Moving Russian Rubles into Crypto Is Impractical, IMF Concedes

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Liquidity in trading pairs linking Russian rubles with cryptocurrencies has plummeted in recent weeks, the International Monetary Fund says — "making large-scale value transfers through exchanges impractical."

Nonetheless, the financial institution says the crypto ecosystem could still be used to sidestep economic sanctions — especially if due diligence checks are inadequate, or anonymizing tools are used.

In a detailed report outlining the threats to global financial stability, the IMF also warned that sanctioned nations could ramp up their efforts to mine digital assets like Bitcoin — enabling them to "monetize energy resources" in new ways.

Elsewhere, the IMF said that crypto trading volumes against a number of emerging market currencies has spiked since the pandemic began — and a shift to digital assets being used as a payment method "could pose significant challenges to policymakers."

Turkey was singled out as a country where demand has been particularly high. This is perhaps unsurprising given how the lira has lost close to half of its value in the past 12 months alone after inflation hit 20-year highs. It's possible some consumers have opted to invest some of their savings in Bitcoin in order to preserve their value.

The IMF is now calling for global policymakers to come together to develop "a comprehensive, consistent and coordinated regulatory approach to crypto" — bringing the current fragmented landscape to an end.

This could be an uphill struggle in and of itself given how many countries have adopted different stances towards assets like Bitcoin and Tether. While China has clamped down on their use as it focuses on the digital yuan, the U.K. recently announced it has ambitions to become a “global hub” for crypto.

DeFi Raises Concerns, Too

Other sections of the IMF report noted that the decentralized finance sector has witnessed “extraordinary growth in the past two years” — driven by how it can be more efficient and offer greater returns than traditional alternatives.

But the institution’s concern lies in how the DeFi world is becoming “increasingly interconnected” with old-fashioned markets — delivering “market, liquidity and cyber risks against a backdrop of legal uncertainties.” The report adds:

“The absence of centralized entities governing DeFi is a challenge for effective regulation and supervision. Regulation should focus on elements of the crypto ecosystem that enable DeFi, such as stablecoin issuers and centralized exchanges. Authorities should also encourage DeFi platforms to be subject to robust governance schemes, including industry codes and self-regulatory organizations. These entities could provide an effective conduit for regulatory oversight.”

Outlining some of the dangers associated with DeFi, the IMF pointed to the prospect of liquidations when markets crash — with “periods of stress” also contributing to a lack of liquidity. The risk of security exploits was also mentioned, with a number of protocols suffering multimillion-dollar hacks. Conceding that regulation may be easier said than done, the report warned:

“DeFi’s elevated market, liquidity, and cyber risks may need adjustment to the regulatory perimeter, but DeFi’s anonymity, lack of a centralized governance body, and legal uncertainties render the traditional approach to regulation ineffective.”

Another measure proposed by the IMF would restrict the levels of exposure that regulated, traditional financial firms can have toward the DeFi space — as this “could slow the pace of growth while addressing the risks of interconnectedness.”

The IMF’s criticism of digital assets has often been snubbed by crypto enthusiasts, who accuse the financial institution of being motivated to maintain the status quo and maintain the dominance of fiat currencies. President Nayib Bukele has been particularly dismissive, not least when the IMF has repeatedly called on El Salvador to abandon Bitcoin as legal tender.