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SYMPOSIUM: EUROPEAN POLITICS AFTER THE INVASION (PART I)

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Weaponisation of finance: the role of European central banks and financial sanctions against Russia

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ABSTRACT

In response to Russia's full-scale invasion of Ukraine, the Group of Seven (G7) countries and the European Union (EU) adopted a variety of financial sanctions, including the freezing of foreign reserve assets of the Central Bank of Russia held by other central banks. Drawing on a Principal-Agent framework and on speeches, newspaper articles and interviews with policy-makers, this study examines what it means for the ECB and the central banks of the Eurosystem to be involved in these sanctions. As a consequence of these actions, these central banks have been enlisted in monetary and financial warfare. Moreover, the three-fold objective of the ECB has de facto effectively been reweighted somewhat, as the focus on 'price stability' (primary objective) has become seemingly temporarily less prominent. Instead, the secondary and tertiary objectives have moved centre-stage, favouring geopolitical considerations.

KEYWORDS Central banks; ECB; financial sanctions; geopolitics; Principal-Agent; Russia; Ukraine

The Group of Seven (G7) countries, namely, Canada, France, Germany, Italy, Japan, United Kingdom (UK) and the United States (US), together with the European Union (EU), responded in concert to the Russia full-scale invasion of Ukraine (see European Commission 2022; Frum 2022). They adopted a vast array of economic and financial sanctions against Russia. Of particular importance were the financial sanctions that involved in various ways central banks, first and foremost, the freezing of the foreign reserves of the Central Bank of the Russian Federation or 'Central Bank of Russia' (CBR). These sanctions were generally seen to signal a break with the past and to be of considerable significance. For instance, the Financial Times published a leading article entitled 'The

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