

Discussion of

**“Seizing central bank assets?”**

*by* Ferrari Minesso, Krahnke, Mehl and Vansteenkiste

Martin Ellison

Oxford

# The paper

- New database of sanctions on central bank assets
- Conceptual framework for understanding global macroeconomic and financial impacts of sanctions
- Sanctions can backfire in general equilibrium
- Potentially large impact on US treasury yields ( $\approx 60$  bp)

# The mechanism

- Sanctions reduce money supply in sanctioned country
- Prices fall in sanctioned country
- Real exchange rate depreciation
- Boom in sanctioning country raises  $\pi$
- Monetary policy in sanctioning country reacts by increasing  $R$
- Stronger if seizure vs freeze and if sanctioned country excluded from bond markets

# Intuitive assessment

- Russia share of world GDP  $\approx$  2%
- Russia share of US imports  $\approx$  0.16%
- Would expect trade impact of seizure to be small
- Bank of Russia, once a significant holder of US state debt, does not hold US treasuries and does not purchase them (TASS, December 2023)
- US treasuries held by residents of Russia fell from \$10 billion in January 2020 to \$46 million in April 2024

# Technical assessment

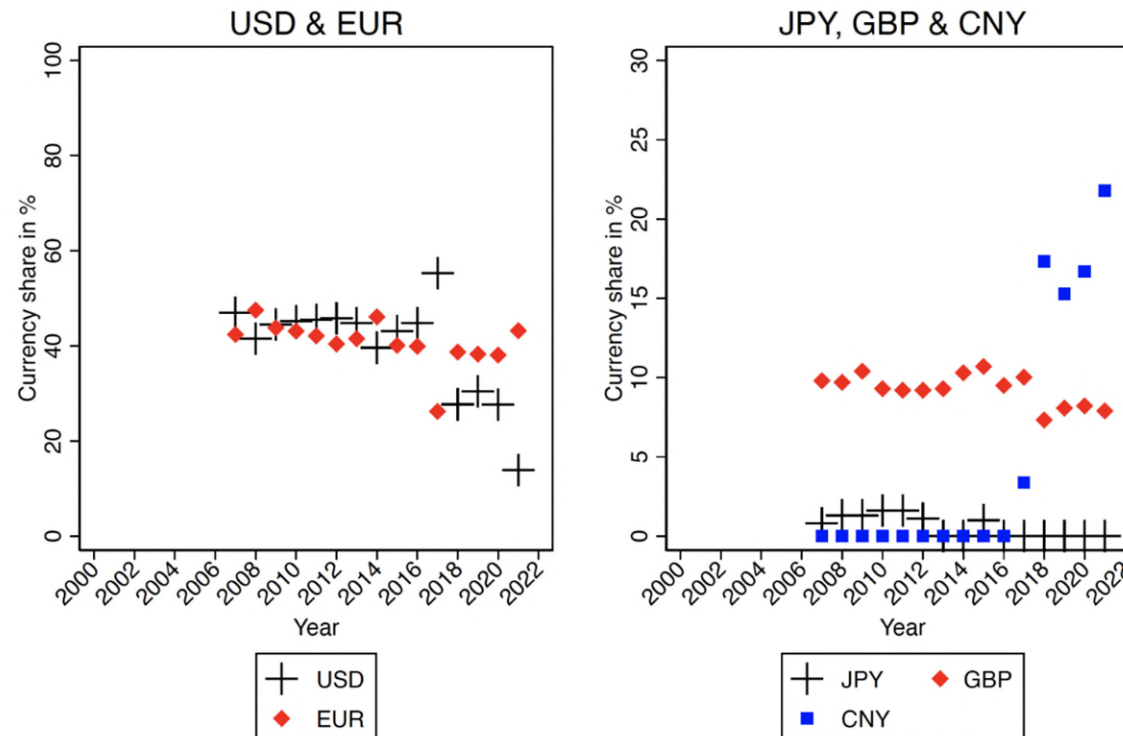
- Money backed by CES aggregator of US treasuries, gold, and domestic bonds

$$\frac{M}{P} = [\varphi_b(\text{US treasuries})^\gamma + \varphi_g(\text{gold})^\gamma + \varphi_d(\text{domestic bonds})^\gamma]^{1/\gamma}$$

- Model simulations set  $\gamma = 2$  so CES  $\sigma = 1/(1 - \gamma) = -1!$
- Increasing returns to each argument in aggregator
- Optimal policy a corner solution and FOCs do not hold
- Problem (and simulations?) not well defined

# Missing mechanism?

- US dollar and gold only international reserves in the model
- Currency composition of international reserve holdings of Russia (Laser, Mihailov and Weidner, 2024)



# The bigger picture

- Model measures trade effect of sanctions – likely to be small
- What happens to US\$ as global reserve currency?
- Exorbitant privilege worth about 250bp on US treasury yields (Gourinchas and Rey 2007)
- China holds \$774.6 billion of US treasuries (9.1% of total, 2024)