Key Questions

March 7, 2022

What are the implications of banning Russia from SWIFT?

Jim Thomas, National Head of Banking, Key Private Bank

The Key Wealth Institute is a team of highly experienced professionals from across wealth management, dedicated to delivering commentary and financial advice. From strategies to manage your wealth to the latest political and industry news, the Key Wealth Institute provides proactive insights to help grow your wealth.

Over the last week, the United States and other countries have imposed various sanctions on Russia for its invasion of Ukraine. Among those sanctions was the plan for the US and Europe to block a number of Russian banks from the Society for Worldwide Interbank Financial Telecommunication, or SWIFT, a global banking network. When implemented, this sanction is projected to inflict significant financial damage to the Russian economy at a manageable cost for the US and its allies.

What is SWIFT?

Founded and based in Brussels, SWIFT is a messaging network that allows banks around the world to communicate about cross-border payments securely and quickly. SWIFT is not a conventional bank that directly moves money. Its platform is used by banks to alert other banks when transactions are about to take place, greatly expediting those payments.

SWIFT is controlled by the central bank of the G10 countries, the European Central Bank, and the National Bank of Belgium. About 11,000 member banks in 200 countries and territories use SWIFT; in 2021 SWIFT recorded an average of 42 million messages per day.

Why was the removal of the Russian banks delayed?

The US pushed to block the Russian banks from SWIFT from the opening days of the invasion, but that decision required approval from other European countries. Those countries were hesitant to immediately expel Russia, primarily because of the EU's broad reliance on Russia for energy, and the generally fragile nature of their economies coming out of the COVID pandemic.

Another concern was the potential creation of stronger economic ties between Russia and China, and their possible development of a secondary financial messaging system that would compete directly with SWIFT and threaten to replace it.

SWIFT removal of Russian banks

On Feb. 26, the US, the European Commission, the United Kingdom, and Canada announced a commitment to ensure that certain Russian banks would be removed or have access severely restricted from the SWIFT messaging system. Japan later announced it would do the same. On March 2, the EU announced the names of the seven Russian banks that would be excluded from SWIFT beginning March 12. More banks could be added to the list, depending on Russia's future actions.

Removal from SWIFT, combined with the freezing of the Russian Central Bank's foreign assets on Feb. 28, had an immediate impact: The ruble fell by approximately 30 percent and the central bank doubled interest rates to 20 percent and imposed controls on payments abroad.

What are the implications of banning Russia from SWIFT?

What does this mean?

Countries like North Korea and Iran have long been cut off from SWIFT, however the Russian economy is significantly more sophisticated, and its financial system is more integral to its operation. Even though countries tend to adapt and generally find ways around sanctions, the short-term economic impact of even a partial, but extendable, ban from SWIFT will likely have sharp economic costs to Russia.

The pure impact of removing Russian banks from SWIFT is relatively minimal to the West. To be clear, SWIFT is only a messaging platform that makes the movement of money more efficient. Since the invasion began, many countries have stopped doing business with Russia altogether, so there would be no messages to send in support of payments

The real impact on the West will be less about SWIFT than the sanctions themselves. Inflation is already at its highest point since 1982 and will be exacerbated when Russian oil and natural gas are completely removed from the market. In recent years, 40 percent of the natural gas and 25 percent of the oil used by Europe was supplied by Russia.

The United States' reliance on Russian energy is minimal, but the removal of such a significant supply of energy from the global market will be felt by the entire world. This will translate into higher prices not only for gasoline but also many other products for which oil and its byproducts are required components, notably transportation. Inflation will worsen in the near term and it remains to be seen how long it will take for the energy markets to return to a state of equilibrium.

For more information, please contact your advisor.

The Key Wealth Institute is comprised of a collection of financial professionals representing Key entities including Key Private Bank, KeyBank Institutional Advisors, and Key Investment Services. Any opinions, projections, or recommendations contained herein are subject to change without notice and are not intended as individual investment advice. This material is presented for informational purposes only and should not be construed as individual tax or financial advice.

Bank and trust products are provided by KeyBank National Association (KeyBank), Member FDIC and Equal Housing Lender. Key Private Bank and KeyBank Institutional Advisors are part of KeyBank. Investment products, brokerage and investment advisory services are offered through Key Investment Services LLC (KIS), member FINRA/SIPC and SEC-registered investment advisor. Insurance products are offered through KeyCorp Insurance Agency USA, Inc. (KIA). KIS and KIA are affiliated with KeyBank.

Investment and insurance products are:

NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE • NOT A DEPOSIT • NOT INSURED BY ANY FEDERAL OR STATE GOVERNMENT AGENCY

KeyBank and its affiliates do not provide tax or legal advice. Individuals should consult their personal tax advisor before making any tax-related investment decisions.

© 2022 KeyCorp.

210714-1142677-1229198320