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INTERNATIONAL FINANCIAL DIFFICULTIES DUE TO WAR

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Due to the outbreak of the war in Ukraine, much has been said in the Western media about SWIFT, its importance to the international economy, and how devastating it would be for Russia to be disconnected from such a financial system. However, it is interesting to consider that some aspects of the Russian financial market can be considered stabilizing factors in its financial system.

Amid Russia's annexation of Crimea in 2014, Western sanctions were imposed on the country, targeting almost every sector of the Russian economy. In this context, Visa and MasterCard interrupted their services in Russia, which was a problem, since 90% of the cards used in the country had one of the flags. Nevertheless, the European Parliament, through an official resolution, recommended Russia's disconnection from the SWIFT system.

The impact on the Russian economy of being disconnected from SWIFT would be catastrophic, as the country was a major consumer of the cooperative's services. To stabilize its domestic market for means of payment, Russian authorities began working on a contingency plan to prevent its economy from being at the mercy of Western sanctions.

The creation of a National Card Payment System (NSPK) was a relative success for the Russian Central Bank. In a short time, they developed a national payment and card system that cannot be disconnected or affected by external sanctions. In other words, the MIR (a card related to the NSPK and featuring

partnerships co-branded by MasterCard, Visa, JCB, and UnionPay) provided a form of financial security for the country and the independence of banking services in Russia from external political and economic factors. However, the Russians have developed technologically in the financial sector.

During the beginning of the project to create the NSPK, the Russian Central Bank developed a system to be a national equivalent to SWIFT, giving life to the Financial Message Transfer System (SPFS) in 2014.

Also subordinated to the Russian Central Bank, the SPFS aims at the transmission of electronic messages about financial transactions, a guaranteed service inside and outside Russian territory.

Creating a system like SPFS is of utmost importance. It allows Russia, even when disconnected from SWIFT,

to continue to make financial transactions with its international partners, therefore, SPFS reduces the geopolitical risks to the Russian financial system, preventing economic isolation from its partners.

The operating principle of SPFS is very similar to SWIFT, which has helped to mitigate concerns of its users about changing habits. This is already indicative of the Russian intention to create a national system analogous to the dominant one. However, it is important to point out that SPFS has several operational bottlenecks that make it inferior to SWIFT.

The internationalization of SPFS would be configured in a form of projection of Russian political and economic power in other regions. Russia intends to turn SPFS into a direct competitor of SWIFT in the international market. Its internationalization was achieved in 2019 when the Eurasian Economic Union (EEU) and its adjacent banks adopted it as a way to transfer financial messages. Iran was also linked to the Russian system. Russia is in ongoing negotiations for SPFS expansion with Turkey, India, and the BRICS bloc.

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Since 2014, Russia has been engaged in the difficult task of dedollarizing its economy, reducing the influence of the dollar, and increasing the power of its national currency in bilateral trade with other countries. With the trade war intensifying between the US and China in 2020, the Chinese have begun to consider a faster way to de-dollarize. In this way, the Russian SPFS was linked to the China International Payments System (CIPS), which allows companies from both countries to make direct payments, without the intermediation of SWIFT and without using the US dollar, using only the ruble or the yuan.

In the first quarter of 2020, the dollar's share in trade between Russia and China accounted for 46% of agreements. It was the first time that the dollar was below 50%, at an all-time low, according to data from the Russian Central Bank. Russia and China have managed to drastically reduce the use of the dollar in bilateral trade. For comparison purposes, at the end of 2015, bilateral trade between Russia and China used 90% of the agreements in dollars.

In the current conflict, SWIFT is again used as a way of punishing Russia and isolating it from the rest of the world. The country's detachment from SWIFT was a major shock to the international economic system.

Russia, however, is managing to offload its gas production to partner countries with financial transactions being routed through SPFS. At the beginning of 2022, Russia and China signed a 30-year agreement to increase the supply of natural gas, alleviating the idleness of Russian production destined for Europe. At the same time, similar partnerships were signed with India and Pakistan.

De-dollarization in Russia is much more developed than expected. In June 2021, the Russian Ministry of Finance declared that it had zeroed out the dollar's share in the National Wealth Fund at the expense of increasing quotas in euro and gold. This move shows that Russia is trying to undermine US interference in its economy. One of the sanctions imposed by the US in this current conflict was the blockade of dollars from the Russian Central Bank, culminating in the freezing of US\$ 630 billion in reserves needed to support the economy and the ruble. This move was celebrated in the West as a major blow to the Russian economy. However, it was the Russian Central Bank's diversification and de-dollarization strategy that drastically minimized a total siege on the Russian economy, as Russia remains at war and doing business with its partners, regardless of the imposed embargo.

Once again, Visa and MasterCard stopped operating in Russia. However, this movement did not have the same effect as in 2014; in fact, it brought Russia and China even closer. With the departure of North American cards, Russia announced the issuance of UnionPay cards that will be operationalized in Russia and processed by the NSPK system. In this way, the departure of the US giants did not stop the processing and settlement of internal payments in Russia, which did not affect the dynamics of its economy.

Therefore, it is clear that Russia has prepared itself for this moment. The country will feel heavy sanctions from the West in the medium term. However, the suffocation that the US and its partners had hoped for may not occur. Using the SPFS and MIR systems, Russia can keep its domestic economy running and financially connect with partner countries, which prevents its economy from being completely suffocated. Even more importantly, SPFS, within its limitations, allows transactions not to be made in dollars, breaking the status quo of the current economy, since it is an international payment system that has proven to be an alternative to SWIFT, putting in check the dollar's dominance in the international economy in the long run.

In this international context of the debacle of US power and the rise of China as a power, Russia becomes an important instrument to achieve the Chinese long-term objective of replacing the dollar as the currency of the international economic system.



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This article is a result of the authors' ascertainment and analysis, without compulsorily reflecting CEST's opinion.