EU, US Agree To Expel "Selected Russian Banks" From SWIFT, Sanction Russian Central Bank

Description

RUSSIA/USA/EU: (Update 5:10pm ET): In the latest major escalation, late on Saturday European nations together with the US have issued a joint statement in which they announce the following restrictive economic measuresthings:

1. Commit to ensuring that "**selected Russian banks"** are removed from the SWIFT messaging system: "***This will ensure that these banks are disconnected from the international financial system and harm their ability to operate globally."***
2. Commit to imposing **"restrictive measures that will prevent the Russian Central Bank from deploying its international reserves in ways that undermine the impact of our sanctions."**
3. Commit to "acting against the people and entities who facilitate the war in Ukraine" by taking measures to limit the sale of citizenship, **so called golden passports**, that let wealthy Russians connected to the Russian government become citizens
4. Commit to launching "a transatlantic task force that will ensure the effective implementation of our financial sanctions by identifying and freezing the assets of sanctioned individuals and companies that exist within our jurisdictions."
5. Stepping up or coordination against disinformation and other forms of hybrid warfare.

EU Commission president Ursula von der Leyen broke these down further as follows:

> First, we commit to ensuring that a certain number of Russian banks are removed from SWIFT.?
> It will stop them from operating worldwide and effectively block Russian exports and imports.
>
> — Ursula von der Leyen (@vonderleyen) February 26, 2022

> Second, we will paralyse the assets of Russia's central bank.
>
> This will freeze its transactions.
>
> And it will make it impossible for the Central Bank to liquidate its assets. pic.twitter.com/8H9eWkNCW9
>
> — Ursula von der Leyen (@vonderleyen) February 26, 2022

> And finally, we will work to prohibit Russian oligarchs from using their financial assets on our markets.
>
> Putin embarked on a path aiming to destroy Ukraine.
>
> But what he is also doing, in fact, is destroying the future of his own country. pic.twitter.com/bcygxFjeyG
>
> — Ursula von der Leyen (@vonderleyen) February 26, 2022

The full statement can be found here. It wasn't immediately clear which are the "selected Russian banks" or what "restrictive measures" will be taken against the central bank. It also does not detail whether oil and gas payments will stop (according to Bloomberg's in house energy expect Javier Blas, the answer is no).

> BREAKING: EU, US, UK and Canada announce that "selected" Russian banks will be disconnected from the SWIFT banking system. The statement doesn't indicate names of banks, or whether this will stop oil and gas payments (my guess is payments will continue) #OOTT #ONGT #Ukraine pic.twitter.com/IngAC9O8j3
>
> — Javier Blas (@JavierBlas) February 26, 2022

Furthermore, as Blas also notes, the German government has said that **the ban only affects the Russian banks that were *already sanctioned*** a few days ago, in other words, it is toothless as it merely hits banks that have already been sanctioned by other measures. It also means that the SWIFT measure is being taken merely to placate populist anger at no SWIFT measures.

> UPDATE: The German government says that the ban only affects the Russian banks that were **already sanctioned** a few days ago! (which are big important banks, but obviously already under sanctions) https://t.co/10S2JD7Wsc
>
> — Javier Blas (@JavierBlas) February 26, 2022

It also means that the only impactful measure is the sanctioning of the Russian central bank, which however has likely anticipated this eventuality and has built up a sufficient war chest to withstand even the harshest sanctions, either on its own or with the help of Beijing. Of course, this may come as a surprise which is the hope of the White House, which has stated that "**having lost the support of the Russian Central Bank due to the sanctions imposed on it, the ruble will fall into free fall.**"

> White House: The US expects that, having lost the support of the Russian Central Bank due to the sanctions imposed on it, the ruble will fall into free fall
>
> — Rag?p Soylu (@ragipsoylu) February 26, 2022

"Sanctions against the central bank are the last step," Oleg Vyugin, a veteran Russian banker and formerly a first deputy chairman at the central bank, told Bloomberg. "It's a formula tried in Iran, which initially results in the deepest decline in the economy, production, household incomes. And then a country begins to adapt, create its own settlements with those that agree to cooperate."

As Bloomberg further notes, full blocking sanctions against some Russian banks should already choke off their ability to conduct dollar payments with U.S. counterparts even if they retain access to the global messaging service.

Banks can also resort to alternative systems and even communicate via email to send payment instructions, said Julia Friedlander, senior fellow at the Atlantic Council.

Still, "it's like a kick in the shins," she said. "Transactions with Russia would be slower and more expensive. A sudden cut-off will also hold a lot of current assets in limbo, for corporations and banks."

As for specific individuals being targeted, the Biden administration has reportedly announced a Transatlantic task force to "hunt down and freeze the assets" of Russian companies and oligarchs — including "yachts, mansions, and any other ill-gotten gains that we can find and freeze."

In response to these measures, Russia will need to address the population to ensure financial stability and lack of bank runs on Monday as the alternative could have devastating consequences for the Russian economy. Also, expect money-alternatives such as gold and bitcoin, to move higher as Russians scramble to reallocate their savings.

* * *

(Update 4:15pm ET): EU ministers together with the US will meet at 6pm on Sunday to draft potentially drastic new sanctions on Russia that could cripple its economy and financial system after initial penalties failed to deter President Vladimir Putin from stepping up the invasion of Ukraine. As Josep Fontelles, the EU's chief for Security Policy tweeted, a virtual meeting of EU foreign minister will l discuss a package of emergency assistance for the Ukrainian armed forces, to support them in their heroic fight.

> I am convening a virtual meeting of EU Foreign Ministers tomorrow at 18.00 to adopt further measures in support of #Ukraine, against aggression by #Russia.

> I will propose a package of emergency assistance for the Ukrainian armed forces, to support them in their heroic fight.
>
> — Josep Borrell Fontelles (@JosepBorrellF) February 26, 2022

As Bloomberg adds, a meeting of European Union foreign affairs ministers on Sunday **will mandate that work begin to cut Russia off from the SWIFT messaging system,** after Germany's government, initially wary of expelling Russia from the network, said it's looking into ways to achieve a "targeted and functional restriction" of Russia (see below).

Germany is "working flat out on how to limit the collateral damage of decoupling from SWIFT in such a way that it affects the right people," Foreign Minister Annalena Baerbock and Vice Chancellor Robert Habeck said in a statement. The U.S. is considering a similar move. And French President Emmanuel Macron has decided to increase economic sanctions, including action on SWIFT, against Russia in coordination with EU allies and the U.S., a senior Elysee official said.

Separately, the U.S. is also weighing sanctions on Russia's central bank, a move which could have devastating consequences for Russia.

"Sanctioning Russia's central bank is likely to have a dramatic effect on the Russian economy and its banking system, similar to what we saw in 1991," said Elina Ribakova, deputy chief economist for the Institute of International Finance. "This would likely lead to massive bank runs and dollarization, with a sharp sell-off, drain on reserves — and, possibly, a full-on collapse of Russia's financial system."

It would likely mean **a run on gold and/or cryptos** which could soar as billions in savings are converted into a currency that can not be suspended with the flick of a switch.

> The follow-on impact from SWIFT Action, if put forth.
>
> 1. Counterparty risk – other banks in Europe with large exposure to Russian Banks.
>
> 2. Gold – Crypto demand
>
> *Soc Gen was trading tighter than HSBC this summer, now meaningfully wider. https://t.co/8xMpXi4n8Q pic.twitter.com/UKUudXBHg3
>
> — Lawrence McDonald (@Convertbond) February 26, 2022

* * *

Earlier:

Following a full-court press by western nations, the handful of European holdouts – those most reliant on Russian energy supplies and continued Russian capital flows, such as Germany, Hungary, Italy and Cyprus – who have been adverse to expelling Russia from the SWIFT electronic payment-messaging system, are one by one folding on their objections.

Overnight, Italy joined the growing consensus seeking to kick Russia out of the Society for Worldwide Interbank Financial Telecommunication global banking system to punish it for the invasion of Ukraine as the European Union weighs up the impact of such an action. Also on Saturday, Poland's prime minister said he had spoken again with his Hungarian counterpart, Viktor Orban, who had assured him of Budapest's support for far-reaching sanctions against Russia.

"I talked today again with Prime Minister of Hungary V. (Victor – PAP) Orban. Once again he assured me of support for far-reaching sanctions directed towards Russia. Also including blocking the SWIFT system," Mateusz Morawiecki wrote on Twitter.

> Rozmawia?em dzisiaj ponownie z premierem W?gier V. Orbanem. I po raz kolejny zapewni? mnie o poparciu dla daleko id?cych sankcji skierowanych wobec Rosji. W tym tak?e o zablokowaniu systemu SWIFT.
>
> — Mateusz Morawiecki (@MorawieckiM) February 26, 2022

Deputy Foreign Minister Pawel Jab?o?ski also said on Saturday he had spoken to Hungarian Ambassador Orsolya Zsuzsanna Kovacs and that "Hungary will not block any sanctions against Russia, also including concerning the SWIFT system."

Meanwhile, Ukrainian Foreign Minister Dmytro Kuleba said on Saturday that Cyprus, which it was thought may have held out against the move, had confirmed it would not block the decision to withdraw Russia from SWIFT.

> We did it. Cyprus confirmed it will not block the decision to ban Russia from SWIFT. Ukrainian diplomacy keeps working 24/7 to achieve important decisions and protect Ukraine from Russian invaders.
>
> — Dmytro Kuleba (@DmytroKuleba) February 26, 2022

Finally, Bloomberg reports that Germany has "upended years of policy" and agreed to supply weapons to Kyiv and **"look into ways"** to shut out Russia from the SWIFT financial messaging system, which however is still a long way away from agreeing to expel Russia.

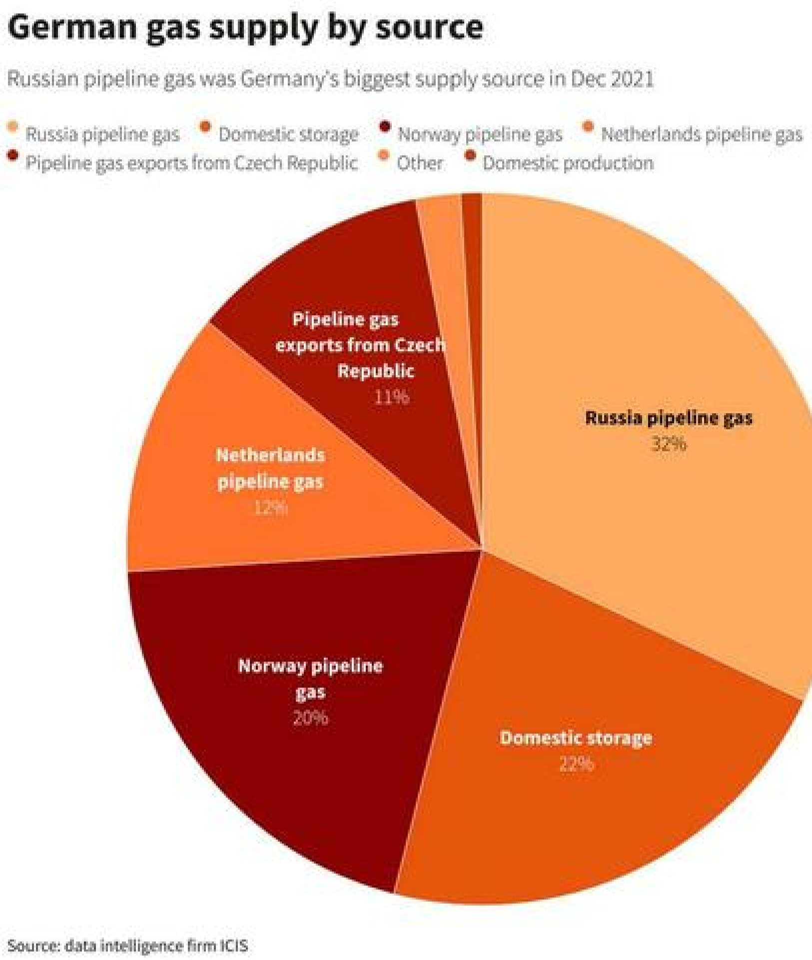
The German government said in a statement Saturday that it has agreed to the supply of 400 German-made rocket propelled grenades to Ukraine via the Netherlands, along with 14 armored personnel carriers, as well as 1000 anti-tank weapons and 500 Stinger missiles. It will also supply 10,000 tonnes of fuel via Poland. Further supplies to Ukraine are currently being considered, it said.

> The Russian invasion marks a turning point. It is our duty to support Ukraine to the best of our ability in defending against Putin's invading army. That is why we are delivering 1000 anti-tank weapons and 500 #Stinger missiles to our friends in #Ukraine.
>
> — Bundeskanzler Olaf Scholz (@Bundeskanzler) February 26, 2022

"After the shameless attack by Russia, Ukraine must be able to defend itself," German Foreign Minister Annalena Baerbock and Vice Chancellor Robert Habecksaid in the emailed statement. "It has an inalienable right to self-defense."

At the same time, the government **"is working flat out on how to limit the collateral damage of decoupling from SWIFT in such a way that it affects the right people,"** they said. "**What we need is a targeted and functional restriction of SWIFT."**

The German statement indicates that Europe's most important nation, and top importer of Russian gas…

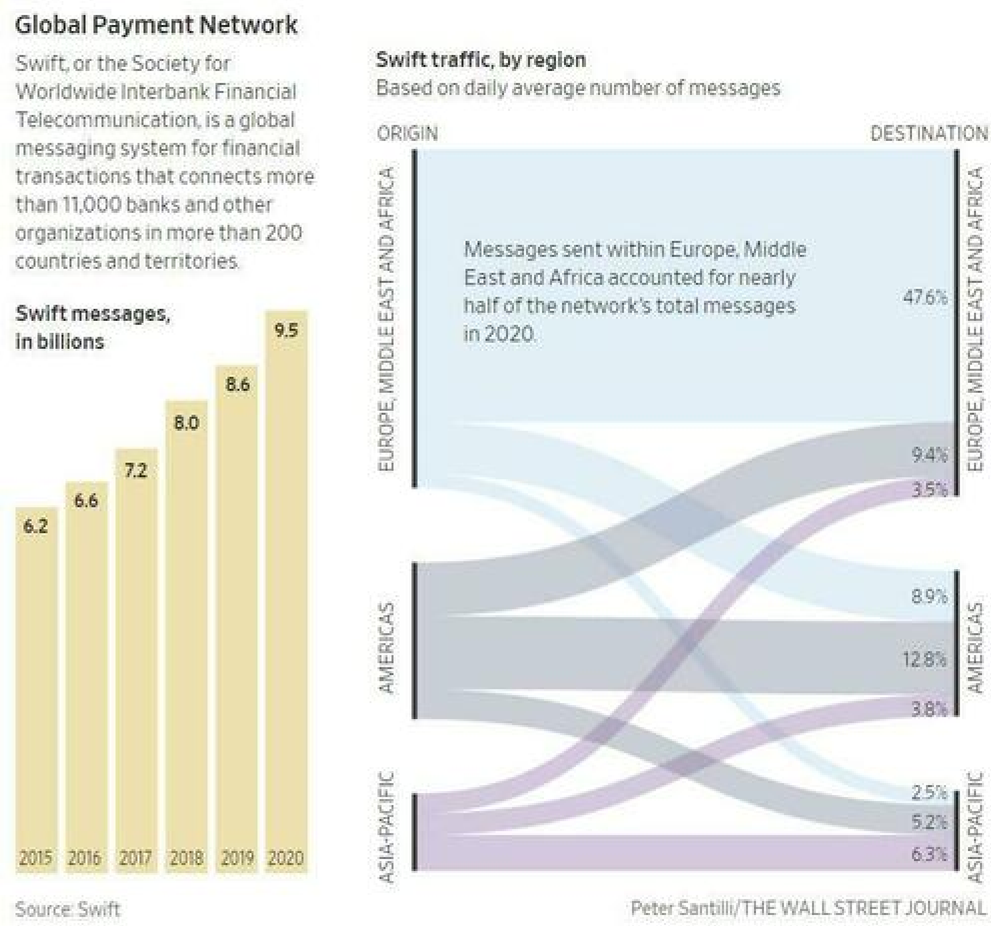


… is still not on the same page as most of its other European peers realizing that an overnight cutoff of Russian gas (something which a SWIFT expulsion would spark) would lead to a crippling hit to the German economy, and instead is seeking a targeted SWIFT cutoff, which course is impossible for the " *all or nothing"* system. As for the well-known reasons behind Germany's opposition Erik Meyersson, an economist at Svenska Handelsbanken, put it best: "The EU isn't on board with removing Russia from SWIFT for one thing because the EU isn't on board with letting go of Russian energy."

In effect, the latest German statement is hardly surprising in light of what Germany's finance minister said on Friday afternoon when he shocked more than a few marketwatchers by saying that **'we are open to cutting Russia off SWIFT'** with a German government advisor telling RND that "banning Russia from SWIFT is manageable."

And yet, despite the jawboning Germany is still unwilling (and unable) to pull the plug.

As a reminder, The Society for Worldwide Interbank Financial Telecommunication is the financial-messaging infrastructure that links the world's banks. The Belgium-based system is run by its member banks and handles millions of daily payment instructions across more than 200 countries and territories and 11,000 financial institutions. Iran and North Korea are already cut off from it, although that has not stopped China from buying millions of barrels of Iranian oil despite US sanctions.



Jumping the shark a but early, Ukraine president Zelensky said he was "grateful to everyone for the decision to cut off Russia from SWIFT", even though such a decision has not been made (at least not yet).

Others followed suit, such as hedge fund billionaire Bill Ackman, who said in a tweet on Saturday that any SWIFT action would likely result in a quick bank run in Russia:

"I wouldn't want to keep money in a bank that can't access the SWIFT system. Once a bank can't transfer or receive funds from other banks, its solvency can be at risk. If I were Russian, I would take my money out now. Bank runs could begin in Russia on Monday."

> I wouldn't want to keep money in a bank that can't access the SWIFT system. Once a bank can't transfer or receive funds from other banks, its solvency can be at risk. If I were Russian, I would take my money out now. Bank runs could begin in Russia on Monday. #StandWithUkraine
>
> — Bill Ackman (@BillAckman) February 26, 2022

As we reported on Friday, Goldman Sachs' Allison Nathan asked the question on everyone's lips: "The removal of Russia from SWIFT – the global electronic payment-messaging system – has been referred to as the "nuclear option" for sanctions. Do you agree with that characterization?"

Eddie Fishman – the former Russia and Europe Lead in the US State Department's Office of Economic Sanctions Policy and Implementation – responded in a fascinating way:

> *"No – it's not even close to being the nuclear option… SWIFT is just a messaging service. If the US and Europe decided to cut Russians banks off from SWIFT without imposing full-blocking sanctions on them, they could still transact with US and European financial institutions – they just couldn't use SWIFT to do so."*

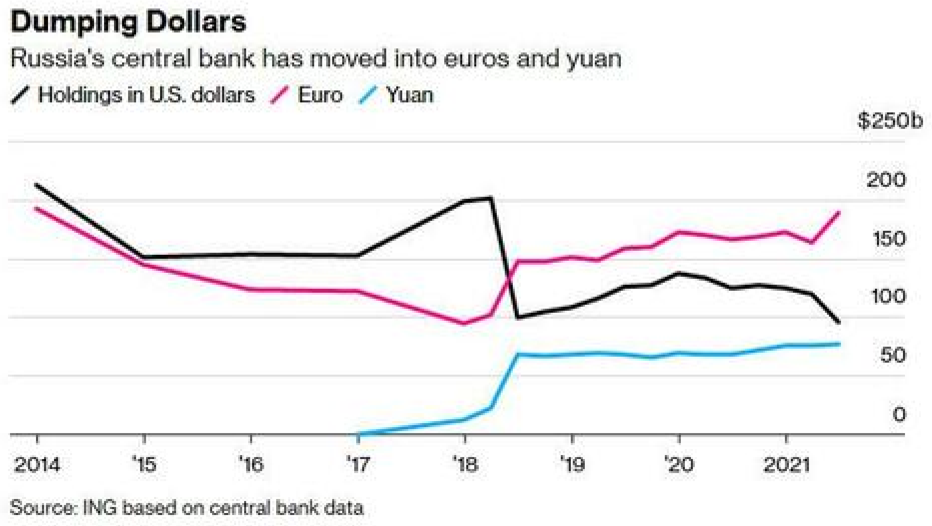
Fishman went on to point out a potentially even bigger blowback consequence for the West's actions:

> ***"…and in a perverse way, that may actually increase the demand for SWIFT alternatives, such as Russia's own System for Transfer of Financial Messages (SPFS)."***

And while a decision on SWIFT appears to still be pending, Ackman is certainly correct that is a bank run were to take place it would lead to a deep financial crisis overnight, and may be the reason why – in lieu of a SWIFT expulsion – **the U.S. is reportedly weighing sanctions on Russia's central bank**, as Bloomberg reported citing "people familiar with the matter", a move that would target much of the $643 billion in reserves that Russian President Vladimir Putin had amassed ahead of his invasion of Ukraine.

> A final decision hasn't been made but the Biden administration is urgently considering all options in an attempt to deter Putin from further devastation in Ukraine, the people said, speaking on the condition of anonymity. The U.S. aims to make each move in conjunction with allies across Europe for maximum impact, they said.

While Russia has been steadily dedollarizing for the past 4 years, and reducing reliance on western foreign currency (while adding to its holdings of yuan and gold), **the central bank still held 16.4% of its holdings in dollars at the end of June 2021**, according to the latest official data, down from 22.2% a year earlier. The euro's share was up at 32.2%.



A sanction on the central bank would be "*devastating*" for Russia, according to Tim Ash, a strategist at Bluebay Asset Management in London. "We would see the ruble crash."

As Bloomberg notes, although the decision would be without precedent for an economy the size of Russia's, the U.S. has previously sanctioned the central banks of adversaries. In 2019, the Treasury Department blacklisted the monetary authorities of Iran and Venezuela for funneling money that supported destabilizing activities in the respective regions. North Korea's central bank is also blacklisted.

Losing access to funds abroad could handcuff Russia's central bank as it tries to shore up the ruble in the foreign-exchange market by selling hard currency. The direct interventions, announced earlier this week after Putin ordered his military to attack Ukraine, mark the first time the Bank of Russia waded into the market since 2014.

Russia also kept 22% of its hoard in gold, most of which is held domestically and would be out of reach of western sanctions, while about 13% of the central bank's holdings were in yuan.

Meanwhile, the Biden administration is also debating whether to push for a directive from the European Union needed to ban Russia from SWIFT, though a U.S. and EU decision isn't imminent especially with Germany still unable to fully make up its mind.

"It appears the Biden administration is gradually coming around to adopting the real hard-hitting sanctions that it should have imposed days ago," said Marshall Billingslea, who served in the Treasury's sanctions unit during the Trump administration.

by Tyler Durden

Category

1. Economy-Business-Fin/Invest
2. History-Archaeology-Past Mysteries
3. Main
4. Politics-Geopolitics-Gov.-Events

Date Created
02/27/2022