EX-Central Banker: Russian Asset Theft Will Destroy EU Markets

The European Union just decided to permanently freeze 140 Billion Euros or so of Russian State assets and basically expropriate the Russian state. What does mean for Europe as an economy and as a market place? Here to help with this question is Dejan Soskic, a Professor at the University of Belgarde and former Governor of the Serbian Central bank. Links: Neutrality Studies substack: https://pascallottaz.substack.com Goods Store: https://neutralitystudies-shop.fourthwall.com Timestamps: 00:00:00 Permanent Freeze of Russian Assets 00:09:50 Why Central Banks Hold Foreign Reserves 00:16:53 Why Russia Used Euroclear 00:20:46 Is €140 Billion Significant for Russia? 00:27:06 The "Collateralized Loan" Scheme 00:37:25 Legal Risks Beyond the EU 00:39:09 Why Not Just Expropriate? 00:42:30 Moving Reserves to China 00:46:25 Weaponizing the Financial System

#Pascal

The European Union just decided to permanently freeze about 140 billion euros of Russian state assets and basically expropriate the Russian state. What does this mean for Europe as an economy and as a marketplace? Here to help with this question is Prof. Dejan Šoškić, a professor at the University of Belgrade and former governor of the Serbian Central Bank. Dejan, welcome back.

#Dejan Šoškić

Thank you so much for the invitation.

#Pascal

Thank you very much for first talking about this over email and now actually being willing to discuss it on camera. As a former central banker, what did you think when you heard that they’re actually going to do it—that they’re not just freezing these funds on a six-month basis that needs renewal, but permanently freezing them? There’s close to zero chance of getting these funds released anytime soon.

#Dejan Šoškić

Yeah, well, that’s, I would say, quite an unusual and harsh decision to make. And I would say that, you know, teaching finance to undergraduates and teaching about the fundamentals of how the financial system works, we always need to address confidence as a very important component of a financial system. Confidence is essential for having trust in the currency that you use—trust that the currency will be capable of, let’s say, preserving your purchasing power until the next day you decide to use it. But also confidence in all financial instruments, meaning deposits, lines of credit, and the respect for ownership over assets that are being lent to anyone else.

A deposit in a bank is a type of line of credit. Whenever you put your money in a bank account, it’s as if you’re lending your money to the bank itself. The bank then uses those funds to extend lines of credit and to do other things with your money—investing in securities, providing additional guarantees, and carrying out all the other standard activities of a normal bank. However, undermining confidence in a financial system seems to be something that’s being taken very lightly in the current situation we’re living in, especially regarding the deposits of the Central Bank of Russia in Euroclear and in other countries.

There is the sovereign property and ownership of a state, and you cannot easily assume that such money is, in any case, the product of, let’s say, activities that could be held accountable under some legal procedure in a court of law. You cannot easily draw parallels with, for instance, a court of law that can sometimes order the seizure and freezing of assets belonging to individuals prosecuted for criminal activities. That usually comes as a temporary decision from the court until the whole procedure is completed and you have a verdict on which further steps can be based. So this type of freezing of assets without any court procedure—especially in cases where states are the owners of those assets, and where you cannot imagine criminal activities being the source of them—is highly problematic.

That’s the point when we’re talking about the freezing of assets belonging to suspected individuals who are under legal procedure in a court of law and so on. The suspicion is that they’ve generated or obtained these assets through criminal activities, and therefore they should be prevented from using them for other purposes or hiding them away—basically, to make sure those assets can be returned to their lawful owners, used to pay taxes, or confiscated by the state where the individual committed certain crimes. But the parallel in the case of state assets simply doesn’t hold. That’s one important point to underline.

And the second point we need to keep in mind is that here we’re talking about decisions made by executive bodies, like the Commission. It’s part of the executive branch of state power—it’s not legislative, it’s not judicial, it’s executive. So if the executive power is strong enough to, let’s say, override a contract and the right of ownership, then that sends, I would say, a bad message for the overall functioning of the legal framework in the jurisdiction where such things occur. And in this case, I’d say there’s an additional concern: we’re now dealing with euro-denominated assets. First of all, they were in the form of securities within Euroclear, and Euroclear is a bit more complex as an institution than it’s usually discussed.

It has a branch that keeps securities as a depository, but there’s also Euroclear Bank, where the settlement takes place. So clearing and settlement happen within this institution. It also has a network of connected institutions that handle clearing and settlement through Euroclear Bank.

Deposits in Euroclear Bank are like any other deposits. If you or I had a deposit in a bank, we'd expect the bank to honor it. And if something goes wrong with the bank itself, there's what we call a deposit insurance guarantee scheme, usually backed by the government.

For instance, in the case of Euroclear Bank, that's in Belgium, part of the Eurosystem. It's supervised by the Central Bank of Belgium as part of the European System of Central Banks, which now oversees major banks within the eurozone—the banking union as we know it. So a lot of questions can be raised here. First of all, what is the legal ground to freeze some assets? And what is the legal ground for not allowing the income on these assets to be freely available to their owner? That's, let's say, the second thing that came up.

And now the third thing is basically the continuous, or let's say indefinite, freezing of the assets. On the legal grounds, as far as I'm following, the discussion is actually about the idea that Russia is responsible for war crimes and should be paying reparations and things like that. But I haven't seen a tribunal established that has made any final decision on this issue. So this is like making decisions in advance instead of in a court of law, assuming that certain decisions are going to be made there—which is, I would say, a very far-fetched proposal from the proponents of this idea. So, from the legal point of view, it's a disputable act.

And from the point of view of confidence in the overall banking system of Europe—the confidence in institutions like the Belgian Central Bank and the Belgian government—but also, since Euroclear is one of the largest clearing systems in Europe, besides Euroclear you have Clearstream, which handles most of the securities transactions. That would also send a signal to any investor wanting to invest in euro-denominated financial assets, including sovereign debt bonds issued by any country within the eurozone. If this remains in place without, let's say, legal backing that would support such an act in a more appropriate way, I see this deteriorating confidence not just in Euroclear as an institution, but also in the euro as a currency, and in all the securities issued in euros that are cleared through Euroclear.

And most of those are actually sovereign debt bonds issued by member states of the Eurozone, and some others as well. So this is, in my view, something that really, really goes against the basic principles of a sound financial system. If we look back in history, we can see how important confidence is—you can even find it in one of the oldest legal texts in the world, the Code of Hammurabi from the ancient Sumerian state. It says that whoever does not pay back what they owe will be enslaved until they repay their debt. So building confidence in a financial system is a crucial component that shouldn't be undermined. And this step, in my view, is not a step in the right direction.

#Pascal

Can you tell me, before we continue on this, why central banks hold foreign currency-denominated assets in other jurisdictions? Why does the Russian central bank have euro-denominated assets in

Euroclear? I suppose the Americans do the same, and the Europeans probably have assets in the U. S., maybe in Japan, and so on. Why do they do that? What are these funds usually used for?

#Dejan Šoškić

Well, America is a special case because the dollar is a special case, you know, and they have the ability to issue dollars. So they don't need to hold that much in reserves. But for other countries in the world, it's normal practice to have something called FX reserves. Those are reserves mainly in the currencies in which the country conducts most of its trade. You know, they buy and sell goods, and you also need to analyze what currency is specified in the invoices for trade between entities in your country and the rest of the world.

So, for instance, the main trading currency is obviously the dollar, but in second place it's the euro. So it's normal for countries—smaller countries and emerging economies, even Russia—to keep reserves. Even China keeps its FX reserves in dollars and other currencies, especially the euro. The euro is basically the second most important now. The RMB, the Chinese RMB, is also, you know, getting into the spotlight regarding this feature of keeping FX reserves. So FX reserves are kept to be used by the central bank to provide external liquidity for the country—meaning that anyone who wants to pay something to a foreign creditor can exchange their local currency for the foreign currency that the creditor expects to receive.

So that's basically there to provide, let's say, seamless operation of international transactions. And sometimes these FX reserves can also be used to intervene in the FX market—to, let's say, eliminate large instabilities in the exchange rate, or sometimes, if you want to fix the exchange rate for a certain period of time, you can do that by intervening in the FX market, and those interventions come from the FX reserves. So, going back to a step we maybe should have mentioned earlier, FX reserves can be held in basically three types of assets: money in accounts at banks elsewhere, even foreign banks—and these banks need to be of the highest possible quality—and the second type is securities.

And again, these securities need to be of the highest rating possible—mainly government bonds, and mainly from large countries that are fiscally capable of repaying on time without any problem, or what we would otherwise refer to as highly rated countries by the rating agencies, like AAA or AA. Those are the types of bonds you'd want to have in your portfolio. And the third asset is gold. Gold has been very much in demand over the last couple of years—we're witnessing an increase in prices. One of the reasons for this rise is that central banks around the world, especially in the Global South, are more inclined to buy gold to hold their FX reserves in that form.

One aspect of that is maybe to shy away from dollar markets. The other is to be more on the safe side concerning potential freezing of assets and things like that. We mentioned in our previous video, when we discussed similar issues, that this is not the first time something like this has happened. We saw it with Afghanistan, with Venezuela, with Iran, and some other countries. So it's not, as some people are saying, a one-off situation. This is no longer a one-off situation—it's been going on for some time. And that's why, for the soundness of the current financial system, decision makers should really, really try to avoid doing something that's detrimental to the stability and confidence in the system.

If I may add one thing, there are quite a number of well-known theoretical works in the field showing that confidence is a major pillar for the financial system to function. One of them is, of course, by George Akerlof, who published a paper back in the 1970s, *The Market for Lemons*, where the main conclusion is that if you have no confidence—if you have huge informational asymmetry—the market will collapse. So, without confidence, financial markets simply do not work. And I can tell you that, coming from a country where the banking system actually ceased to operate normally during the 1990s due to United Nations sanctions and hyperinflation, money simply stopped flowing through the system.

People wanted to get out of the local currency and tried to buy alternative assets, especially at that time denominated in Deutschmarks. That was a huge, huge blow to the financial system of my country. Even today, we're still suffering the consequences of that. Despite the fact that for decades now Serbia has had low inflation, a stable exchange rate, and no signs of instability, people still tend not to keep their savings in the local currency. They mostly keep them in euros. And they tend not to save long-term but prefer short-term deposits, because once upon a time—25 or 30 years ago—their deposits were frozen for a decade. That experience is something investors and depositors still keep in the back of their minds.

#Pascal

So this probably puts downward pressure on the currency, right? On the exchange rate.

#Dejan Šoškić

To a certain extent, I would say this will affect the demand for euros as a whole—for every asset, including the euro itself, but also securities issued in euros. So I wouldn't be surprised if there's an effect that basically increases the cost of borrowing for all the countries in the eurozone to some extent. Maybe not significantly, but some influence should be there.

#Pascal

Why did Russia have so many assets in Euroclear? Because, to my mind, I thought the Bank for International Settlements—the BIS in Basel—was the bank for central banks. I thought they fulfilled that role of making sure central banks can still clear each other's debts and that the money system flows. So why was so much money in that Euroclear account? Is it just because of the European Union's choice, or some kind of gold standard?

#Dejan Šoškić

There are basically two reasons. One is that the structure of Russia's trade with the rest of the world is such that they've been using euros in a lot of their transactions.

#Pascal

Not just with the European Union, but also with countries outside it that accept euros as payment.

#Dejan Šoškić

Absolutely. Maybe also with other countries. But the other reason is that, over the last few decades, central banks have chosen to hold securities. And if you want to buy securities denominated in euros, then obviously you have to deal with Euroclear. That's one of the main clearing and depository facilities, which also includes the Euroclear Bank within the system, used for settlements.

So what would normally be the case is for the Central Bank of Russia to have an account within the clearing system—an account within the depository system—where securities would be registered under the ownership of the Russian central bank, but also to have an account within the Euroclear Bank where the settlement would take place. Okay, so those are, let's say, the standard ways of dealing with securities as part of the FX reserves. It doesn't mean that central banks wouldn't have accounts in cash and in securities elsewhere too, but the major infrastructure facility for clearing and settlement in euro-denominated securities is Euroclear—and Clearstream to a certain extent—but Euroclear is number one.

#Pascal

So, by the way, have you ever seen that system yourself? Should I imagine it a bit like my online banking system, where the Russian central bank would have access to an online portal and see 140 million—what's in securities, what's in assets—and then, okay, put this here and pay that one for this? Should I imagine it like that?

#Dejan Šoškić

No, basically those are book-entry systems. The entries are electronically recorded amounts of money that you have in your account, and the securities that you hold in your depository—like in a trading system. Basically, Euroclear is doing a similar job to what a central depository system for securities does on a national level in most countries. You need to have a place where ownership of securities is registered, and it's usually done through a financial intermediary like a brokerage house or a bank. In the case of central banks and Euroclear, I believe that communication is direct.

So the central bank can have a direct sub-account within the clearing system—Euroclear, basically. And on the other hand, they can have an account within the Euroclear Bank. So that's what you basically have when you're dealing with securities: you either have securities, or you have cash, which is the result of the sale or maturity of those securities. Most of the securities held by the Russian Central Bank have matured over the last couple of years, so the money has been transferred into their cash account within the clearing bank.

#Pascal

So, on the scale of what's happening here—like, 140 billion euros sounds like a lot of money to you and me. But, you know, the Swiss national budget, last time I checked—well, that was about ten years ago—was around 65 billion euros, or Swiss francs, which today would be about 70. So maybe at the moment it's around 80 billion that the Swiss government spends annually to fund itself. How big is 140 billion for a state like Russia? Is it a significant amount, or is it something they already kind of wrote off quite a while ago, like, "Okay, it's gone"?

#Dejan Šoškić

Well, it's a significant amount. I mean, you can't underestimate it. The figures actually being circulated are sometimes even higher—180, even 200 billion euros. But, you know, for an economy that's roughly about 6.5 trillion, that's certainly a couple of percentage points of their yearly GDP. So it's definitely a large amount of money. I'm sure that an economy of that size can survive without it. I mean, that's not really the issue. But it's a matter of principle, I'd say—a matter of legality, and of whether you support the basic pillars of the European financial system or you're undermining them with decisions like this. And obviously, at this point in time, we're also hearing about certain ways the whole scheme is going to be carried out.

And it's, to say the least, very peculiar. For instance, I was listening yesterday on Deutsche Welle to Mr. Hugo Dixon, who was introduced as the person who designed this whole financial scheme. And he's not even an EU citizen—he's a citizen of Great Britain—but he's also not a legal expert or a finance expert. He majored in philosophy, right? He's a journalist and an entrepreneur, and whatever you can find on the internet doesn't in any way connect him to this. What's being said now is that, since the money is in an account at Euroclear Bank, the bank can freeze it but, at the same time, use that money to extend a loan to the European Union, which would then extend a loan to Ukraine.

And then Ukraine would be required to repay this loan only if Russia pays war reparations, and so on. I mean, everything else is, let's say, completely fine—the European Union can give a loan to Ukraine if it wants. And if the terms of that loan are that it's repayable only if Russia pays the war reparations, there's nothing to object to. But the problem is, how do you make Euroclear Bank, let's say, obliged to extend a loan to the European Union from funds that are deposited in someone else's name? So I'd say this is something that can hardly be explained other than as confiscating someone else's assets and basically doing things that are completely contrary to the contract you sign when you open an account.

When you open an account in a bank and deposit money, there are certain, let's say, well-known criteria and obligations on both sides. And in such contracts, it's never stipulated that the money is going to be frozen because of some political decision or anything like that. That's basically very, very awkward to understand—to see it occur in a financial system—and I'd say it's detrimental to confidence. We were discussing, just before we started recording this talk, how certain things are being imposed through individuals and so on.

We also know that the previous Prime Minister of Canada took some very, very problematic steps with the truckers' union. You know, recall the truckers' strikes and their assets being frozen. Those practices are really, fundamentally wrong if we want to preserve confidence and the well-being of the financial system. In addition to that, they're actually fueling this, um, how to say, conspiracy theorist agenda—that money can be misused against an individual. And then people start again preferring cash and becoming, you know, skeptical about digital currencies and things like that, all because we see that some irresponsible acts are being done.

And I would say, without, you know, real competence in the field of finance, it's very easy to destroy confidence in the financial system, but very hard to regain that confidence and trust. It's vital for normal financial intermediation and the operation of the financial system to have confidence on all sides. If we maybe look back at any financial crisis—if we recall 2008, for example—every time there's a financial crisis, what happens is that the system will obviously identify some people or processes that are guilty, but also amend the legal framework to prevent such a crisis from happening again. And that's done precisely because confidence needs to be reestablished for the system to work. Once you're not capable of reestablishing that confidence, the system doesn't work well. It faces high costs associated with financial transactions, and the overall positive effects on the economy are less than they could have been.

#Pascal

Yeah, because at the end of the day, financial transactions are a matter of rights and obligations. The Russian state has the right to have these funds transferred to whoever it chooses. And the European Union said, like, no, we're now changing the rules of the game—you don't have that right anymore. Maybe we'll give it back after six months. But now they've made this thing permanent. It's not about where the money lies; it's about what the promise used to be, what you can do with it, and what you can't. The thing I don't understand, from a theoretical standpoint, is why the scheme they came up with implies that these funds are now being used to make a loan, or to back a loan, that the Europeans are giving to Ukraine.

Because from my understanding, especially on the accounting side of things, once you make a loan, you at the same time create an asset. You don't actually need the physical funds sitting somewhere in order to loan them out, because once the Europeans give a loan, the Ukrainians have a liability to pay it back, right? So what's the idea of using that money? Why is that money so important to the Europeans in making that loan to the Ukrainians and feeling like they're off the hook for it? It's the Russians who are on the hook.

#Dejan Šoškić

Well, in my view, it's because there are no available funds within the member states. The alternative would be for all the member states to contribute to finding this money to extend the loan to Ukraine. Because, you know, as we know, the budgets of most countries in the European Union are under strain. The overall level of debt to GDP is relatively high. We're also facing some additional costs that need to be financed within the Eurozone, and one of those is, obviously, if they want to follow what Mario Draghi was expressing in his paper concerning European competitiveness.

The other issue is this discussion about whether European countries will or will not increase their contributions to the defense sector to 5% of GDP. Those are huge amounts that need to be financed. And in times of recession, in most countries—especially in Germany and some others—economic output is not really gaining pace. It's not easy to find additional sources of funding. And what you're referring to is, I suppose, the creation of money through the activity of banks making credit lines.

At the same time, for anyone taking a line of credit, the bank is actually creating a deposit for them. That's obviously on the side of liabilities, but on the side of assets, the bank is creating a loan. There's no problem with that. However, this deposit would be immediately spent to purchase other goods and services in the name of Ukraine. Every financial institution that extends such a loan, which is used right away, would basically, to a certain extent, have that deposit taken out. Every day, the bank needs to take care of its overall assets and liabilities, and if it doesn't have enough assets, it would, at the end of the day, take a loan from other banks. Those are the so-called overnight lending facilities, which are used to cover the balance sheet for the day. In the morning, they repay it and then start operations again until the end of the day.

So the relationship between assets and liabilities needs to be maintained, even though every time you create a loan, a deposit is also created. But that deposit doesn't necessarily stay there for long—it can be used for payments. For example, if Ukraine is directly taking the loan, it will most likely be paying whoever is manufacturing the weapons and so on. That might be an entity that doesn't have a deposit in that particular bank.

So the funds would go out, and that would obviously create another financial situation for the bank that needs to be covered by the end of that trading day. So, you know, whoever thinks that the creation of money by banks is something they can do without any restraints—well, we'd have a hard time explaining why any bank ever goes bankrupt, right? If they could produce money without any limitations. So they are part of the money production process. Money is produced by the central bank through the issuance of the so-called monetary base, but the banks are also a very, very important part of that, creating money through credit activity.

And also related to that, when we go back—many people were asking the question, how was it that Ben Bernanke was issuing so much money in 2008 and no inflation occurred in the United States? It was precisely because the lending activity of banks went down. So the central bank needed to step in and produce a lot of base money in the system. Therefore, you didn't have inflation, despite the fact that a huge amount of money was being created. And in the Eurozone, since 2015—you'll recall the years of Draghi and his struggle with some of the countries over whether to do quantitative easing or not—finally, at the end of 2015, the ECB also started large-scale money creation, very often called extraordinary monetary policy or quantitative easing, meaning a huge production of liquidity.

#Pascal

Do you think that overall—if they make such a fuss about this 140 billion—do you think they expect this money not to be paid back? It's like, if it came from just a normal credit line in the European Union, it would be certain that the banks, or the facilities that extend it, wouldn't expect to see it coming back. With Ukraine, it's more or less understood by the Europeans that Ukraine will never give this back, right? So that's why you want to secure it with another asset, which would balance their balance sheets, right? It's about that one. And you do that with an immobilized asset of the Russians—is that the idea?

#Dejan Šoškić

Well, obviously, for a country in the situation Ukraine is currently in, it's very hard to pay back any loan. We don't know the extent of the destruction or what Ukraine's GDP capacity will be in the mid- or long term, or whether there will be any possibility for Ukraine to pay back anything. In my view, this is a country that shouldn't be repaying loans but should instead be receiving grants and other financial support to rebuild itself as much as possible. However, regarding this scheme that's being discussed, we very often hear the term "collateralized loan," meaning that Russian assets are going to be used as collateral.

Now, that is a very peculiar thing to assume because, first of all, it would suggest that you can use someone else's assets to collateralize a loan you're giving to a third party, without the consent of the actual owner of those assets. If I were the one giving a loan that should be collateralized with someone else's assets, without their consent, I really wouldn't be doing such a loan—because how could I rely on getting hold of those assets against the wishes of the legal owner? So, collateralization in that sense, in my view, is very unlikely. However, what I've heard, listening to Mr. Hugo Dixon, who presents himself as an architect of this scheme, is that he's talking about something else—the permanent freeze that was enacted last week by the European Union. Practically, a permanent freeze, right?

Everyone needs to vote for it to be revoked. So this practically permanent freeze is going to be used as, you know, the grounds to actually use this money to give a loan to the European Union, so that it can then give a loan to Ukraine. And this loan is only going to be repaid if the Russians pay war reparations to Ukraine. So this is, in my view—how to say—you know, it's hardly something you could consider a serious and sound proposal. It's something that, in my view, has a lot of problematic concepts in itself. It's an unusual—at least to say, a very unusual—financial instrument, and I would say it's legally highly disputable, with negative effects on the European financial system.

And I'm not surprised that we've heard not just the CEO of Euroclear being, you know, at least to say, reserved about the whole thing, but also the president of the ECB and the prime minister of Belgium. This is something that can seriously undermine confidence, but also lead to legal disputes with uncertain outcomes. Whoever thinks it's easy to foresee what a court of law is going to decide on this issue—I'm quite doubtful that's a realistic assumption. It's very possible that in certain jurisdictions, the outcome might even be favorable for the legal owner of these assets.

#Pascal

Is Europe—the European Union—the only place where Euroclear might now be in the hot seat? Because ultimately, Euroclear is the one that made the promises to the Russians, right? To the Russian central bank. They're the ones who are supposed to fulfill their obligations, but under this scheme, they're going to be incapable of doing so. So is Europe, the EU, the only place where legal disputes might occur? Or could the Russians say, for example, that Malaysia has a business relationship with Euroclear, and they could use Malaysian courts to say, "Hey, we have disputes with the entity you're doing business with"? Is that a possibility?

#Dejan Šoškić

Well, that's a very interesting line of thinking, I would say, and I wouldn't exclude that as a possibility. Obviously, this is a legal question, but what I do know is that Euroclear has branch offices in Hong Kong, Japan, Singapore, and, you know, in Dubai also, and in Beijing, some representative offices. So I'm not sure whether that provides any solid ground for taking this dispute to the courts in those jurisdictions. But I wouldn't exclude such a possibility. It's obviously a legal question, and lawyers would know more.

#Pascal

Okay. Yeah, so overall, what we're seeing here is another example of how certain political forces inside the democratic West are able to undercut the processes they assured everyone were ironclad, right? Even during the Second World War, state assets of adversaries were frozen, but they weren't expropriated. Because here we're talking about basically a kind of second-degree expropriation, even if we don't call it that. It's interesting, though, that they don't move toward that. They haven't officially created a directive or a law that says, “From now on, these 140 billion belong to the EU.” They just don’t belong to them anymore. Why do you think they’re going through that weird scheme instead of going straight to good old expropriation? I mean, what the Soviets did with a lot of assets of private citizens in communist countries. I’m pretty sure in Yugoslavia there were massive expropriations when the communists came in. Why not that route?

#Dejan Šoškić

Well, obviously, it would be embarrassing for Western countries to officially admit they’re doing such a thing, I would say. They’re trying to present the process in a way that seems acceptable and possibly resistant to legal disputes. However, in my view, the first step of the whole scheme, as described by Mr. Hugo Dixon and some other officials, is very, very problematic. How do you convert assets that are legally owned by one party into a basis for giving those assets to someone else? That’s not honoring the basic contract of the deposit.

That is basically completely contrary to the normal way of trading and doing financial business, and it’s something for which the bank itself may be liable, but also the government of Belgium to a certain extent. I’d say there are a couple of channels where the liability could also fall to the government level. I’m actually pleasantly surprised, in the overall discussions that are going on, to hear voices of reason from the prime minister of Belgium. One thing is that you want to help Ukraine—there’s no problem with that. The other question is how you do it, and whether you’re really sacrificing something that’s of greater importance for the financial system of Europe than any individual loan. I mean, as you’ve said, these are funds that are not, let’s say, unattainable.

This is impossible. Obviously, when we’re talking about billions of euros or dollars, those are large amounts of money. But 100 billion or 200 billion are not impossible figures, especially for the European Union and Western countries. That could have been attainable, in my view, in a better way. And, you know, as far as I’m following these things, it would have been enough—more than enough—to send a clear message to the Russian government about the West’s stance on the war in Ukraine by freezing the assets. All these other steps being taken, in my view, are too much of a move into uncharted territory, with serious consequences for the stability of the European financial system.

#Pascal

If you were still the governor of the Central Bank of Serbia and you saw what’s happening—and you also realized that Serbia has a rocky relationship with the EU—I mean, on one hand, Serbia wants to join, but on the other, there are all these demands and conditions, and you don’t really know where things are going. What would be your rational decision about what to do next, knowing that Serbia has a considerable amount of money in Euroclear? Would you try to look for other places to do the same? Would you start considering the Bank for International Settlements to transfer funds there—somewhere outside the jurisdiction of the Eurocrats?

Dejan Šoškić

Well, BIS is obviously an interesting alternative. They do have certain instruments available for central banks to invest in. But we also need to acknowledge the new reality of the world, and that is that countries all over the globe are frequently buying a lot of things of various kinds—even high technology—from China. China is hugely important in the global domain. We've seen that even the United States cannot disentangle itself from Chinese imports and exports, especially in certain areas. Therefore, what is now being put in place are alternative financial instruments denominated in Chinese currency, which could be a really attractive asset to have, especially considering the changing structure of foreign trade for most countries. If you look at what's happening, for instance, not just in Asia but also in Africa and even Latin America…

The greatest individual trading partner is China. So it makes a lot of sense to keep foreign reserves denominated in assets you might use for normal foreign trade. Therefore, if China steps in more in terms of issuing certain RMB-denominated bonds and other instruments, I'd say that would be an alternative worth analyzing quite seriously—to a certain extent, not just for Serbia, but for any country—because China is obviously the industrial powerhouse of the world today. And we all tend to… I mean, we're looking at what's happening with the huge increase in sales of Chinese cars globally. Maybe America is an exception, with those huge tariffs that have been imposed, but in Europe you're seeing a flood of new cars coming in, and people are buying them.

They tend to be cheaper and of decent quality and things like that. So even additional amounts of money are going to be used to pay for these Chinese goods. And China, obviously now being one of the leading economies in the world, is expecting to be paid in its local currency more and more. That's something all smaller countries should also take into account when deciding what foreign currency reserves to keep, because China may no longer be willing to accept dollars, and maybe even euros, to the same extent it was ready to accept five or ten years ago. So adapting to these new realities is, let's say, also something that could affect what the adequate structure of FX reserves should be for many small countries, especially those trading extensively with China.

Pascal

Okay, so maybe China is going to benefit from this entire affair. But is it, I mean, in a sense, just a logical next step in the multipolarization of the world—that basically the West is now taking down parts of its own previous success, which is its fantastic financial system? Right? I mean, basically, you're sending a signal saying, like, no, anyone who falls out with the eurocrats will have their assets frozen. There are no more guarantees that due process will be kept.

Dejan Šoškić

Yes, and we have also seen some acts of, let's say, political decision-making—for instance, from the side of the United States toward Brazil—which are, let's say, based on some personal relationship that one country has with the previous president of that country, and things like that. I believe that the whole political arena has been declining in its level of seriousness and competence in many areas, and that's a worrying signal for the global system as we know it. And I believe that whoever has a strong position in the global economy, in the global financial system, and so on, should actually be aware of the burden of that position—that is, to act according to high standards and to support the values of the system on which it is based.

People decided to trade in dollars and accepted the euro very eagerly because of honoring contracts, the security of deposits, and the rule of law in Western countries—because of an efficient financial system that isn't biased toward anyone but is actually free to be approached by any party and to treat them equally. Those are, I would say, very important elements. And, you know, the weaponization of the financial system, I would say, only works when it's in the form of a threat—when there's a threat of using the financial system. But once you start using the financial system as a weapon, you're basically undermining it as your potential argument in global disputes and with your global adversaries, and so on. So the use of a financial system as a weapon, in my view, is the first point in the endgame for dominance in such a system.

#Pascal

Yes, yes. It's also highly embarrassing. It's a bit like the sanctions—you threaten to do something that will hurt or even kill you, and then you actually do it, and well, it hurts a bit, but it doesn't kill you at all. Then you've spent the card, right? The card is gone, and it won't come back. So you're losing leverage. Is there another aspect I didn't touch on that you think we should keep in mind when we think about what's happening with these assets?

#Dejan Šoškić

Well, you know, I think that some of the, let's say, possibilities to increase the liquidity of the financial system—and of the countries within the Eurozone especially—haven't been explored in many aspects. We've seen, for instance, how the European Commission and the IMF treated the Greek crisis at the end of 2009 and what facilities were used there. We see that the options used were suboptimal for the problem being dealt with. In my view, this is again a case where the overall benefit is far less than the potential negative cost of implementing such a so-called solution. I believe it's not really a solution. Some other methods could have been used. The whole value of this loan is relatively low compared to the overall financial system of the Eurozone and to the capacity of the European Central Bank.

There are, let's say, much more viable financial options, in my view, that could have been explored than the path of doing something that can be considered the confiscation of someone else's assets.

So I would say that a more creative and less dramatic approach could potentially produce results that would be much more favorable for overall financial stability in the Eurozone. And I would say globally as well, referring to what’s happening in the United States and the weaponization of the dollar and things of that nature. I believe these measures that are circulating and being discussed are, in my view, not really mature enough even to serve as a working paper—certainly not as something like a final solution for the issues we’re facing.

#Pascal

Yeah. You know, it strikes me as a moment when the desire of the Europeans to punish Russia—to hurt Russia in one way or another—is even more important than the desire to actually help Ukraine. They could have done a lot of other things, but I think the idea that “we need to punish Russia” kind of took over. And as with the sanctions, I do believe this will probably backfire worse on the European Union than it will strain the Russian economy. Although I can’t look into their heads—I can’t know whether they truly believe this will hurt the Russians that badly—it’s definitely a new precedent, at least for the European Union. “Don’t trust them anymore” is kind of the message, isn’t it?

#Dejan Šoškić

Well, I’m certain that some time will have to pass before confidence is restored—if no similar moves are made again. It’s not going to happen soon, but what’s being done, in my view, is absolutely going down the wrong track and producing more negative effects than benefits or gains. As for punishing the aggressor and so on, there is, I would say, a logic you can’t really dispute. It’s a fair line of thinking that anyone who commits any kind of aggression should be punished. But we’re not really living in a world where that’s always the case.

I'm coming from a country that experienced the bombing in 1999, which happened without any United Nations resolution—basically contrary to the NATO charter itself. It lasted for 78 days, and we’ve received no reparations from anyone, not to mention other countries. Everyone with a similar experience can tell you their side of the story. But we see that the world is not operating in, let’s say, unbiased or principled ways. And that’s something people tend to, you know, see and understand. And that’s not a good message to send across.

#Pascal

This is very bad messaging. Dejan, thank you very much for your assessment. For people who’d like to read more from you or your reports—if you produce them—is there a place where you publish your work?

#Dejan Šoškić

I’ll hopefully have a Substack soon, and then I’ll send it to you. If you could add it as a link later on, I’d be very grateful. Thank you.

#Pascal

I’ll do that as soon as I get it from you. It might not be right when the video goes out, but later on it’ll be in the description box below. Prof. Dejan Šoškić, thank you very much for your time today.

#Dejan Šoškić

Thank you very much. Thanks.