

Politics

Russia Asset Seizure Law Spurs Yellen Praise, Dollar Angst

- Lawmakers argue over effect on dollar, US Treasury market
- Congress passed new seizure powers as part of Ukraine aid bill



The REPO measure gives the president the option to seize assets rather than mandating the government to do so. *Photographer: Andrew Harrer/Bloomberg*

By [Erik Wasson](#) and [Enda Curran](#)

April 24, 2024 at 12:24 PM EDT

Updated on April 24, 2024 at 1:51 PM EDT

Congressional passage Tuesday of authority granting President Joe Biden new powers to seize Russian dollar assets to aid Ukraine has intensified debate over the potential consequences of foreign demand for US Treasuries and use of the dollar.

The so-called REPO provision was added to a \$95 billion Ukraine, Taiwan and Israel aid package by House Republican leaders and Biden signed the measure into law Wednesday. It lets the president transfer Russian

government assets to a Ukraine reconstruction fund, with some restrictions requiring coordinated action with allies and a judicial review.

“It is necessary and urgent for our international coalition to unlock the value of immobilized Russian sovereign assets,” Treasury Secretary Janet Yellen said in a statement. “Congress took an important step in that effort with the passage of the REPO Act, and I will continue intensive discussions with our G-7 partners in the weeks ahead on a collective path forward.”

Group of Seven finance chiefs discussed the potential use of frozen Russian assets last week, with officials from Europe – where the vast majority of the holdings sit – expressing continued concern about the legal precedent.

Seize or Freeze Russian Assets? It’s a Fraught Debate: QuickTake

Similar angst comes from a number of US Republicans, who claim the step would undermine demand for Treasuries and, more broadly, the role of the dollar in the global financial system.

“We already have a lot of pressure on American bond markets, between inflation and the deficits that we have so, yeah, I’m concerned about it,” Ohio GOP Senator J.D. Vance, the REPO bill’s chief Senate critic, said Tuesday. “We have to be careful.”



JD Vance Photographer: Al Drago/Bloomberg

Vance isn't alone in his sentiment. Worries about eroding the dollar's position as the world's dominant currency surfaced in 2022, when the US and its allies froze Russia's assets following Moscow's invasion of Ukraine. Economists highlighted that the joint nature of the action helped insulate such concerns however, and the Biden administration has signaled it will continue to act in concert with its partners.

More on the Russia-dollar debate:

[Biden's Dollar Weaponization Supercharges Hunt for Alternatives](#)

[China's Yuan Replaces Dollar as Most Traded Currency in Russia](#)

[Dollar's Superpower Status at Risk From Turmoil Home and Abroad](#)

“If the US did so without similar actions from other G-7 economies, the US would bear any ‘seizure risk premium’ on its own,” said Gerard DiPippo, a senior geo-economics analyst at Bloomberg Economics. “This is something the White House would want to avoid and reason to doubt the US would act unilaterally.”

Russia this week vowed to “retaliate” against any seizure of its assets, as well as fight such moves in court should they transpire. Critics warn that could lead to a confiscation of US individuals’ assets in Russia. The REPO bill author, Senator Jim Risch, an Idaho Republican, and other advocates have stressed that Russia has already expropriated foreign assets, regardless of the new law. He said worries about Russian asset seizure impact on financial markets are “way overblown.”

Another piece of the legislation signed Wednesday includes stepped-up scrutiny of Chinese banks’ transactions with another US nemesis – Iran. That move similarly may stoke concerns about Washington’s use of access to the dollar as a geopolitical tool.

While it’s unlikely the US would actually sanction major Chinese financial institutions, taking such a step could have far-reaching effects, according to JPMorgan Chase & Co.

‘De-Dollarization’

“China may accelerate the process of de-dollarization,” JPMorgan analysts including Katherine Lei wrote in a note to clients Wednesday. About 70% of Chinese international trade is still denominated in dollars, JPMorgan estimates.

Paola Subacchi, author of *The Cost of Free Money*, said, “Countries that use the dollar for international trade and finance need to be sure that their assets will not be seized on the whim of the US.”

Still, as a global store of value, there’s little to compete for now with the dollar, backed by the vast size and liquidity of some \$27 trillion of marketable Treasuries and an independent legal system to enforce contracts.

“America’s supercharged weaponization of its currency through the seizure of dollar reserves will certainly cause US rivals” to look at de-dollarization, said Eswar Prasad, a former International Monetary Fund official now at Cornell University. But the moves may be limited “because currencies such

as the yuan are not backed up by strong, deep, and open financial markets, in addition to a robust institutional framework.”

Ukraine Funding

Meantime, Ukraine’s desperate situation means funding needs are acute. The legislation enacted Wednesday includes \$9.5 billion in economic assistance, in the form of a forgivable loan. By comparison, about \$280 billion in Russian assets have been frozen, with more than two thirds blocked in the European Union.

US lawmakers estimate about \$5 billion of Russian assets in the US. US Treasury data show about \$4.7 billion of Russian securities holdings in 2021, before the Ukraine invasion.

The REPO measure, which met with White House skepticism when first proposed, was tweaked to give the president the option to seize assets rather than mandating the government to do so. That helped win the administration’s backing.

Adding the provision was key to getting the aid package passed in the Republican-controlled House last week, and helped increase GOP support in the Senate this week.

“When I started this, it wasn’t the most popular idea because it is not what we always do. But it’s the right thing to do,” said Risch. “Russia should pay the consequences of this.”

(Adds Risch comment in third paragraph before ‘De-Dollarization’ subheadline. A previous version of this story corrected the year in first paragraph before ‘read more’ table of extra stories.)

©2024 Bloomberg L.P. All Rights Reserved.
