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Russia-Ukraine War ›

U.S. escalates sanctions with a freeze on Russian central bank assets.

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Alan Rappeport

WASHINGTON — The Treasury Department on Monday moved to further cut off Russia from the global economy, announcing that it would immobilize Russian central bank assets that are held in the United States and impose sanctions on the Russian Direct Investment Fund, a sovereign wealth fund that is run by a close ally of President Vladimir V. Putin.

The moves are meant to curb Russia's ability to use its war chest of international reserves to blunt the impact of sanctions that the United States and European allies have enacted in response to Russia's invasion of Ukraine.

"The unprecedented action we are taking today will significantly limit Russia's ability to use assets to finance its destabilizing activities, and target the funds Putin and his inner circle depend on to enable his invasion of Ukraine," Treasury Secretary Janet L. Yellen said in a statement.

Russia has spent the last several years bolstering its defenses against sanctions, amassing $643 billion in foreign currency reserves in part by diverting its oil and gas revenues and reducing its holdings of U.S. dollars. New restrictions by the United States and its allies against selling rubles to Russia aim to undercut the country's ability to support its currency in the face of new sanctions on its financial sector.

As a result of the sanctions, Americans are barred from taking part in any transactions involving the Russian central bank, Russia's National Wealth Fund or the Russian Ministry of Finance.

Any Russian central bank assets that are held in U.S. financial institutions are now stuck, and financial institutions outside the United States that hold dollars for the bank cannot move them. Because the United States has acted in coordination with European allies, Russia's ability to use its international reserves to support its currency has been curbed. Japan joined with Western allies in imposing the central bank sanctions, freezing Russia's yen-denominated foreign reserves, the news agency Nikkei reported.

"This is simply unprecedented to a scale and scope that we haven't seen since the Cold War," said John E. Smith, the former director of the Treasury Department's Office of Foreign Assets Control. "Sanctions against the Central Bank of Russia and the central bank's assets held worldwide are simply beyond comparison to previous sanctions regimes, particularly involving a major power like

Russia."

It is not clear how much of Russia's currency reserves are held in U.S. dollars, and Biden administration officials declined to provide an estimate in a briefing with reporters on Monday.

The sanctions on the Russian Direct Investment Fund represent an expansion of the effort to sever Russian financial ties from the rest of the world and punish Russian elites. The Treasury Department described the fund, which was created in 2011 and operates in the insurance and financial services industries, as Mr. Putin's "slush fund" and emblematic of Russia's kleptocracy. The chief executive of the fund is Kirill Dmitriev, a close ally of Mr. Putin.

The fund, according to its website, works with the "world's foremost investors" to make direct investments in leading and promising Russian companies. It has reserved capital of $10 billion under management and has attracted over $40 billion into the Russian economy. The sanctions ban any Americans from investing in the fund and freeze any assets that it holds in the United States.

Senior Biden administration officials said the actions were effective immediately. They noted that the value of Russia's ruble had already fallen more than 30 percent over the weekend and that Russia's central bank more than doubled its interest rate to try to mitigate the fallout. They also predicted that inflation would soon spike and economic activity would contract as the country's currency lost value.

Even nations that usually remain neutral in global disputes entered the fray.

Switzerland, a favorite destination for Russian oligarchs and their money, announced on Monday that it would freeze Russian financial assets in the country, setting aside its tradition of neutrality to join the European Union and a growing number of nations seeking to penalize Russia for the invasion of Ukraine. The country said it would immediately freeze the assets of Mr. Putin, Prime Minister Mikhail V. Mishustin and Foreign Minister Sergey V. Lavrov, as well as all 367 individuals the European Union imposed sanctions on last week.

More aggressive actions in that vein could be in store. Senator Christopher S. Murphy, Democrat of Connecticut, said after a classified briefing on Monday that the United States and allies were preparing to go beyond freezing the assets of Mr. Putin and Russian oligarchs and actually begin seizing them.

"This is likely a further step than Putin's inner circle anticipated," Mr. Murphy said on Twitter.

The U.S. moves represent a significant escalation of sanctions, although the Treasury Department said it was making an exemption to ensure that transactions related to Russia's energy exports could continue. It is issuing a "general license" to authorize certain energy-related transactions with the Russian central bank.

The carve-out means that energy payments will continue to flow, mitigating risks to global energy markets and Europe, which is heavily reliant on Russian oil and gas exports. U.S. officials said that they wanted energy prices to remain steady and that they did not want a spike in prices to benefit Mr. Putin. However, they noted that they were considering measures that would restrict Russia from acquiring technology it needs to be an energy production leader in the long term.

“The U.S. and other Western economies have deployed a set of highly potent financial weapons against Russia with remarkable speed,” said Eswar Prasad, a Cornell University economics professor and a former International Monetary Fund official. “Cutting off access to global financial markets and to a country’s war chest of international reserves held in currencies of Western economies amounts to a crippling financial blow, especially to an economy like Russia’s that relies to such a large extent on export revenues.”

The measures announced on Monday were born from lessons the United States has learned since imposing sanctions on Russia after its annexation of Crimea in 2014. A senior Biden administration official said that Mr. Putin began amassing international reserves after 2014 to blunt the impact of future sanctions and that the United States, in preparing to exert new pressure on Russia’s economy, determined during months of preparation with European allies that it would need to target Russia’s central bank directly.

Mr. Smith, who is now a partner at the law firm Morrison & Foerster, said it was evident that former Obama administration officials who handled Russia sanctions in 2014 were now applying what they learned from that experience in the Biden administration.

“They are utilizing all of the weapons in the U.S. arsenal, some of which the U.S. feared to use in 2014 and others of which the U.S. might have wanted to do and could not get European buy-in,” he said.

The sanctions also replicate some of the economic warfare that the United States has used against Iran in recent years, which included sanctions on its central bank and blocking its financial institutions from the SWIFT financial messaging system.

On Saturday, the European Commission, Britain, Canada, France, Germany, Italy and the United States said they would remove some Russian banks from SWIFT, essentially barring them from international transactions, and impose new restrictions on Russia’s central bank to prevent it from using its large international reserves to sidestep sanctions.

Biden administration officials said on Monday that the full list of Russian banks that are being cut off from SWIFT is still being completed in coordination with European countries.

While the global sanctions response is already taking a toll on Russia’s markets, how they are enforced will be critical in determining their effectiveness.

Juan C. Zarate, a former assistant secretary of the Treasury for terrorist financing and financial crimes during the George W. Bush administration, said that sanctions had become the international response of choice to Russia’s aggression, but that nations would have to be rigorous in ensuring that its central bank assets remained ring-fenced and that Russian financial transactions were blocked.

“The devil is in the details of how sanctions are enforced,” Mr. Zarate said. “It’s not good enough to have names on a list.”

Lananh Nguyen contributed reporting.

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Russia-Ukraine War ›

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In Russia

- As the war goes on, President Vladimir V. Putin is fighting a parallel battle on the home front, dismantling the last vestiges of a Russian free press.
- Lukoil, Russia's second-largest oil company, appeared to distance itself from the Russian government by calling for a "fast resolution" to the invasion.

Around the World

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- Several countries have adopted broad measures against Russia. In the United States, lawmakers are pursuing a ban on Russian oil imports.