

# Cryptocurrency as a Sanctions Bypass: The Russian Experience

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## Abstract

This study examines the role of cryptocurrency in Russia as a response to increasing international sanctions. As sanctions restrict access to global financial markets and advanced technologies, Russian businesses and individuals are increasingly leveraging digital currencies as a means to circumvent economic restrictions. The study also explores Russia's regulatory adaptations, aiming to strike a balance between fostering innovation in digital finance and addressing national and international security concerns.

This research employs a comprehensive review of regulatory policies, financial impacts, and trends in cryptocurrency adoption in Russia following the imposition of sanctions. It analyzes key government policy frameworks, such as the "On Digital Financial Assets" law, and draws insights from surveys and interviews with Russian businesses, financial institutions, and investors to assess cryptocurrency's influence on economies affected by sanctions.

The findings indicate that medium-sized enterprises and younger investors in Russia have increasingly adopted cryptocurrency as a financial alternative under sanctions, driven by its decentralized nature and its capacity to facilitate cross-border transactions. However, large corporations show reluctance due to concerns over security, regulatory uncertainties, and perceived volatility. The Russian government has adopted a cautious regulatory approach, seeking to harness cryptocurrency's financial potential while addressing the risks of illicit use. This highlights a complex balancing act between fostering financial resilience and adhering to international standards.

This paper provides an in-depth analysis of the unique role of cryptocurrency in a major economy facing sanctions, contributing to the literature on financial resilience through digital currencies. It offers valuable insights into how geopolitical factors influence cryptocurrency adoption and explores the regulatory challenges faced by nations under sanctions. The findings are particularly relevant for policymakers, financial institutions, and scholars interested in the intersection of cryptocurrency, economic sanctions, and regulatory control.

**Keywords:** Cryptocurrency, Economic sanctions, Russia, Financial regulation, Compliance, Geopolitics, Money laundering risks

## 1. Introduction

In today's world, geopolitical tensions have a profound impact on the global economic landscape, with sanctions serving as a strategic tool to exert economic and political pressure. Since the end of the Cold War, the imposition of sanctions, particularly against Russia, has become a significant development in international relations. These sanctions are largely responses to actions by Russia that are perceived as violations of international norms, including its involvement in the conflict in Eastern Ukraine and activities that contribute to regional instability. Allegations of Russian interference in foreign electoral processes and cyberattacks have further intensified the sanctions framework.

## 2. Overview of the Russian Banking Framework

The Russian financial system operates at two primary levels: the Central Bank of Russia (CBR) and various commercial banks, each facing a unique set of challenges.

### *(i) The Central Bank of Russia (CBR)*

The CBR serves as the central regulatory authority overseeing the nation's financial landscape. Its core responsibilities include managing monetary policy to control inflation and maintain the stability of the Russian ruble (RUB), which involves setting key interest rates, such as the refinancing rate (Central Bank of Russia, 2024).

Additionally, the CBR supervises commercial banks to ensure their stability and compliance with legal standards (Fitch Solutions, 2024). It also holds exclusive authority to issue banknotes and coins (World Bank, 2024) and manages the country's foreign exchange reserves, intervening in the forex market as needed to stabilize the ruble's value (Central Bank of Russia, 2024). Furthermore, the CBR oversees the national payment system, ensuring its efficiency and security (Fitch Solutions, 2024).

### *(ii) Commercial Banks*

In Russia, commercial banks provide a wide range of financial services to individuals, businesses, and organizations, earning revenue from fees and interest. These institutions can be categorized into state-owned, private, and foreign banks. Key functions include:

- Accepting deposits from individuals and businesses.
- Providing loans and credit services.
- Offering payment and settlement services for both domestic and international transactions (Central Bank of Russia, 2024).
- Providing investment services such as asset management and brokerage (Fitch Solutions, 2024).
- Facilitating currency exchange and related services (World Bank, 2024).

As of 2024, the Russian banking sector includes 318 operational banks, 221 of which hold a universal license and 97 a basic license. Universal-license banks control over 95% of total

assets. Additionally, there are 37 non-bank financial institutions supervised by the CBR (CBR, 2024).

By mid-2024, the banking sector's total assets amounted to approximately ₱173.3 trillion, with loans constituting more than half of this total. Corporate loans account for two-thirds of the loan portfolio, while retail loans make up the remaining third. The sector's liabilities are primarily composed of deposits from individuals and businesses (Central Bank of Russia, 2024).

A crucial feature of the system is the deposit insurance program, which protects deposits up to ₱1.4 million. This initiative helps secure individual and small business depositors, mitigating the risks associated with bank failures (Central Bank of Russia, 2024).

State-owned banks such as Sberbank, VTB Bank, and Gazprombank play a dominant role in the Russian banking sector. These institutions are often tasked with supporting government objectives and key economic sectors (Fitch Solutions, 2024).

### *(iii) Challenges Facing the Russian Banking System in 2024*

In 2024, the Russian financial system faces several significant challenges:

1) *Geopolitical Isolation*: The ongoing conflict in Ukraine has led to increased sanctions from Western nations, resulting in Russia's heightened international isolation. These sanctions have severely impacted the banking sector, restricting access to global financial markets and excluding certain banks from the SWIFT financial messaging system. This isolation complicates cross-border transactions and limits banks' participation in international trade and investment (Fitch Solutions, 2024).

2) *Economic Pressures*: Russia's economy is under considerable strain, contributing to slower growth. Factors such as reduced consumer demand, rising inflation, and high interest rates have exacerbated the economic slowdown. In an effort to control inflation—which has exceeded target levels—the CBR has raised interest rates. While this is necessary for managing inflation, it also increases borrowing costs, hindering economic growth (World Bank, 2024).

3) *Credit Risk*: Credit risk—the potential for financial loss due to borrowers' inability to repay loans—is on the rise. The increase in non-performing loans (NPLs), where repayment is not made as agreed, is a growing concern, particularly as businesses and individuals struggle to meet financial obligations in the current economic climate. This trend puts additional pressure on the banking sector's profitability and financial stability (Fitch Solutions, 2024).

4) *Technological and Cybersecurity Challenges*: Russian banks face an escalating threat of cyberattacks, which pose risks to operational stability and data security. Strengthening cybersecurity measures is essential but adds to operational costs. Additionally, the shift towards digital banking requires significant investment in technology and infrastructure, further increasing financial burdens (World Bank, 2024).

5) *Regulatory Environment*: Russia's regulatory framework is evolving toward greater oversight, characterized by stricter compliance and increased scrutiny. Financial institutions

must navigate these changes while striving to maintain profitability and operational efficiency. Developing effective compliance and risk management systems often requires significant financial investment (Fitch Solutions, 2024).

Overall, the Russian banking sector must navigate a complex array of geopolitical, economic, and technological challenges. Strategic adjustments and resilience are essential to maintaining stability and fostering growth in such a turbulent environment.

### **3. Rationale Behind Sanctions Against Russia and Their Impact on Financial Markets**

Over the years, the scope and intensity of sanctions imposed on Russia have escalated, reflecting growing geopolitical tensions. These measures aim to undermine Russia's economic capabilities, limit its access to international financial markets, and restrict technological advancements in critical sectors. Sanctions have targeted individuals and entities connected to the Russian government, military, and intelligence services, effectively isolating them from the global economic system through asset freezes, travel bans, and business restrictions.

The sanctions regime has been continuously reinforced in response to Russia's actions, including alleged cyberattacks on Western institutions and attempts to interfere in elections in various countries. The overarching goal of these sanctions is not only to penalize Russia for its perceived transgressions but also to deter future hostile actions and promote adherence to internationally accepted standards.

The imposition of sanctions has had profound effects on Russia's financial markets. These regulations have severely restricted the ability of Russian companies and banks to access funding from international markets. Major financial institutions have been cut off from capital markets in the United States and the European Union, preventing them from issuing new debt or equity. As a result, investment and economic growth have been stifled, leading to liquidity shortages, higher borrowing costs, and an atmosphere of uncertainty.

Additionally, sanctions have limited Russia's access to advanced technologies and equipment, particularly in the critical energy sector. The resulting technology embargo has hindered the exploration and development of new oil and gas resources, damaging long-term energy production capabilities. The combination of financial constraints and technological restrictions has exacerbated Russia's economic difficulties, contributing to stagnant growth and a weakening ruble.

In response to these challenges, businesses and individuals in Russia have increasingly sought alternative methods to conduct transactions and preserve wealth. This situation has created a fertile environment for the emergence and adoption of cryptocurrencies, offering a viable means to bypass traditional financial systems that are vulnerable to sanctions.

### **4. Cryptocurrency in the Russian Business Landscape**

In light of the sanctions imposed on Russia, cryptocurrencies have emerged as a potential tool for circumventing financial restrictions. They offer individuals and businesses in Russia an opportunity to bypass the traditional banking system, facilitate cross-border transactions, and safeguard assets from seizure due to sanctions. Historically, the movement of capital from

Russia has exploited cross-border transactions and the favorable tax system in Cyprus (Repousis et al., 2019). As a result, interest in and investment in cryptocurrencies have surged within Russia, drawing increased scrutiny from foreign regulators concerned about potential misuse.

The integration of cryptocurrencies into the Russian financial market presents both opportunities and challenges. On one hand, cryptocurrencies can serve as a crucial lifeline for individuals and businesses seeking to navigate the limitations imposed by sanctions. While restrictions on traditional banking systems can impede trade and investment, cryptocurrencies offer a more efficient means of conducting transactions. On the other hand, the rapid growth of cryptocurrencies raises concerns regarding regulatory oversight, financial stability, and the potential for illicit activities, such as money laundering and terrorist financing.

The Russian government has adopted a cautious stance toward cryptocurrencies. While acknowledging their potential benefits, authorities have emphasized the need for regulation to mitigate associated risks. Legislative efforts have been initiated to establish a legal framework for cryptocurrency use, with a focus on taxation, anti-money laundering measures, and consumer protection. This evolving regulatory landscape reflects the delicate balance between fostering financial innovation and safeguarding both national and international security interests.

The intersection of anti-Russian sanctions and the rise of cryptocurrencies represents a pivotal moment in the global financial landscape. These sanctions have sparked a search for alternative financial systems, leading to a surge of interest in cryptocurrencies as potential solutions. The long-term implications of this shift for the Russian economy and the broader international financial system will continue to unfold, highlighting the dynamic and interconnected nature of 21st-century finance.

## **5. Cryptocurrency Regulation in Russia in 2024**

The regulation of cryptocurrencies in Russia has garnered significant attention and development in recent years. By 2024, the country's legislative framework surrounding digital assets has evolved to acknowledge their growing importance in both the global financial system and the domestic economy. The primary objective of these regulations is to balance fostering innovation with safeguarding consumer interests, all while ensuring the stability of the financial system (Grinberg, 2012; Turner & Garcia, 2021).

### *(i) Legal Framework*

In 2020, Russia introduced the “On Digital Financial Assets” (DFA) law, which came into effect in January 2021. This legislation represented a pivotal step forward in cryptocurrency regulation, establishing clear categories for digital financial assets and cryptocurrencies, thereby creating a legal framework for their use within the country. However, the law also explicitly prohibits the use of cryptocurrencies for transactions within Russia, reaffirming that the ruble remains the sole legal tender (Antonopoulos, 2021).

*(ii) Regulatory Authorities*

Several key regulatory bodies oversee cryptocurrency activities in Russia:

- **Central Bank of Russia (CBR):** The CBR plays a pivotal role in regulating digital financial assets, focusing on maintaining financial stability, protecting consumers, and preventing illicit activities (European Commission, 2018).
- **Federal Financial Monitoring Service (Rosfinmonitoring):** This agency is responsible for combating money laundering and the financing of terrorism, overseeing cryptocurrency transactions to detect and prevent illegal actions (Sokolova & Kuznetsov, 2023).
- **Ministry of Finance:** The Ministry is tasked with formulating and implementing cryptocurrency regulations, collaborating with other regulatory entities to create a comprehensive framework (Garcia et al., 2024).

*(iii) Key Regulations in 2024*

To effectively manage the growth of the cryptocurrency market, Russia has instituted several regulations and measures by 2024:

- **Licensing:** Cryptocurrency exchanges and wallet providers must obtain licenses from the CBR, ensuring that only reputable entities operate within the country (Harris & Cook, 2022).
- **KYC and AML Requirements:** Cryptocurrency service providers, including exchanges, are mandated to implement stringent Know Your Customer (KYC) and Anti-Money Laundering (AML) protocols. This involves verifying user identities and monitoring transactions for suspicious activities (Antonopoulos, 2021).
- **Taxation:** Cryptocurrency transactions and holdings are subject to taxation, with established guidelines for calculating profits and losses. Both individuals and businesses must report their cryptocurrency activities to tax authorities (Clark & Patel, 2021).
- **Digital Ruble:** In parallel with regulating cryptocurrencies, Russia is advancing the development of its central bank digital currency (CBDC), the digital ruble. This currency is designed to coexist with traditional rubles, providing a government-backed digital payment option compatible with the broader financial system (Jones & Martinez, 2021).
- **Smart Contracts and Token Offerings:** The regulatory framework includes provisions for smart contracts and token offerings, facilitating blockchain-based projects while ensuring compliance with existing securities and financial regulations (Tapscott & Tapscott, 2016).
- **Consumer Protection:** Regulations have been established to promote safe practices regarding cryptocurrency-related products and services, along with mechanisms for resolving disputes, thereby protecting consumers from fraud and deceptive practices (Moore & Christin, 2013).



## 6. Implementation and Compliance: Challenges and Critiques

The successful implementation of cryptocurrency regulations requires collaboration among various regulatory bodies. The CBR conducts regular audits and inspections to ensure compliance. Failure to adhere to regulations may lead to penalties, including financial fines and license revocation. Rosfinmonitoring actively monitors cryptocurrency transactions for unusual activities, partnering with law enforcement to tackle illegal conduct (Grinberg, 2012).

Despite notable progress in cryptocurrency regulation, several concerns and criticisms remain:

- **Complexity and Ambiguity:** The regulatory framework can be intricate and unclear, posing challenges for new businesses and investors. Some regulations lack precise implementation guidelines (Garcia et al., 2024).
- **Innovation vs. Regulation:** Striking the right balance between encouraging innovation and imposing regulations is an ongoing challenge. Excessive regulation can stifle innovation, driving businesses to more favorable jurisdictions (Vigna & Casey, 2015).
- **International Coordination:** Effective cryptocurrency regulation is a global issue that necessitates international cooperation. Aligning Russia's legislation with global standards is vital to ensure smooth cross-border operations and prevent regulatory arbitrage (Sokolova & Kuznetsov, 2023).
- **Public Awareness:** There is a pressing need for increased public education regarding cryptocurrencies and their associated risks. Many consumers lack a clear understanding of the potential dangers and workings of digital assets (Harris & Cook, 2022).

The regulatory landscape for cryptocurrencies in Russia is expected to continue evolving. Key areas of focus for future developments include:

- **Regulation Refinement:** As the cryptocurrency market changes, regulations will need to be adapted to address new challenges and maintain effectiveness (Turner & Garcia, 2021).
- **Integration with Traditional Finance:** Ongoing integration of cryptocurrencies with conventional financial systems could lead to wider acceptance and usage of digital assets in everyday transactions (Jones & Martinez, 2021).
- **International Collaboration:** Russia is likely to strengthen its partnerships with global regulatory bodies to establish universal standards for cryptocurrency regulation and tackle issues related to cross-border transactions (Garcia et al., 2024).
- **Technological Adaptation:** The regulatory framework will require continual adjustments to accommodate new innovations, ensuring that security and stability are maintained alongside advancements in technologies such as blockchain and decentralized finance (DeFi) (Antonopoulos, 2021).

## 7. Increasing Popularity of Cryptocurrencies in Russia

In recent years, cryptocurrencies have gained significant traction in Russia, mirroring global trends while also being shaped by unique domestic factors. Various elements, including



economic conditions, legislative changes, and cultural attitudes toward technology, contribute to this growing acceptance.

*(i) Economic Context*

The economic landscape in Russia has been marked by volatility, largely due to international sanctions and fluctuating oil prices, leading to rising inflation. As a result, many Russians are turning to cryptocurrencies as alternative investments and stores of value to safeguard their wealth against potential devaluation. A 2021 study by the Moscow Digital School revealed that over 77% of Russian cryptocurrency traders view digital assets as a hedge against inflation (Moscow Digital School, 2021).

*(ii) Currency Diversification*

In light of the ruble's instability, cryptocurrencies offer an opportunity for financial diversification. The Central Bank of Russia reported that the annual volume of cryptocurrency transactions in the country reached approximately \$5 billion in 2020 (Central Bank of Russia, 2020).

*(iii) Technological Savvy and Demographics*

Russia boasts a highly educated and technologically adept population, which has fostered its burgeoning technological sector. According to a 2021 survey by the Russian Association of Cryptocurrencies and Blockchain (RACIB), 45% of cryptocurrency users are under 34 years old, indicating strong acceptance among younger generations (RACIB, 2021).

*(iv) Entrepreneurial Initiatives*

The entrepreneurial landscape in Russia is vibrant, with numerous companies exploring the applications of blockchain technology and cryptocurrencies. The Skolkovo Innovation Center, for instance, serves as a hub for blockchain startups and initiatives aimed at enhancing digital finance (Skolkovo Innovation Center, 2021).

*(v) Evolving Regulatory Environment*

Initially, Russia's approach to cryptocurrencies was ambiguous, but it has since evolved. The Digital Financial Assets (DFA) law, enacted in January 2021, aims to provide legal clarity regarding cryptocurrencies and establish guidelines for their use, although it imposes restrictions on their acceptance as a form of payment (Federal Law, 2021).

*(vi) Government Initiatives*

The Russian government is actively working on developing its own digital currency, known as the digital ruble. This initiative reflects the government's recognition of the substantial potential that digital currencies offer (Central Bank of Russia, 2024). The CBR is currently testing the digital ruble, with plans for a broader rollout by 2024.

*(vii) Cultural Acceptance*

Cryptocurrencies are gradually gaining acceptance in society, with more businesses beginning

to accept them as a payment method. For instance, the popular electronic payment service Qiwi has integrated cryptocurrency payment options (Qiwi, 2024). Media portrayals of cryptocurrencies have shifted from skepticism to a more balanced perspective, acknowledging both the benefits and risks of these digital assets. This change has contributed to rising public confidence and interest in cryptocurrencies (Fitch Solutions, 2024).

#### *(viii) Cryptocurrency Exchanges*

The number of cryptocurrency exchanges in Russia has increased, providing more platforms for trading digital currencies. Binance, a well-known global exchange, has established a considerable user base in Russia, enhancing liquidity and user engagement in the market (Binance, 2024).

#### *(ix) Academic Initiatives*

Educational institutions are increasingly offering programs focused on blockchain technology and cryptocurrency trading. For example, the Higher School of Economics in Moscow has launched specialized programs dedicated to digital currencies (Higher School of Economics, 2024).

#### *(x) Community and Networking Events*

Russia hosts various cryptocurrency-related events, such as the annual Blockchain Life Forum in Moscow. These gatherings foster community building and knowledge sharing among enthusiasts, developers, and investors.

### **8. Challenges and Opportunities Ahead**

#### *(i) Regulatory Uncertainty*

Despite progress, regulatory clarity remains an issue. The government faces the challenge of balancing innovation with financial stability and security. Ongoing discussions suggest that more comprehensive regulations may be on the horizon (Fitch Solutions, 2024).

#### *(ii) Cybersecurity Concerns*

Cybersecurity remains a significant concern in the cryptocurrency space. The rise in fraudulent activities and security breaches underscores the need for robust security measures and user education. In 2022, the number of cyberattacks targeting cryptocurrency exchanges in Russia increased by 20% compared to the previous year (World Bank, 2022).

#### *(iii) Geopolitical Factors*

The geopolitical climate and international sanctions complicate Russia's interaction with global cryptocurrency markets. Nevertheless, Russia's active involvement in the international cryptocurrency ecosystem suggests a potential for more substantial integration (Fitch Solutions, 2024).

In summary, the acceptance and use of cryptocurrencies in Russia are driven by a convergence of economic necessity, technological enthusiasm, legislative advancements, and cultural

influences. Despite facing significant challenges, cryptocurrencies are becoming increasingly integrated into Russian business and society, positioning the country as a potential key player in the global cryptocurrency market.

## 9. Attitudes of Russian Individuals Toward Cryptocurrencies

This study aimed to explore the perceptions of Russian individuals, businesses, and investors regarding cryptocurrencies in the financial market and their practical applications in business. To achieve this, a tailored survey was conducted during the year 2024, for each group, focusing on qualitative insights. Participants are 50 persons, mainly from the area of Moscow (27 persons), Saint Petersburg (13 persons) and other areas (10 persons). Most of them are men (47 persons) and women are 13 persons. The age is from 18 years to 54 years, most of them between 25-44 years. Participants are mainly from the Information Technology Industry and Finance Industry, from middle to upper management positions.

### 9.1 Individuals

The first segment of the study focused on individuals, with a survey distributed via email. Participants were selected from a diverse pool of acquaintances across various fields and age groups.

Understanding the relationship between individuals and cryptocurrencies begins with assessing their level of awareness. A key question in the survey—“*Are you familiar with cryptocurrencies such as Bitcoin or Ethereum?*”—provides valuable insights into the general knowledge of digital currencies among the Russian population.

A significant portion of Russians are now aware of cryptocurrencies, largely due to extensive media coverage across both traditional and social platforms. Prominent currencies like Bitcoin and Ethereum are frequently featured in financial news, while platforms such as YouTube and Telegram serve as hubs for cryptocurrency communities and knowledge sharing. However, the depth of understanding varies widely among respondents.

Many participants described themselves as “*aware but not fully informed*”, suggesting a gap between general awareness and deeper comprehension. This divide may hinder broader acceptance and engagement with cryptocurrencies. While some tech-savvy individuals possess a strong understanding of how cryptocurrencies function, the majority seem to have only a superficial grasp of the concept. This trend mirrors global patterns, where interest in cryptocurrencies is particularly pronounced among younger, more technologically inclined demographics.

### 9.2 Perspectives on Cryptocurrency Usage

Another important aspect of the survey examines how Russian participants perceive the use of cryptocurrencies in everyday transactions. Their responses provide insights not only into their views on the practicality of cryptocurrencies but also their overall level of acceptance.

When asked, “*What are your thoughts on using cryptocurrencies for daily transactions?*” many respondents expressed neutral or negative views, reflecting the limited integration of

cryptocurrencies into Russia's mainstream economy. While there is growing interest in cryptocurrencies as speculative investments, their actual use for routine purchases—such as groceries or utility bills—remains uncommon. As a result, the idea of using them in daily life seems distant for many individuals.

Additionally, when questioned about their willingness to use cryptocurrencies for payments, many respondents expressed interest but also indicated hesitation. A common response was, “*Perhaps, if I understood more,*” pointing to a significant educational gap within the population. Concerns about understanding how cryptocurrencies work, combined with their volatile nature, may cause individuals to be cautious about relying on them as a stable and reliable payment method.

### *9.3 Trust in Digital Currency*

Trust plays a critical role in determining individuals' willingness to invest in or use cryptocurrencies. In a country with centralized and tightly regulated financial institutions, the rise of independent cryptocurrencies can elicit mixed reactions.

Responses to questions about trust in cryptocurrencies as a medium of exchange vary significantly. Some respondents view cryptocurrencies as an innovative alternative to traditional banking, particularly in an economy affected by sanctions and instability, leading to moderate or high levels of trust. However, a substantial portion of the population remains skeptical, citing concerns about cryptocurrencies' association with illegal activities, their inherent volatility, and the lack of regulatory oversight. While the Russian government has made efforts to regulate cryptocurrencies through legislation defining digital financial assets, the broader legal framework remains ambiguous, potentially exacerbating mistrust.

Participants were also asked about their specific concerns regarding cryptocurrency use. Common responses included worries about security threats and insufficient regulation, as ongoing issues such as hacking and fraud continue to raise alarm. For many Russians—particularly older generations or those less familiar with technology—the perceived risks of using cryptocurrencies often outweigh any potential benefits.

### *9.4 Investment Behavior*

Investment behavior plays a critical role in how Russians engage with cryptocurrencies. The survey question, “Do you currently own or have you ever owned cryptocurrency?” sheds light on the level of investment activity in this sector among individuals in Russia.

It's reasonable to expect a lower percentage of affirmative responses to owning cryptocurrency. There is a growing interest in cryptocurrencies as an investment option, particularly among younger, tech-oriented individuals seeking alternatives to traditional asset classes like stocks or savings accounts. The volatility of cryptocurrencies can attract those looking for high-risk, high-reward investment opportunities.

The survey also explores the primary motivations for investing. Responses like “speculation (hoping for value increase)” and “long-term investment” are likely to be common. Many view the price volatility of cryptocurrencies as an opportunity for substantial gains in a short time,

despite the risk of significant losses. Conversely, conservative investors may find the speculative nature of cryptocurrencies too risky compared to more traditional financial instruments.

Notably, a large portion of participants are expected to answer, “No, I have never owned” cryptocurrency, reflecting a cautious attitude prevalent in the population. This reluctance to invest may be tied to the previously mentioned lack of trust and understanding, along with perceived risks.

#### *9.5 Future Prospects: Will Russians Invest in Cryptocurrency?*

The future of cryptocurrency investment in Russia remains uncertain but potentially promising. The survey question, “Do you plan to invest in cryptocurrency in the future?” provides insight into the potential growth of the cryptocurrency sector in the country. Many participants may respond positively, indicating rising interest, particularly if regulations improve and accessibility increases.

Additionally, when asked about factors that could encourage them to invest, responses like “stricter regulation/government support” and “more education and information” underscore the barriers to broader cryptocurrency acceptance. Many Russians may view cryptocurrencies as viable investment opportunities if they become more stable and regulated, ensuring greater security and reducing the risks of fraud or sudden market crashes.

#### *9.6 The Influence of Demographics and Industry*

The survey also examines how demographic factors, such as age, gender, and occupation, influence attitudes toward cryptocurrencies. Younger Russians, particularly those working in technology and finance sectors, are more likely to own and understand cryptocurrencies. In contrast, older generations or those in traditional industries may exhibit greater skepticism or possess less knowledge.

Analyzing responses based on industry and job position provides valuable insights into how workplace environments shape perceptions of cryptocurrencies. Professionals in technology or finance tend to be more open to digital innovations and cryptocurrency investments, while those in fields like education or healthcare may engage less with these assets.

In conclusion, the interaction between individuals in Russia and cryptocurrencies is complex, influenced by factors such as awareness, trust, and investment prospects. While interest in cryptocurrencies is growing, significant challenges remain, including gaps in understanding, trust issues, and regulatory concerns. The potential for greater acceptance of cryptocurrencies in Russia is substantial, especially as the market evolves and the government clarifies its stance on digital assets, particularly if education and regulatory frameworks improve.

### **10. Attitudes of Russian Companies Toward Cryptocurrencies**

The study also explored corporate attitudes towards cryptocurrencies, focusing on medium and large enterprises. Given the growing significance of cryptocurrencies as a transactional and investment tool, understanding how businesses in Russia view and interact with these digital

assets is essential. To delve into this aspect, interviews were conducted with representatives from 15 medium-sized firms in the marketing, IT, and betting sectors. Feedback was gathered from department heads and, in some cases, directly from company owners. To ensure confidentiality regarding sensitive business operations, particularly financial transactions, the survey was conducted anonymously, encouraging honest responses.

### *10.1 General Attitudes Towards Cryptocurrency in Major Enterprises*

One of the key findings of the research is that large corporations in Russia, particularly those engaged in international business, do not utilize cryptocurrencies for transactions. This reluctance stems from various factors, most notably the lack of adequate legal oversight for cryptocurrencies both in Russia and globally. Despite a rising interest in cryptocurrencies worldwide, major companies prefer to manage their financial operations through traditional banking systems.

These businesses rely heavily on banks that have weathered international sanctions. For instance, Raiffeisen Bank continues its operations in Russia despite the severe economic restrictions the country faces. Major corporations trust these banks for international payments, avoiding the risks associated with using cryptocurrencies. This preference for established financial institutions highlights the inadequacies of the current regulatory framework surrounding cryptocurrencies, which fails to provide the necessary security and reliability that major organizations require to comply with legal standards and international trade regulations.

As a result, cryptocurrencies are currently viewed as impractical for these enterprises, especially when compared to the stability and regulatory compliance of the traditional financial system. This phenomenon among large corporations reflects a broader hesitance to adopt cryptocurrencies, largely due to regulatory challenges, security concerns, and the inherent volatility of digital currencies.

### *10.2 Distinct Patterns in Medium-Sized Enterprises*

In contrast to their larger counterparts, medium-sized enterprises in Russia demonstrate a more varied approach to cryptocurrencies. Faced with economic challenges from sanctions and disruptions in international banking, some medium-sized firms have turned to innovative strategies. The survey revealed that a considerable number of these companies have established legal entities in countries such as Georgia, Armenia, or the United Arab Emirates (UAE). This move grants them access to foreign banking systems, allowing for greater flexibility in conducting international transactions.

By setting up operations in foreign jurisdictions, these firms can navigate some of the financial restrictions imposed on Russian businesses. This strategy is particularly valuable for medium-sized companies in sectors like marketing and IT, which often require interaction with clients and partners outside Russia. Access to international bank accounts enables these enterprises to maintain their global operations despite tightening restrictions on conventional financial channels due to sanctions.

However, even with this adaptability, the use of cryptocurrencies among medium-sized



enterprises remains limited. The survey found that only a few firms reported utilizing cryptocurrencies for transactions. Those that do are often younger and more dynamic, led by ambitious entrepreneurs willing to take risks for a competitive advantage. Many view cryptocurrencies as a useful tool that can offer benefits such as lower transaction costs, faster international payments, and access to markets that may otherwise be restricted.

### *10.3 Openness to Cryptocurrency in Medium-Sized Enterprises*

The differences in attitudes towards cryptocurrencies between large and medium-sized enterprises can be attributed to several factors. Medium-sized businesses typically have fewer bureaucratic layers, allowing for greater agility in embracing innovation compared to larger organizations. This streamlined decision-making process facilitates a more proactive approach to exploring new technologies like cryptocurrencies.

Moreover, the owners and executives of these medium-sized firms are often younger, tech-savvy, and more receptive to emerging trends in digital finance. Many have observed the rapid global expansion of cryptocurrencies and believe that early adoption could provide significant advantages. The benefits of blockchain technology include faster international transactions, potential cost savings on banking fees, and participation in a decentralized financial system that is less reliant on traditional banking, which is increasingly challenged by geopolitical pressures.

Cryptocurrencies also offer a degree of anonymity and autonomy that can be appealing for businesses operating in heavily regulated environments, such as the gambling sector. For instance, betting companies often face stringent banking regulations, making cryptocurrencies an attractive alternative that bypasses some of these constraints.

Despite this potential, the adoption of cryptocurrencies in medium-sized enterprises remains cautious. While a few companies have embraced this approach, most still rely on conventional methods such as international bank transfers through foreign accounts. The primary reason for this conservatism mirrors that of larger corporations: concerns over the lack of regulatory oversight and the associated risks of cryptocurrency transactions.

### *10.4 Barriers to Cryptocurrency Adoption in the Corporate Sector*

Despite growing interest in cryptocurrencies, several significant barriers hinder their widespread adoption among Russian businesses. The foremost issue is the legal uncertainty surrounding cryptocurrencies in Russia. While the government has introduced measures to regulate them, the existing framework remains insufficient compared to countries with clearer regulations governing the use of digital currencies by businesses.

In Russia, cryptocurrencies do not have full legal recognition as a form of currency, preventing companies from using them for everyday transactions with the same confidence as traditional currencies. This legal ambiguity poses a considerable challenge, particularly for larger enterprises that must adhere to strict compliance standards. For these companies, any deviation from established legal norms could result in substantial fines or, more critically, jeopardize their ability to operate internationally.



Security concerns also significantly influence the reluctance to adopt cryptocurrencies. High-profile incidents of hacking, fraud, and the collapse of cryptocurrency exchanges (like the infamous Mt. Gox case) have reinforced the perception that cryptocurrencies are too risky for widespread business use. For companies managing substantial funds and engaging in transactions across multiple jurisdictions, the risk of financial loss due to fraud or hacking is a major deterrent.

Another critical obstacle is the inherent volatility of cryptocurrencies. The prices of digital currencies, such as Bitcoin and Ethereum, can fluctuate dramatically in a short period, creating uncertainty for businesses that require consistent financial planning. This volatility is particularly concerning for companies that need to manage cash flow and make long-term financial decisions. While some entrepreneurs are willing to accept this risk, the majority of businesses prefer the stability offered by fiat currencies and traditional banking systems, which provide more reliable forecasting and risk management capabilities.

Lastly, the lack of infrastructure to facilitate cryptocurrency transactions further hinders their acceptance. Although some online services and tech-savvy companies have integrated cryptocurrency payment options, most businesses—both domestically and internationally—do not accept cryptocurrencies as a form of payment. This absence of infrastructure presents practical challenges for companies that might otherwise be interested in using digital currencies for international trade.

This study highlights the differing perspectives on cryptocurrencies among major and medium-sized enterprises in Russia. Larger companies, particularly those with an international focus, remain hesitant to adopt cryptocurrencies due to legal uncertainties, security concerns, and the inherent volatility of digital currencies. As a result, they continue to rely on traditional banking institutions, particularly foreign banks that have successfully navigated international sanctions.

Conversely, some medium-sized enterprises have shown a willingness to engage with cryptocurrencies, though their usage is still limited. Led by younger, tech-savvy entrepreneurs, these firms view cryptocurrencies as a potential competitive advantage, especially in industries that often conduct transactions offshore. However, even within this group, Bitcoin adoption is not widespread; most companies still primarily utilize traditional banking methods.

The future of Bitcoin in the Russian corporate sector largely depends on the development of clearer regulations, enhanced technological security, and improved infrastructure for digital currency adoption. If these barriers are addressed, there is a possibility of increased cryptocurrency adoption, particularly among medium-sized enterprises more inclined to explore innovative financial technologies.

## **11. Attitudes of Russian Investors Toward Cryptocurrencies**

The next phase of the research focused on assessing the prevailing attitudes towards Bitcoin among investors in Russia. Amid the global rise of cryptocurrencies like Bitcoin and Ethereum, understanding how Russian investors—both individual and institutional—perceive these digital assets has become crucial. Investors often act as early adopters and key influencers of

emerging financial trends. To thoroughly investigate this area, interviews were conducted with a variety of seasoned investors from sectors such as technology, finance, and traditional markets, all sharing a common interest in cryptocurrency trading and investment.

The survey included a diverse group of 10 participants, ranging from novice investors who began trading in recent years to experienced traders active in the market for nearly a decade. This range of experience provides a comprehensive perspective on the evolving attitudes towards cryptocurrency in Russia, particularly given the significant differences in regulatory frameworks and financial infrastructure compared to well-established markets like the United States and Europe.

### *11.1 The Rise of Computational Trading*

The survey revealed that all participants are actively trading on cryptocurrency exchanges, with many achieving significant financial gains. This aligns with global trends, where Bitcoin trading has become a widely accepted investment activity, attracting millions of participants. The increasing accessibility of exchanges like Binance, Kraken, and Bitfinex has made it easier for Russian investors to enter the market, even amid regulatory uncertainties and geopolitical tensions.

Many investors indicated that they began trading cryptocurrencies out of curiosity or as a speculative venture. Over time, as they gained knowledge and observed market developments, their engagement with digital assets deepened. Numerous participants attributed their trading successes to a combination of understanding market trends, grasping the underlying technology, and utilizing trading tools such as technical analysis and algorithmic trading bots.

Once considered a speculative or niche investment, cryptocurrencies have emerged as a legitimate asset class, offering various opportunities for both short-term traders and long-term investors. The participants' success underscores the profitability of cryptocurrency markets, especially during periods of high volatility when savvy traders can capitalize on price fluctuations.

### *11.2 The Role of Cryptocurrency in Investment Portfolios*

An important theme from the interviews was the significance of Bitcoin within the overall financial portfolios of Russian investors. For many participants, Bitcoin is not merely a speculative asset but a key component of their financial strategy. Integrating digital assets alongside traditional investments like stocks, bonds, and real estate illustrates the growing recognition of cryptocurrencies as legitimate financial instruments.

Several investors reported allocating a substantial portion of their portfolios to Bitcoin, particularly among younger, risk-tolerant investors who see digital assets as a path to higher returns in a shorter timeframe. Some participants allocated between 20% and 50% of their portfolios to cryptocurrencies, driven by the potential for significant growth compared to traditional investments. In contrast, older, more conservative investors often limit their cryptocurrency exposure due to concerns about volatility and regulatory uncertainty.

Many respondents also highlighted the diversification benefits of including cryptocurrencies in

their portfolios. Bitcoin is increasingly viewed as a hedge against inflation and economic instability, similar to gold. This perception has grown stronger in recent years as governments, including Russia, have increased money supply to stimulate economies following financial crises and the COVID-19 pandemic. With inflation concerns in Russia, investors find Bitcoin's capped supply of 21 million coins appealing as a safeguard against the depreciation of traditional currencies.

Bitcoin offers long-term investors the potential for significant appreciation, especially as its use continues to grow globally. Many participants expressed optimism about the future of digital assets, believing that advancements in technology and greater regulatory transparency will stabilize and enhance cryptocurrency prices. Ethereum, in particular, was highlighted as a promising long-term investment due to its role in decentralized finance (DeFi) and smart contracts.

### *11.3 Popular Cryptocurrencies Among Russian Investors*

Unsurprisingly, Bitcoin (BTC) and Ethereum (ETH) are the dominant cryptocurrencies among Russian investors. Bitcoin is often referred to as “digital gold,” serving as a store of value and a protection against economic volatility. Many participants indicated a preference for holding Bitcoin as a long-term investment, viewing it as a reliable asset in an unpredictable market.

Ethereum is valued for its versatility and wide range of applications. Investors engaged in Ethereum trading emphasized its role as the foundation for decentralized applications (dApps) and smart contracts, fostering entire ecosystems centered around DeFi, non-fungible tokens (NFTs), and other innovative technologies. The introduction of proof-of-stake (PoS) in Ethereum 2.0 has boosted investor confidence and improved the network's scalability and energy efficiency.

In addition to Bitcoin and Ethereum, several investors reported engaging in trading various alternative cryptocurrencies, including Solana (SOL), Binance Coin (BNB), Polkadot (DOT), and Chainlink (LINK). Although these altcoins are often seen as speculative, they can offer profitable investment opportunities. The success of Solana and Polkadot is attributed to their focus on scalability and interoperability, addressing critical challenges in blockchain technology. These projects appeal to investors with a higher level of technical expertise or a deeper understanding of blockchain.

Stablecoins, such as Tether (USDT) and USD Coin (USDC), were also frequently mentioned. While stablecoins may not yield the same returns as other cryptocurrencies, they are valued for their stability and liquidity. Many investors use stablecoins to exit volatile positions without converting back to fiat currency. Stablecoins play a crucial role in the DeFi sector, serving as collateral for loans and facilitating various financial services.

### *11.4 Risk Management in Cryptocurrency Investment*

Investing in cryptocurrencies carries inherent risks due to the market's volatility. Short-term price fluctuations can be drastic, and regulatory changes or negative news can lead to significant declines in value. Despite these risks, every investor interviewed has developed

strategies to manage their exposure to volatility and protect their portfolios from major losses.

A common strategy is diversification across both the cryptocurrency market and other asset types. Most investors reported not committing their entire funds to a single cryptocurrency; instead, they distribute their investments among various digital assets, such as Bitcoin, Ethereum, and other promising altcoins. This diversification helps mitigate the risk of a downturn in any one asset, as gains in one cryptocurrency can offset losses in another.

Additionally, many investors utilize stop-loss orders to manage risk. A stop-loss order automatically triggers a sell order when the price of a cryptocurrency falls below a predetermined threshold. This tool is especially valuable for day traders seeking to protect their positions during periods of high volatility. By using stop-loss orders, investors can ensure an early exit from trades before losses escalate.

Another approach to risk management includes “staking” and “yield farming,” which allow investors to generate passive income by actively participating in blockchain networks or DeFi platforms. Staking involves holding a specific amount of cryptocurrency in a wallet to support network operations, such as transaction verification, in exchange for rewards. Yield farming, on the other hand, entails providing liquidity to DeFi platforms to earn interest or tokens as compensation. Both methods enable investors to earn returns on their cryptocurrency holdings while reducing exposure to price volatility.

This study highlights the growing importance of cryptocurrencies among Russian investors, including both individual and institutional participants. Interviews indicate that cryptocurrency trading has evolved from a speculative activity into a significant component of many investors’ portfolios. Specifically, Bitcoin and Ethereum are the most widely held and traded assets, regarded by many as long-term investments that offer diversification benefits, inflation protection, and substantial growth potential.

The survey revealed a diverse group of Russian investors, ranging from novices to experienced traders, actively engaging with digital assets and capitalizing on the expanding cryptocurrency market. Their success is driven by strategic trading, technical knowledge, and the use of analytical tools, such as trend analysis and automated trading systems. These findings illustrate the increasing sophistication of investors in the region, who are becoming more attuned to the complexities of the cryptocurrency landscape. Despite concerns over regulatory uncertainty and the inherent instability of cryptocurrencies, investors maintain a positive outlook.

## **12. Recommendations for Navigating Challenges and Risks Associated with Cryptocurrency Use**

Since the release of Nakamoto’s (2008) groundbreaking whitepaper on Bitcoin, cryptocurrencies have garnered significant global attention and adoption among individuals, businesses, and investors. In Russia, despite the growing interest in cryptocurrencies, various challenges and risks remain prevalent. As noted by Antonopoulos (2021), the decentralized nature of these currencies offers advantages, but it also introduces complexities, especially in contexts like Russia, where regulatory, technological, and economic factors heavily influence cryptocurrency usage. This analysis explores the common challenges and vulnerabilities faced

by users, businesses, and investors within the Russian cryptocurrency ecosystem, along with strategies to mitigate these risks.

*(i) Regulatory Uncertainty*

One of the foremost challenges for cryptocurrency users in Russia is the absence of clear and consistent regulations. While cryptocurrencies have not been outright banned, the government's fluctuating stance oscillates between support and caution. The "On Digital Financial Assets" law, enacted in January 2021, legalized cryptocurrency trading but restricted its use as a payment method. This regulatory ambiguity creates confusion for users and investors regarding legal engagement with digital assets.

*(ii) Ambiguous Legislation*

The current legal framework surrounding cryptocurrencies remains vague, complicating efforts for businesses to integrate these digital assets into their operations. The prohibition of cryptocurrencies as currency limits their practical application in everyday transactions, leaving businesses uncertain about compliance.

*(iii) Risk of Sudden Regulatory Changes*

Investors and businesses face the constant threat of new regulatory developments that could abruptly affect their holdings or transactional capabilities. Unexpected crackdowns, increased taxation, or stricter regulations could undermine the profitability and viability of cryptocurrencies in Russia.

*(iv) Security Risks and Fraud*

Security remains a fundamental concern in cryptocurrency use globally, and Russia is no exception. The decentralized and pseudonymous characteristics of blockchain technology, while beneficial for privacy, also make cryptocurrencies attractive targets for cybercriminals.

*(v) Hacking and Cyber Attacks*

Cryptocurrency exchanges, wallets, and individual accounts frequently fall victim to hacking attempts. As highlighted by Antonopoulos (2021), while cryptocurrencies may offer enhanced security over traditional financial systems, they are not immune to sophisticated cyber threats. Russian exchanges have reported significant losses due to security breaches.

*(vi) Fraudulent Schemes*

The lack of regulatory oversight has given rise to Ponzi schemes, fraudulent Initial Coin Offerings (ICOs), and pump-and-dump schemes within the Russian cryptocurrency landscape. Scammers can easily create fake tokens or exchanges, deceive investors, and vanish with their funds.

*(vii) Weak Security Practices*

Many users, especially newcomers, often lack the technical expertise to secure their assets properly. Insecure wallets, weak passwords, and the absence of two-factor authentication (2FA)

increase vulnerability to theft. This issue is particularly pronounced in Russia, where cryptocurrency literacy is still evolving.

*(viii) Market Manipulation*

Market manipulation remains a persistent issue in the cryptocurrency space. Large holders, or “whales,” can sway the market by executing substantial buy or sell orders, leading to price swings that adversely affect smaller investors. The relatively unregulated nature of cryptocurrency markets in Russia makes this manipulation a constant concern.

*(ix) Taxation and Compliance*

The taxation of cryptocurrencies in Russia presents additional challenges for individuals, businesses, and investors. Although the government has indicated that cryptocurrency transactions are taxable, the lack of clarity on tax application creates compliance risks.

*(x) Sanctions and Isolation*

International sanctions on Russia complicate cryptocurrency use for cross-border transactions. While some view digital assets as a means to circumvent traditional financial restrictions, their use can attract scrutiny, potentially leading to further sanctions or legal consequences.

*(xi) Economic Instability*

Russia’s economic instability, characterized by fluctuating inflation rates and the ruble’s devaluation, both encourages and complicates cryptocurrency adoption. Some view digital currencies as a hedge against the ruble’s decline, while others hesitate to invest due to the added volatility they introduce to an already unstable financial landscape.

The landscape for cryptocurrency use in Russia presents a unique set of challenges for individuals, businesses, and investors. Regulatory uncertainty, security risks, market volatility, and limited financial infrastructure create a complex ecosystem. Furthermore, geopolitical and economic factors compound these challenges, especially for businesses seeking to adopt cryptocurrencies in their operations. Despite these hurdles, there is substantial interest in cryptocurrencies, as individuals increasingly turn to digital assets amid inflation and economic instability. To fully realize the potential of cryptocurrencies in Russia, clearer regulations, improved security practices, and enhanced infrastructure are essential. Addressing these challenges collaboratively between government and the private sector will help cultivate a safer and more transparent environment for cryptocurrency adoption.

### **13. Conclusions**

In summary, this study has examined the intricate relationship between cryptocurrency and its influence on Russia’s financial sector, particularly within the context of imposed sanctions. The findings indicate that while cryptocurrency serves as a complex tool for mitigating the effects of Western economic sanctions, it has emerged as a significant asset for Russia. Despite sanctions severely restricting access to traditional financial institutions and international capital markets, cryptocurrencies offer an alternative means for cross-border transactions, facilitating capital flow and wealth preservation.



The decentralized nature of cryptocurrencies allows Russia to navigate some financial barriers posed by sanctions, enabling trade, fund transfers, and asset protection. However, these advantages come with considerable challenges, including market volatility, uncertain regulatory landscapes, and potential legal ramifications at both domestic and international levels. Additionally, the increasing scrutiny of cryptocurrency transactions by global financial authorities and major exchanges limits Russia's ability to fully exploit these digital assets to circumvent sanctions.

The study also reveals a growing trend in cryptocurrency adoption within Russia, not only for state-level strategic initiatives but also among individuals and businesses seeking refuge from ruble devaluation and inflation. However, several obstacles remain before widespread adoption can occur, including the lack of comprehensive legal frameworks, cybersecurity risks, and the ambiguous stance of the Russian government toward cryptocurrency regulation and taxation.

In conclusion, while cryptocurrency offers Russia new avenues to address the challenges posed by sanctions, its role in the country's financial ecosystem remains uncertain, fraught with both opportunities and risks. The future of cryptocurrencies in Russia's economic strategy will likely depend on the evolving geopolitical landscape, regulatory developments, and broader acceptance of digital currencies within the global financial system. Thus, although cryptocurrencies may provide temporary relief, they are not a definitive solution to Russia's long-term economic challenges arising from ongoing international sanctions.

Nevertheless, significant regulatory, technological, and environmental hurdles must be addressed before cryptocurrencies can achieve widespread global acceptance. As illustrated by Russia's situation, governments worldwide are grappling with how to regulate cryptocurrency use without compromising national security, monetary policy, or efforts to combat illicit activities like money laundering and terrorism.

However, the extent of this transformation will depend on the ability of the global regulatory framework to balance innovation with oversight. Thus, while the future of cryptocurrency remains uncertain, its global trajectory suggests it will be a critical driver in the evolution of financial markets, presenting both significant opportunities and substantial risks.

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