Policy Note

Combined with the decision to deny selected Russian banks access to SWIFT, the move on Feb 26 to sanction the Central Bank of Russia (CBR) has effectively disconnected Russia from the global financial system (ex-energy), precipitated a sharp devaluation of the Ruble and put potentially unsustainable pressure on the Russian banking system.

Notable observations:

- A G20 central bank has never been sanctioned before (only Iran, Venezuela & Afghanistan)
- CBR sanctions from the US, UK, EU and Canada (40% of CBR's FX reserves)
- Prevents CBR from liquidating foreign assets to support the ruble
- Prevents CBR from helping Russian corporates service their FX-denominated liabilities
- Disconnects Russia from global financial system (ex-energy)

Key Question:
Will the US Treasury add the CBR to the Specially Designated Nationals (SDN) list and/or impose "secondary sanctions" on foreign entities that deal with the CBR?

Alternatives for the Central Bank of Russia

Alternatives available to the CBR to defend the currency and stabilize Russia's economy are extremely limited. According to the BIS, Western exposures to Russia have been reduced significantly since the invasion of Crimea in 2014, estimated at $30 bn exposure to Russian banks, and approximately $90 bn to all Russian entities.

Policy alternatives for the CBR without access to its overseas reserves:

- Raise interest rates (Raised from 9.5% to 20% on Feb 28)
- Capital controls
- Sell gold (5th largest stockpile in the world) - likely difficult
- Assistance from China (14% of Reserves held in RMB)

Why assistance from China may be limited?

- Fear of secondary sanctions on Chinese banks, denying access to USD and EUR
- Desire to preserve economic relationship with the West (trade, tech, FDI)
- Significant Chinese BRI investments across Eurasia region
- Xi concern of being viewed as a "responsible global leader"
- China's preference for global order, over disorder

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