Imperialist powers use “financial nuclear weapon” against Russia

Nick Beams
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The major capitalist powers have stepped up the economic warfare against Russia by imposing a series of sanctions aimed at crippling its banking and financial system and potentially crashing its economy.

A joint meeting comprising representatives of the European Commission, France, Germany, Italy, the UK, Canada, and the US on Saturday announced sanctions aimed at cutting off “selected” Russian banks from the Swift international financial messaging system and halting the foreign exchange operations of the Russian central bank.

The ban on the central bank means its foreign reserves are effectively frozen. “We will paralyze the assets of Russia’s central bank,” said European Commission President Ursula von der Leyen, at the conclusion of the meeting.

The meeting statement said the Swift measures would ensure that the targeted banks were “disconnected from the international financial system and harm their ability to operate globally.”

The agreement was only reached after resistance to the new measures from Italy and Germany, both of which are highly dependent on the supplies of natural gas, were overcome when it was agreed that Russian banks crucial in the financing of energy transactions would not be targeted.

The US pushed hard for the Swift sanctions, together with Canada and the UK, but imposing them was described as a “tough process,” not least because European Union trade with Russia amounts to €80 billion, an amount 10 times greater than that of the US.

A *Wall Street Journal* (WSJ) report on the agreement, citing a “senior Biden administration official,” said there was a selection process aimed at minimizing disruption of energy markets.

“We know where most of the energy flows occur, through which banks they occur,” the official told the WSJ. “And if we take that approach, we can simply choose the institutions where most of the energy flows do not occur.” Among those not sanctioned is the Gazprombank, Russia’s third largest, and a major channel for financial transactions involving oil and gas.

According to the WSJ report: “US officials say the exemptions were critical for winning political support for a coordinated and complementary pressure campaign from the broad range of economies, including the US, the UK, and the 27 members states of the EU.” If German objections had not been met, the measures could not have gone ahead because EU decisions must be unanimous.

Even with the exclusion of the banks financing energy transactions, the Swift decision will ratchet up tensions. In 2014, when there was consideration of excluding Russia from the global payments messaging system, Moscow said it would be the equivalent of a declaration of war.

In comments on Friday, the French finance minister, Bruno Le Maire, described cutting off Russian access to the Swift system as “the financial nuclear weapon.”

The decision to impose restrictions on Russia’s central bank was to prevent it from “deploying its international reserves in ways that undermine the impact of our actions,” the joint statement said.

Russia has around $600 billion in foreign currency reserves, in large part the result of its sales of oil and gas. The restrictions on the central banks will prevent it using some of these reserves to prop up the rouble and prevent a complete collapse.

Since the invasion of Ukraine began, masses of people have been queuing up at banks and ATMs trying to withdraw cash in both dollars and roubles, fearing a collapse in the national currency which has plunged in value on international markets.

The central bank has sought to calm those fears issuing a statement on Sunday that it would supply banks with liquidity and place no limit on the amounts they wished to borrow, as well as expanding the list of securities it would accept as collateral to cover their borrowing needs.

"The Russian banking system is stable, has sufficient capital reserves and liquidity to function without outages in any situation," it said, and that all client funds were secure. A domestic payments system that had been developed in case Russia was cut out of Swift would continue to work "in any scenario," it said.

The Russian central bank may seek assistance from China, where 14 percent of its foreign currency reserves are held. But Chinese authorities are likely to be wary of proving overt assistance to Russia because of fears they could be the target of secondary sanctions imposed at the behest of the US.

The targeting of the Russian financial system is a major escalation in the global economic warfare which the US has increasingly practised in the past years, in combination with its military actions, to hit its opponents.

It can do this because almost half of all global payments are made in dollars, which are used to finance about 90 percent of trade finance. The US has used this domination to target Iran and Venezuela, but the move against Russia is a qualitatively new level of financial aggression.

Before the attack on the Russian central bank was announced, Josh Lipsky, who previously worked at the International Monetary Fund and is now director of the Atlantic Council's Geoeconomics Center, said it would be an "extraordinary significant and damaging move" for Russia's economy.

With GDP coming in around $1.7 trillion, Russia is the world's 12th largest economy. "A G20 central bank has never been targeted before," Lipsky said. "This is not Iran. This is not Venezuela."

Edward Fishman, a former US official and now at the Center for a New American Security, told the *Financial Times* the move would be a "devastating blow" to the Russian economy and was more significant than the Swift decision because a "sizeable chunk" of Russia's foreign currency reserves would be rendered "unusable overnight."

The war crisis will have significant blowback effects for the world economy. The prices of oil and gas are rising, along with wheat and other grains as well as metals.

According to one estimate from a forecasting firm, cited by the WSJ, if oil goes up to $110 a barrel, from its present level of around $100, this will push the US annual inflation rate to more than 10 percent. This poses a conundrum for the US Fed and other central banks because the price rises threaten to deliver a blow to global growth.

The Fed was on course for a 0.25 percentage point rise in its base interest rate at its meeting in mid-March followed by as many as six or even seven increases for the rest of the year. But it now faces a situation where it could be lifting rates under conditions of "stagflation"—rising prices and lower or even falling growth.

Bruce Kasman, chief economist at JPMorgan, told the WSJ: "We have not had such a large and broader based overshoot of inflation in decades." A sustained shock could push inflation even higher, leaving the Fed with "some very difficult choices."

Besides the immediate effects on the stock market—all the futures indexes for Wall Street were down at the time of this writing while Asian markets were stable—there could be other financial effects because of the weekend decisions by the major imperialist powers.

Global investors are certain to take a hit, including banks and hedge funds and other financial institutions that have invested in Russian financial markets searching for higher yields.

The Bank for International Settlements has estimated that foreign banks have around $121 billion owed to them by Russian entities. Of this, about $14.7 billion is owed to US banks with $25 billion owed to French and Italian banks.

The biggest Westerns holders of Russian sovereign debt included the German insurance firm Allianz and the US investment firm BlackRock. These giants are large enough to weather the immediate effects of a financial storm. But smaller firms may not, and they have been completely unprepared for the present crisis.

The FT cited the remarks of the head of one of these companies who said at the end of January that talk of "devastating" further sanctions on Russia seemed "rather fictional given the painful self-inflicted repercussions this would have on the global economy, and in particular Western Europe."

It is worth recalling the demise of the $3 billion hedge fund Long Term Capital Management in September 1998, which had to be bailed out by the Fed because it had been heavily involved in Russian rouble bets and its collapse posed a threat to the US financial system.