IMF official warns Western sanctions on Russia are threatening the dollar as world's reserve currency

Description

Recently imposed economic and financial sanctions on Russia by the U.S.-led West after Vladimir Putin ordered the invasion of Ukraine are weakening the dominance of the U.S. petrodollar as the world's reserve currency, according to a ranking International Monetary Fund official.

IMF First Deputy Managing Director Gita Gopinath told *The Financial Times* last week that the sanctions are going to result in a global financial system that is far more fragmented and multipolar than it was prior to the invasion and resulting sanctions.

Previously, Gopinath had opined that sanctioning Russia would not have much impact on the dollar's demise as the global reserve currency, only that the war would slow world economic growth without actually leading to a recession, *The Epoch Times* added.

The outlet continued:

The United States, the EU, and the Group of Seven nations have hit Russia with a bundle of heavy sanctions and blocked the country from using SWIFT, the global communications service that clears international financial transactions, virtually cutting it off from the global financial markets and international trade.

The United States also froze $630 billion in assets held in international reserves by the Russian Central Bank.

The Russian government is retaliating by demanding payment in rubles or gold for purchases of energy and other important commodities.

"If they want to buy, let them pay either in hard currency, and this is gold for us, or pay as it is convenient for us, this is the national currency," Pavel Zavalny, the head of Russia's energy committee, said last month in reference to the ruble.

The United States and the United Kingdom have both imposed embargoes on Russian energy imports, but the European Union generally — which is far more reliant on Moscow's oil and gas — has not yet done so.

But that said, Russian energy giant Gazprom on Saturday [turned off all liquified natural gas (LNG) flows to Germany] and other EU nations, sending it in the opposite direction to other buyers — a decision that is going to cause major havoc in the continent's richest country and cause ripple effects throughout Europe.

Already gas prices in Europe have skyrocketed 30 percent since March 30, which comes as the ruble has risen in value to a three-week high past 95 against the U.S. dollar on the Moscow Stock Exchange reopened following the initial round of sanctions.

Zevalny has also hinted that buyers who are more friendly to Russia, such as India and China, could use their own fiat currencies or Bitcoin to make energy purchases.

For years, Russia has been reducing its dependence on the petrodollar after Washington imposed sanctions on Moscow following the 'annexation' of Crimea in 2014. Now, the current Ukraine war will only hasten the transition, experts say.

Before the invasion, Russia still had about one-fifth of its foreign currency reserves in dollars; those were held mostly overseas in countries like the UK, Japan, France and Germany, all of whom have sided with the U.S. to push Moscow out of global financial instruments.

Russia's response to those massive sanctions, Gopinath said, is the likely emergence of smaller currency blocs that are based on mutual geopolitical interests. And if they emerge as expected, separate groups of nations will further diversify their reserve assets that are held by national central banks.

"Countries tend to accumulate reserves in the currencies with which they trade with the rest of the world, and in which they borrow from the rest of the world, so you might see some slow-moving trends towards other currencies playing a bigger role [in reserve assets]," Gopinath said.

All told, however, she is not at all certain in the medium term that U.S. dollar dominance will collapse, though she noted that national reserve holdings in dollars had slipped over the past 20 years from 70 percent to 60 percent.

"The dollar would remain the major global currency even in that landscape but fragmentation at a smaller level is certainly quite possible," said Gopinath.

"We are already seeing that with some countries renegotiating the currency in which they get paid for trade."

Sources include:

TheEpochTimes.com

NaturalNews.com

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