Warsaw, 26 February 2022

Expelling Russia from SWIFT is not enough. The EU needs to target Russian banks directly

Everything suggests that EU leaders will decide to expel Russia from the SWIFT system. However, this will not bring long-term results; it will merely disrupt the banking system's operation for a few days. Only freezing Russian oligarchs' assets and banning transactions in euros for Russian banks will have an impact on the Russian economy. These steps should cover Belarus, too.

"It seems that the decision to cut Russia off from SWIFT is a matter of hours. *It will be a strong blow to Russia's image that will put it an equal footing with Iran, which was expelled from the system in 2012. It will cause chaos in the Russian financial system, but only have short-term economic effects. Following short-lived downtime, Russia will replace SWIFT with another system, such as the internal SPFS or the Chinese CIPS.* ***Financial sanctions against Russian and Belarusian oligarchs are needed.*** *There are currently 13 billionaires on the US sanctions list, with assets estimated at over USD 66 billion. The EU should introduce similar* restrictions," says Piotr Arak, Director of the Polish Economic Institute

What is the SWIFT system?

The SWIFT system is an international interbank network for exchanging information on foreign transfer orders. Its headquarters is located in Brussels and is subject to EU legislation. It sends the bank equivalent of an email. The system enables standardised information on transactions between exporters and importers to be sent. Its purpose is to shorten the time needed to carry out the order and to automate transfers. The SWIFT system's role is purely informative; it does not settle monetary transactions.

What would Russia's expulsion from the SWIFT system mean?

In Russia, the SWIFT system is used by 314 financial institutions. 390 million direct debits per year are carried out via this network – around 1.5 million each working day. If Russia is expelled from the system, all these operations will have to be performed manually; for example, via telephone orders, fax or applications. This means that servicing financial transactions will take longer. According to the Bank for International Settlements, the current average is around 2 hours; without SWIFT, it will be twice or even three times longer.

Further sanctions will be needed – the EU should freeze Russian assets

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"SWIFT is just a transaction support system. Expelling Russia from it does not mean a ban on trading with Russian banks or freezing their assets – so far, these kinds of sanctions have been introduced by the UK and the US. The US has cut off the largest Russian banks from transactions in dollars. EU have ruled out this kind of move for the time being. Ukraine is still waiting for it, because only freezing the Russian elite's accounts may reduce support for the escalation of the military conflict. A ban on transactions in euros is needed, too – analogous to the sanctions announced by the US on Thursday, the day of the invasion. European sanctions are much more significant than the American ones because, in recent years, Russia has been moving away from financing foreign trade in dollars, choosing euros instead," says Piotr Arak, Director of the Polish Economic Institute.

Sectoral sanctions are needed

Western countries should compile a list of products needed for the key economic sectors in Russia to function. They should then take steps to persuade suppliers of these products to leave the Russian market; for example, by offering compensation. Real-time market data providers could be a good example. Their absence would effectively paralyse the Russian financial system.

The risk of investing in Russia is underestimated globally

Rating agencies are still upholding Russia's investment grade. Only S&P has downgraded it to BB+. This is definitely an oversight, because the conflict is reducing Russia's financial credibility with every day. As a result, some European investors may still be investing in the country without being aware of the risk.

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The Polish Economic Institute is a public economic think tank dating back to 1928. Its research primarily spans macroeconomics, energy and climate, foreign trade, economic foresight, the digital economy and behavioural economics. The Institute provides reports, analyses and recommendations for key areas of the economy and social life in Poland, taking into account the international situation.

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