Central Banks Hoarding Gold After Russian Asset Freeze

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Following the Western sanctions that froze Russian assets abroad because of the special military operation in Ukraine, sovereign investors now prefer to hoard physical gold over derivatives or equity indexes (ETFs). According to a survey of central banks published on July 9, many countries want to bring their physical gold reserves back home to avoid Russian-style sanctions on their foreign assets.

In 2022 alone, central banks worldwide made record purchases of gold, a trend that was repeated in the first quarter of this year, according to research by asset manager Invesco. China and Turkey together accounted for nearly a fifth of these purchases.

The warning launched by the US and other Western countries, which decided to freeze Russian assets and are still looking for legal means to justify their thievery, led financial institutions to buy physical gold instead of derivatives or funds.

The Invesco survey found that 68% of central banks held part of their gold reserves domestically, up from 50% in 2020. The survey showed that that figure is expected to rise to 74% in five years.

Shortly after Moscow's special military operation started, the European Union, the US and other G7 countries announced that they would impose sanctions on Russia's central bank and prevent it from accessing around $300 billion in reserves held abroad.

Against this backdrop, global demand for gold reached an 11-year high of 4,741 tonnes in 2022, up from 3,678 tonnes in 2020. According to the World Gold Council, this drove central bank purchases and heightened retail investor interest. But while physical gold has been in strong demand, gold ETFs have seen combined outflows of nearly 300 tonnes in 2021 and 2022.

This is particularly important for countries attempting to decouple from Washington's financial blackmail, especially in view of hundreds of billions of dollars in Russian assets becoming unreachable abroad in 2022 after the Ukraine crisis became a proxy war between NATO and Russia.

For his part, the Belgian prime minister announced on June 30 plans to collect €3 billion a year in windfall revenues from Russian assets frozen in the country's coffers to give them to Ukraine for "reconstruction" purposes.

> "We are working on a windfall tax," Alexander de Croo told reporters after meeting with other EU leaders at the bloc's summit in Brussels.

A day before the summit, De Croo explained that Belgium was "very involved" in the issue because more than 90% of Russian assets frozen in EU jurisdiction are in Belgian banks.

The European Commission estimated in May that the bloc froze more than €200 billion in assets belonging to the Central Bank of Russia, in addition to €24.1 billion belonging to companies, tycoons and other Russian individuals.

If the plan were to go ahead, it would constitute a double theft – firstly, by seizing the money, and secondly, by preventing Russia from collecting its due interest. The theft becomes aggravated with insult since the money will be given to financing Kiev's war against Russia, and if the money is thus transferred by order of the EU member state, it will be an act of war since a country that provides financial support to another may be considered under international law as a party involved in the war.

Such theft would constitute a flagrant violation of the Charter of the United Nations, and for EU member states, it would undermine the rule of law in Europe because if they can do it to Russia, they can do it to the assets of any citizen. The scheme shows that, in effect, no one is protected and that contracts between customers and banks in Western jurisdiction effectively mean nothing because they can be broken at will and for any reason.

That, in turn, obviously threatens to undermine the credibility of Western banks among foreign depositors. As Invesco reported, the repercussions of such a policy are now being felt as countries put their trust in holding onto their own reserves of gold.

"We've now transferred our gold reserves back to our own country to keep it safe — its role now is to be a safe-haven asset," an unnamed central bank in the West told Invesco, adding that they increased its gold holdings eight to 10 years ago and used to hold it in London.

These were the long-term repercussions of sanctioning Russia and freezing its assets that many experts warned about. However, it was expected that it would only be non-Western countries and institutions that would grow suspicious of Washington, London, and Brussels, thus demonstrating the short-sightedness of their policy as even institutions in the West have become suspicious.

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