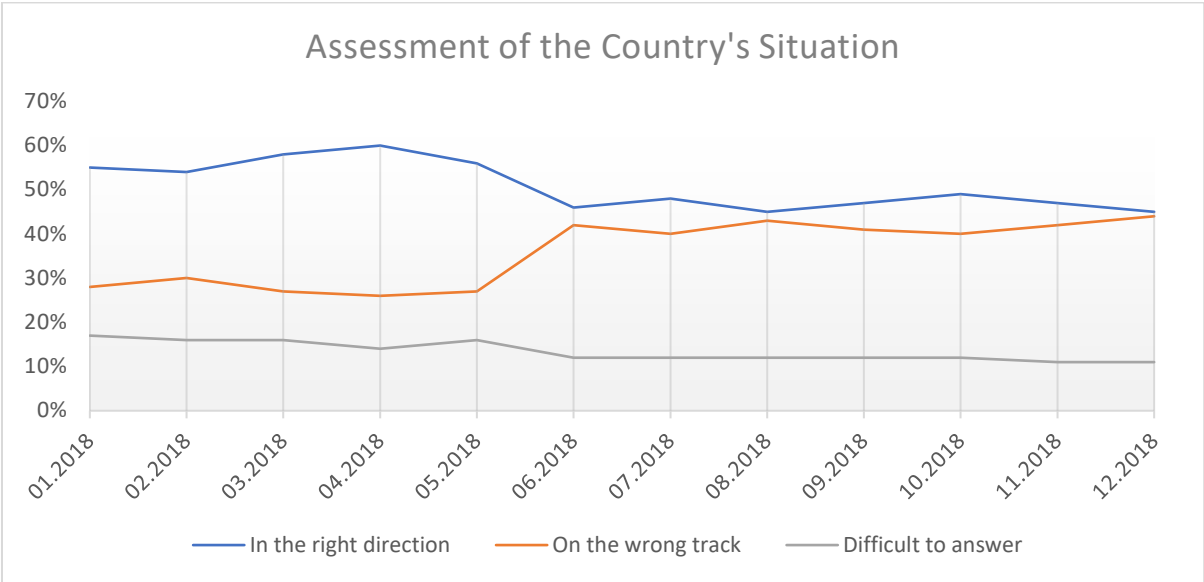


Figure 13: Assessment of the country's situation in % of those who answered the country is 'Moving in the right direction' or 'Is on the wrong track' in 2018 (Levada-Center 2020)

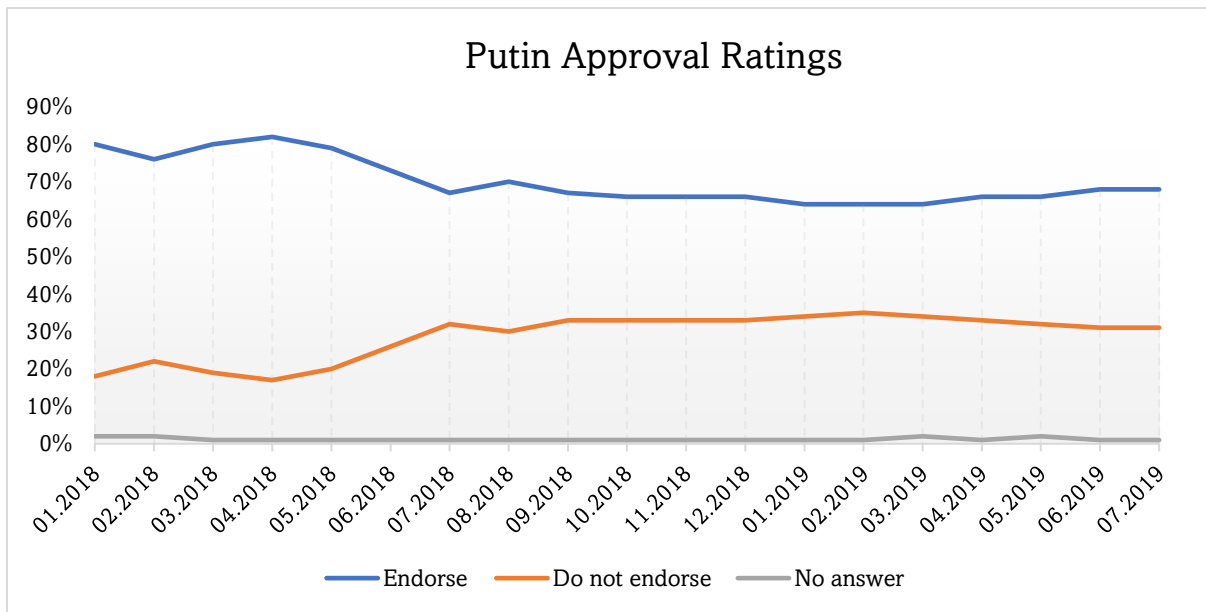


Figure 14: Approval ratings of Russian president Vladimir Putin from 2018 - 2019 in % (Levada-Center 2023)

At the same time, Vladimir Putin had the chance to use the Russian-hosted FIFA World Cup 2018 as an advertising campaign to legitimize his popularity and cement his entitlement to power. The event took place from June 14th until July 14th. From July 11th—13th. During that time, the State University in Saint Petersburg—where a large chunk of the matches took place—conducted 1000 phone interviews, asking citizens their opinion on the World Cup. When asked how they felt Russia performed as a host, 67% of respondents said it was great and everything was organized well. 22% still thought it was good, although admitting that there were minor problems. In total, a staggering 89 % were overall happy with Russia’s performance. Those who had an overall bad impression comprised 3%, while the percentage of respondents who found the question difficult to answer was 8% (How do you evaluate Russia’s role as a host country for the 2018 championship?, SPGU 2018, author’s translation). The event had clearly been a success among the population.

Incidentally, the pension reform was announced the day the World Cup started. Given the timing and the fact that he caved to the protestors at least partially, it is plausible to assume that Putin chose this moment intentionally to prevent his approval ratings from taking too much of a dive. Likewise, the annexation of Crimea happened during a time where his popularity was mediocre—and right after the Olympic games, which were hosted with great fanfare in Sochi. This finding is important because it suggests that even though his ruling style is decidedly authoritarian, Vladimir Putin does care about the public opinion of him. Considering the back and forth of crypto legislation over the past decade that I have traced earlier, it could mean that public opinion was one factor that contributed to digital currencies not having been outlawed (yet).

In terms of crypto queries, the search for cryptocurrency-related topics reached peak popularity in January 2018 and then steadily declined until early April, where the curve went back up to 41 % of search interest. After that, it slowly decreased for the rest of the year. The global trend curve, the US one, and the graph from Kazakhstan all look very similar to the Russian one, although the latter displays an uptick in search queries in the first week of April. On a political level, this parallels a court ruling that demanded the blockage of the messenger platform Telegram in Russia. The social significance of this is demonstrated by a rally held in Moscow on April 30th 2018 in favor of unblocking the messenger that was attended by approx. 13,000 participants. On top of that, Putin’s approval ratings began to decline in April along with the overall positive assessment of the country’s trajectory.

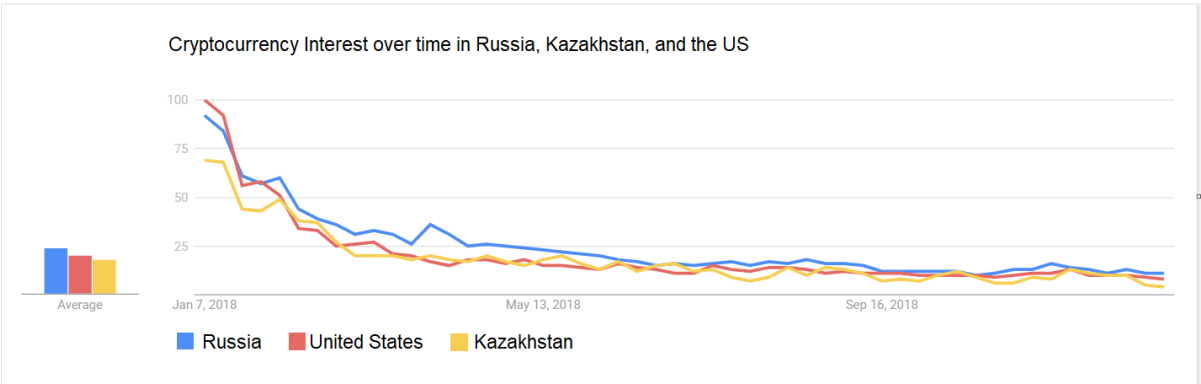


Figure 15: Daily search interest for the topic of cryptocurrency in Google in Russia, Kazakhstan, and the United States in 2018 (Google Trends 2018)

Throughout the year, Bitcoin trading volume reached three lows that stand out: in January, early April and early June 2018. The first one was likely caused due to a global crypto crash. The price of Bitcoin began to tank after a great sell-out that followed an unprecedented increase in the currency’s value in 2017. However, for April and June, there were no global crashes that would justify these valleys. Looking at the euro-ruble exchange rate development reveals that in early April 2018, the ruble was at one of its annual low points at roundabout 1-80, caused by new sanctions from the US against Russian businessmen and their companies for meddling in the 2016 US presidential elections (Baker 2018). At the same time, the daily trading volume for Bitcoin recovered from a drop that lasted from April 1st to April 2nd. Dissatisfaction with the government and a volatile ruble fall together in early April, making it hard to differentiate between trade caused by unhappiness with the government and investments as a result of a weakening economy.

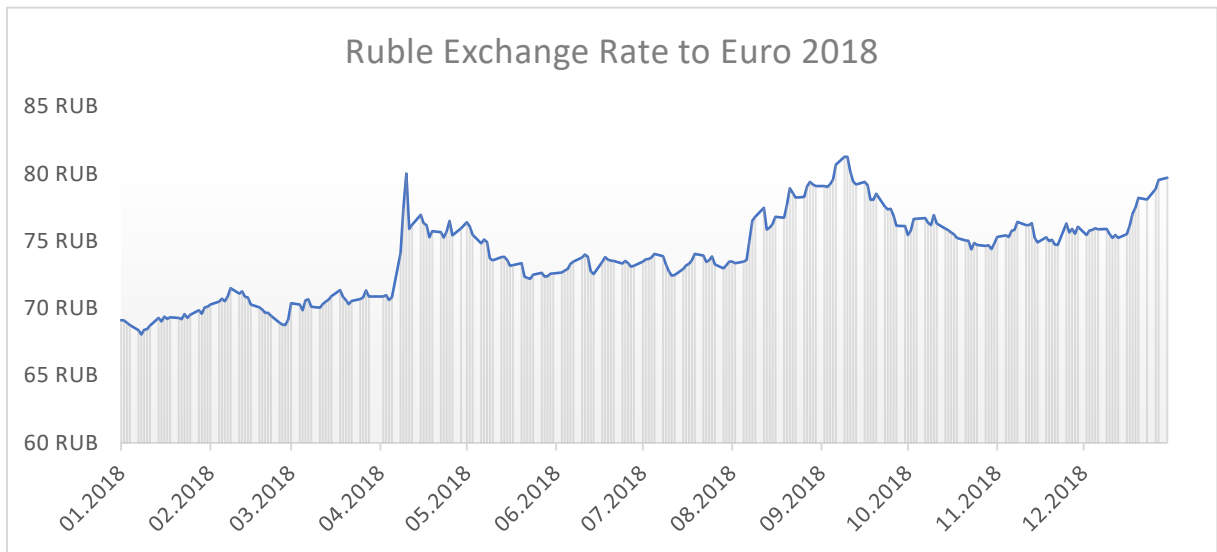


Figure 16: Monthly euro to ruble exchange rate 2018 (European Central Bank 2022)

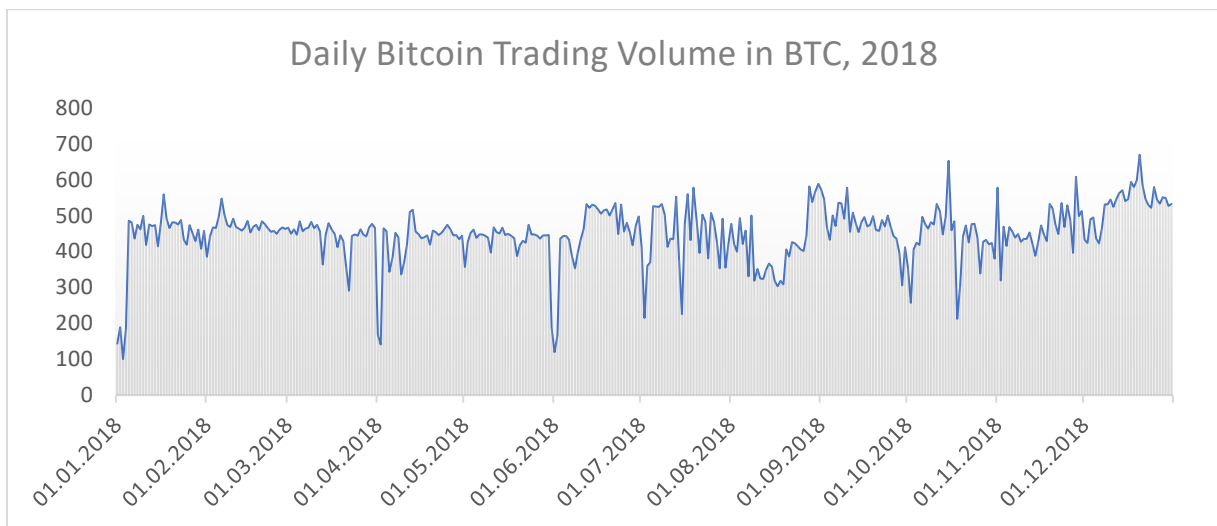


Figure 17: Daily Bitcoin 24h trading volume against the ruble in BTC in 2018 (Coin Market Cap 2023)

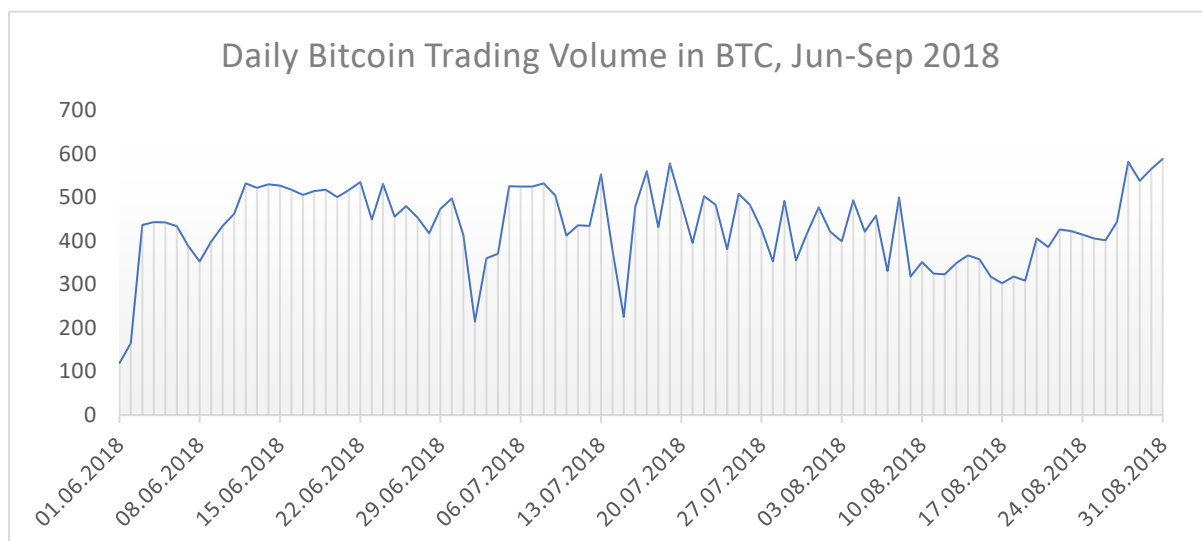


Figure 18: Daily Bitcoin 24h trading volume against the ruble in BTC from June to September 2018 (Coin Market Cap 2023)

The trading volume crash in June cannot be explained through exchange rate fluctuations and is not reflected in Google Trends. The pension reform announcement and beginning of the FIFA World Cup were not until mid-June and thus could not have influenced trading volume at the start of the month. On top of that, a closer look at trading in June uncovers that the announcements did not influence on consumption behavior in any way: while the government's approval ratings decreased sharply between May and July as a result of the proposed new law, the tumultuous political situation does not display any links to developments in the Russian cryptocurrency market. Neither did the positive attitude during the sports event impact consumption.

Until August 2018, the majority of Russians viewed the economic situation in the country as at least satisfactory (In your opinion, is the economic situation in Russia at the moment good, satisfactory or bad? FOM 2019, author's translation). However, this opinion had flipped between then and the new year, where 45% of respondents considered the situation to be bad versus 42% who found it acceptable. Still, the growing concern about Russia's economy did not cause a dent in trading volume.

In conclusion, the pension reform did not seem to influence ruble trade, but global sell-outs of cryptocurrency and a weak ruble did, yet again hinting at crypto's status as an investment vehicle. As in 2014, economic factors such as ruble depreciation and economic sanctions turned out to be more relevant than (dis-)satisfaction with the government's courses of action. In 2018, Bitcoin had already cemented its place as an investment option for financial portfolios. One reason why the Google Trends curves in 2018 look so similar across various countries while the one for 2014 looks particularly rocky in the Russian case could be different stages of

adoption. As cryptocurrencies become established in the market, search queries become less erratic as the overall need for simple explanations without investment intentions decreases.

6. Discussion and Concluding Remarks

The lack of trust towards the Russian state results in its citizens feeling less responsible towards formal institutions. While most Russians would say that they condemn corruption (Levada-Center 2017), many of them still believe it is okay to avoid taxes (Levada-Center 2015). In an effort to counteract, the state drives up regulation (Spicer, Okhmatovskiy, 2015), deterring investors through administrative corruption and abuse by the agencies who are supposed to guard the system (Krylova 2018). This process causes economic entrepreneurs to turn their backs to conventional Russian banks and incentivizes them to seek investment opportunities elsewhere. Additionally, the instable political situation in combination with the weak banking system in Russia facilitates large-scale capital flight (Loungani, Mauro 2001): Bloomberg estimates that about \$750 billion have been offshored over the past 25 years (Johnson 2019). The problem is further exacerbated by the endorsement of Russian money abroad, which gives the country at least some geopolitical leverage its leadership would not want to let go of (Büdenbender, Golubchikov 2017).

In recent years, cryptocurrencies have developed into an attractive alternative, gaining global attention as high-risk high-reward assets. Their decentralized nature promises circumvention of traditional financial agencies and advisors. But how is digital money embedded in the Russian economy? The journey so far has been cryptic. The Ministry of Finance and the Central Bank cannot decide whether to ban or regulate it, and if the latter, how. However, that does not mean that Russian officials do not want to jump on the wagon, as recent developments to legalize cryptocurrency mining have shown.

The fluctuating legal situation does not stop enthusiasts from pouring money into digital currencies. What is more, the introduction of the cryptoruble idea suggests that the Russian government understands the potential of the new technology and plans to leverage it—on its own terms. However, it is questionable whether a centrally issued digital token would be successful, given that it does not address one of the main issues that compels consumers to resort to Bitcoin: distrust. On top of that, if the ruble's digital version is pegged to its fiat equivalent, it fails to address problems of volatility and vulnerability that materialize as a result of dependencies on oil prices and the world market.

At first glance, the idea that purchasing crypto is somehow linked to political decisions appears to be only somewhat true. On the one hand, foreign policy seems to increase Bitcoin transaction volumes if it leads to national economic turmoil and/or international sanctions, as seen in 2014 and, most recently, 2022. On the other hand, political dissatisfaction without the

global economic component, for example during the pension reforms in 2018, does not ostensibly inspire consumers to invest in digital currencies. Because of this, it is impossible to make a generalized statement that fluctuations in institutional (dis)trust and crypto consumption behavior are correlated. Bitcoin-ruble trade increased more reliably when the ruble devaluated than when the political climate was particularly positive or negative. Moreover, it is important to note that disentangling the impact of specific events is tricky. For example, the bankruptcy of exchange platform Mt. Gox heavily influenced the market in early 2014, as did the cryptocurrency crash in early January 2018.

One point that has not been mentioned in this thesis so far is Russia's affinity for informational technology. In 2020, 5% of Russian university graduates studied IT compared to only 3.8% in Europe in the same year (The Moscow Times 2022). Russia offers lots of specialized education in the sciences but usually lacks payment that is globally competitive (Yaffa 2021). This equips young entrepreneurs with the technical ability yet another reason to circumvent the state and opt for higher profit activities such as mining. The practice becomes especially viable due to its gray legal status and cheap electricity bills in the country. Lastly, the legacy of informality continues to live on in post-soviet Russia. Many employees work without legal contracts and handing out salaries "in an envelope" is still commonplace. If a person is willing to participate in such a practice, the moral leap to mining digital currencies is possibly smaller than in countries without it. These structural factors make it hardly surprising that Russia is continually ranked in the top 5 countries for Bitcoin mining (Cambridge Centre for Alternative Finance 2022). However, its share of the mining cake is marginal compared to China's⁹, the US', or Kazakhstan's.

All in all, my findings suggest strong evidence that the cryptocurrency market in Russia is mainly backed by large-scale investors, possibly big businesses. They have low trust in institutions but high financial literacy. Given that adoption is not as widespread among the population, the legislation is unclear, and the infrastructure is questionable, but transaction output is still high, the assumption that Russia's share of the hype is driven by a wealthy few and/or their companies seems most compelling.

The individual components discussed in this thesis—distrust in institutions, an uncondusive financial environment, high financial literacy among those who have money—created the fruitful soil on which crypto as a new phenomenon fell. However, it is crucial to remember that crypto is not just a financial asset, it is also a global trend. After all, it swiftly swept across the globe: according to a report on global market size by crypto.com, by June 2021, crypto had attracted 221 million consumers worldwide. The wallet downloads and participation in online groups suggest a general curiosity towards digital currencies in large parts of the Russian population as well. But given the fact that many Russians are shy to invest in combination with

⁹ Although China's mining activity has been shrinking especially since 2021 due to new prohibitional laws.

the low percentage of adoption, it seems like many of those who display interest do not follow through with action. Herding behavior is an essential keyword here that further research needs to elaborate on. The picture of any country's cryptocurrency journey would be incomplete without taking the power of peer pressure into account. Certainly, its ubiquitous coverage in (social) media has had a significant effect on adoption. How much retention can be expected from those who invested because of the hype? What percentage of the market do they occupy? Questions like these can be answered by conducting interviews on individual consumption, possibly similar to those of Stix (2019).

In this context, it would also be thrilling to investigate the influence of gender. Risk-friendly males are more likely to buy cryptocurrency (cf Fujiki 2021, Stix 2019). Men are also more likely to say that they consider Bitcoin a viable saving option than women (Data Insight 2020). However, there are studies (Cwynar 2021) that support that women in Russia have, on average, higher financial literacy, possibly due to soviet socialization. Additionally, Russia's demographics still display a slant towards a more female-dominated society. Thus, considering especially the aspect of financial literacy it seems important to investigate the role of women. Yet, there are other questions surrounding gender and crypto that need to be explored, such as access to money, readiness for risk, and opportunity.

One impactful shortcoming is the Google Trends analysis, which did not yield particularly useful results, especially not for 2014. I expected it to display potential consumption behavior. However, it did not always precede actual purchasing. Reasons for this might include VPN usage that obscures traffic or a preference for Yandex' search engine. Still, its erratic behavior led me to further investigate certain dates and time spans, which sometimes opened possible correlations I would have missed otherwise.

For some, crypto might be a libertarian ideology. It is undeniable that its followers idolize its possibilities: the financial market regulating itself without intermediaries and centralized authorities. As everything, the story has its pro and contra points. On the one hand, a financial system with collective responsibility gives rise to new socio-political designs. On the other, crypto has proven to be easily manipulatable. Its complexity unveils its exclusive character. It is certain that the market for cryptocurrency will transform again and give grounds to further investigation.

The research in this thesis has shown potential correlations between cryptocurrency investments and economic activity. It has proven that widespread distrust towards conventional banking systems in Russia leads large-scale investors to seek out cryptocurrency as an alternative option for capital movement and allocation. To be sure, it would be vital to aggregate more data and regress it properly. What is certain, however, is that the distrust in Russia's banking sector contributed to the development in the cryptocurrency sphere. In the end, the government needs to improve national banking conditions to combat prevailing

distrust, but it also needs to address the problem of financial literacy. Russia has to become a more attractive place for investments, which also means eradicating corruption. Only then can the ruling elite leverage the power of cryptocurrency.

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