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RESERVES OF THE CENTRAL BANK OF RUSSIA AS AN OBJECT OF SANCTIONS DUE TO MILITARY AGGRESSION IN UKRAINE¹

One of the key objects of sanctions is the reserves of the Central Bank of russia. The sanctions have led to a certain reduction in russia’s international reserves, but they still remain at a fairly high level compared to other countries.

The structure of the central bank’s reserves consists of the following types: international reserves, gold, Special Drawing Rights (SDR), national currency reserves, investment reserves, and others. According to data published by the Central Bank of the russian federation on its official website, as of September 1, 2021, the total amount of assets in the reserves of the Central Bank of the russian federation was 610.9 billion US dollars [1].

These data (Fig. 1) show that the size of reserves of the Central Bank of the russian federation as of February 23, 2023 amounted to 607.9 billion US dollars, which is 3.8 billion dollars more than at the beginning of the year. However, there were fluctuations in the size of reserves during 2022, which may be due to changes in global financial markets, including changes in prices for oil and other resources, as well as changes in the volume of exports and imports of russian goods.

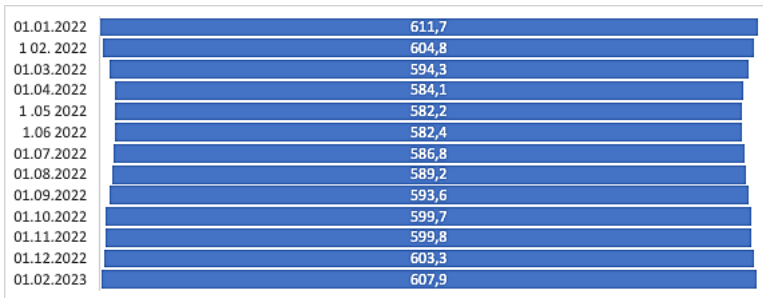
¹ The study was conducted within the framework of Project «Russian Assets As the Source to Restore the Ukrainian Economy», which is performed in NGO “National Interests Advocacy Network “ANTS”, with the support of National Democratic Institute for International Affairs (NDI)

Table 1

**Structure of reserves of the Central Bank
of the russian federation as of January 1, 2022**

| Type of reserves | Percentage of total reserves | Absolute value (in billion dollars) |
|------------------------|------------------------------|--|
| Gold | 23,9 | 127,1 |
| Profitable investments | 27,6 | 146,9 |
| Currency instruments | 46,3 | 246,2 |
| Other assets | 2,2 | 11,7 |

Source: [1]



**Figure 1. Dynamics of reserves of the Central Bank
of the russian federation**

Source: [2]

After the outbreak of war with Ukraine on February 24, 2022, the structure of reserves of the Central Bank of the Russian Federation underwent changes. In particular, there was a decrease in the volume of Russia's international reserves due to a number of economic and financial sanctions, which were subject to various restrictions from other countries.

Table 2

**The structure of reserves of the Central Bank of the Russian Federation
as of February 23, 2023 (according to the latest bulletin)**

| Type of reserves | Percentage of total reserves | Absolute value (in billion dollars) |
|------------------------|---------------------------------|--|
| Gold | 22,5 | 126,1 |
| Profitable investments | 30,7 | 172,2 |
| Currency instruments | 43,3 | 243,1 |
| Other assets | 3,5 | 19,5 |

Source: [3]

As can be seen from the Table 2, the Central Bank of the Russian Federation announced an increase in the share of gold in the total composition of international reserves and a decrease in the share of US dollars. According to the latest press release of the Bank of Russia [3], gold is one of the main components of the international reserves of the Russian Federation, but not the only one, because a significant part of the reserves are other assets, such as government securities and currencies of other countries.

An increase in the percentage of profitable investments and other assets, as well as a decrease in the percentage of foreign currency instruments, indicates a change in the reserve management strategy of the Central Bank of the Russian Federation.

According to the report [3], the structure of reserves of the Central Bank of Russia is dominated by international reserves, which as of February 1, 2023 amounted to 569.4 billion US dollars, which is more than 90% of the total amount of reserves. In this group of international reserves, according to the report, the largest part is made up of foreign currency assets, which amount to 482.4 billion US dollars. International reserves also include gold, international currency rights, and special drawing rights (SDR), but their total value is much lower.

The second largest group consists of reserves of the national currency, which as of February 1, 2023 amounted to 61.5 billion US dollars, which is about 10% of the total amount of reserves. According to the report, national reserves are dominated by gold.

The third largest group consists of special reserves, which as of February 1, 2023 amounted to 0.05 billion US dollars, which is less than 1% of the total amount of reserves [3]. Thus, according to the report, international reserves are the most significant part of the total reserves of the Central Bank of Russia.

The world has imposed various sanctions against the financial system of Russia due to military aggression in Ukraine since 2014. Some of them [4]:

- USA: in 2014, American banks were banned from maintaining the position of the Russian central bank and banned from buying new Russian bonds.
- EU: in 2014, it imposed sanctions that prohibit European banks from buying new Russian bonds.
- Japan: banned banks from buying new Russian bonds in 2014.
- Canada: in 2015, a ban on buying new Russian bonds.
- Australia: in 2014, it imposed restrictions on the purchase of Russian bonds for its banks.
- Switzerland: in 2015, it imposed sanctions that prohibit the purchase of new Russian bonds.

– Norway: in 2014, it imposed sanctions that prohibit the purchase of new russian bonds.

In 2018, the United States imposed new sanctions on russia, which included restrictions on trade in certain types of russian bonds, which affected the central bank’s reserves. In addition, the United States continues to impose other sanctions against russia, such as a ban on the import of certain goods and a ban on issuing visas to some russian officials.

In response to the full-scale armed aggression on the territory of Ukraine, which was launched by Russian troops on February 24, 2022, democratic countries agreed to impose new sanctions to restrict investments in Russian government bonds, ban certain types of exports and imports of goods, restrict access to financial markets and block the assets of the central bank reserves of the Russian Federation.

According to Bloomberg analysts, the decrease in russia’s reserves in February 2023 is attributed to lower prices for oil and natural gas, russia’s main export product, as well as an increase in capital outflows from the country. Analysts predict that the coming months may also be challenging for russia’s reserves, given geopolitical tensions and the risks of changing international financial regulatory standards [5].

Instead, each country that holds russian Central Bank reserves should declare them now. They should also adopt a special law for the confiscation of such assets and their transfer to Ukrainian reconstruction. And the Ukrainian government should make this a top demand [6].

One of the key *economic* objectives of the central bank sanctions is therefore to bring about a collapse of the exchange rate of the ruble, as one top official in the Biden administration openly acknowledged: “No country is sanctions-proof and Putin’s war chest of \$630 billion in reserves only matters if he can use it to defend his currency value of the russian ruble against major currencies, specifically by selling those reserves in exchange for buying the ruble.” [7] In the days following the announcement of the sanctions, the ruble plunged by almost 40 percent against the US dollar and the euro [8].

The russian economy did not suffer as expected. The ruble exchange rate has strengthened. russia’s GDP in 2022 is only minus 2.5%, inflation is 12%, and the budget deficit is 2.3% of GDP [2].

Sanctions that are adopted politically should be transformed into subsequent court decisions on the seizure and confiscation of assets of persons under sanctions, to bring to economic responsibility for the crimes of the aggressor country – the russian federation and its residents, and to compensate Ukraine for the destruction and damage caused. However, such previous successful precedents are insufficient and there is a need to develop new legal mechanisms for confiscation.

Ukraine (2022, May) and Canada (2022, June) adopted special laws on the confiscation of assets under sanctions, the United States (2022, December) adopted a law on the possibility of selling and further transferring to Ukraine as international assistance property confiscated under a criminal sentence or under civil confiscation. The resolution of the Verkhovna Rada of Ukraine on February 23, 2023 approved the decision of the National Security and Defense Council of Ukraine of February 22, 2023 “On the application of sectoral special economic and other restrictive measures (sanctions) to financial institutions of the russian federation”, which applied a wide range of sanctions restrictions on the entire financial sector of the russian federation, which can serve as an example for other democratic countries [9].

A significant economic responsibility of the russian federation for military aggression could be the confiscation of reserves of the Central Bank of the russian federation in the amount of about 300 billion which are blocked in USA, UK, France, Germany, Canada, Australia, Switzerland, Japan, Norway and other countries in Euro, US Dollar, Pound Sterling, Canadian Dollar, Australian Dollar, Swiss Franc, Norwegian Krone, Danish Krone, Swedish Krona, Japanese Yen, South Korean Won, etc.

According to experts, the reserves of the Central Bank of russia may become the object of further sanctions due to their use to support russia’s aggressive foreign policy. Therefore, we believe that the priority of the public and the governments of the world and Ukraine is to draw attention to such an object in order to increase economic pressure and eliminate the possibility of the aggressor to continue military operations in Ukraine.

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