


## THE VIEWS OF RUSSIAN ECONOMISTS ON WESTERN SANCTIONS AGAINST RUSSIA

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### Abstract

In March 2014, in response to Russia's annexation of Crimea and military actions in Eastern Ukraine, the European Council decided to implement sanctions against Russia. The EU criticized Russia's actions against Ukraine's sovereignty and independence. In response to the EU's sanctions, in August 2014 Russia introduced a food embargo on agricultural products from Western countries. The most frequently discussed topic regarding these sanctions is their effectiveness and their impact on the Russian economy. In other words, the experts aimed to identify evidence that Western sanctions do work against Russia and to estimate their effect on the Russian economy. This article discusses the views of Russian economists and political analysts on Western sanctions against Russia. The goal of the article is to present the opinions, analyses, and forecasts of leading Russian experts living in Russia and abroad and who are working for the government and/or in the academic field. The views of several experts were investigated regarding the situation resulting immediately after the imposing of sanctions and regarding perspectives of future development in Russia under the influence of sanctions. This article addresses the impact of some of these Western sanctions on different economic sectors and discusses the overall effect of sanctions on the Russian economy. In particular, the article covers the opinions of Russian economists and political experts concerning financial sanctions and its impact on the Russian banking sector; impact on direct foreign investments; impact on economic and political stability; and the effect from the introduction of Russian agricultural embargo on Western import. One section is focused on the views of economists on effectiveness of sanctions as political tool, and the last section summarizes the main political and economic effects of sanctions on Russia since 2014.

**Keywords:** Russian foreign policy, sanctions, Russian economists, annexation of Crimea, EU's sanctions, Russia.



### RUSYA'YA KARŞI UYGULANAN BATI YAPTIRIMLARI HAKKINDA RUS EKONOMİSTLERİN GÖRÜŞLERİ

#### Öz

Avrupa Konseyi 2014 yılı Mart ayında, Rusya'nın Kırım'ı ilhakına ve Doğu Ukrayna'daki askeri faaliyetlerine cevap olarak, Rusya'ya karşı yaptırım uygulama kararı aldı. AB, Rusya'nın Ukrayna'nın toprak bütünlüğü ve bağımsızlığına yönelik giriştiği eylemleri eleştirdi. Rusya ise AB'nin yaptırımlarına yanıt olarak, 2014 yılı Ağustos ayında, Batı ülkelerinden gelen tarım

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ürünlerine karşı gıda ambargosu getirdi. Bu noktada en çok tartışılan husus, bahsi geçen yaptırımların işlevselliği ve Rus ekonomisine etkisi üzerinedir. Başka bir deyişle, konunun uzmanları Batı yaptırımlarının Rusya'ya karşı işe yaradığına dair bulguları ortaya koymayı ve bunların Rus ekonomisi üzerindeki etkisini öngörmeyi amaçlamaktadır. Bu makale, Rus ekonomistlerin ve siyasi analistlerin Rusya'ya karşı uygulanan Batı yaptırımları konusundaki görüşlerini tartışmaktadır. Bu çalışmanın amacı, Rusya'da ve yurtdışında yaşayıp, devlet için ve/veya akademide çalışmakta olan önemli Rus uzmanların görüş, analiz ve öngörülerini ortaya koymaktır. Yaptırımların uygulanmasından hemen sonra ortaya çıkan durum ve bu kıskaçtaki Rusya'nın ilerleyen süreçteki gelişim perspektifi hakkındaki çeşitli uzmanların görüşleri ele alındı. Bu makale, söz konusu bazı Batı yaptırımlarının çeşitli ekonomik sektörler üzerindeki etkisini ele almakta ve yaptırımların Rus ekonomisi üzerindeki genel etkisini tartışmaktadır. Bilhassa bu çalışma, Rus ekonomistler ve siyaset bilimcilerin mali yaptırımlar ve bunun Rus bankacılık sektörü üzerindeki etkisine; doğrudan yabancı yatırımlar üzerindeki etkisine; ekonomi ve siyasi istikrar üzerindeki etkisine; ve yürürlüğe giren Rus tarım ambargosunun Batı ithalatı üzerindeki etkisine ilişkin görüşlerini içermektedir. Bir bölüm, ekonomistlerin siyasi araç olarak yaptırımların işlevselliğine ilişkin görüşleri üzerinde durmakta ve son bölüm ise 2014 yılından bu yana yaptırımların Rusya üzerindeki temel siyasi ve ekonomik etkilerini özetlemektedir.

**Anahtar kelimeler:** Rus dış politikası, yaptırımlar, Rus ekonomistler, Kırım'ın ilhaki, AB yaptırımları, Rusya.



## **МНЕНИЯ РОССИЙСКИХ ЭКОНОМИСТОВ НА ЗАПАДНЫЕ САНКЦИИ ПРОТИВ РОССИИ**

### **Аннотация**

В марте 2014 года, в ответ на аннексию Крыма и военные действия на востоке Украины, Совет Европы принял решение ввести санкции против России. ЕС раскритиковал действия России, подрывающие суверенитет и независимость Украины. В ответ на санкции ЕС, в августе 2014 года Россия ввела продовольственное эмбарго на сельскохозяйственную продукцию из западных стран. Наиболее часто обсуждаемая тема этих санкций - их эффективность и влияние на российскую экономику. Иными словами, эксперты стремятся выявить доказательства того, что западные санкции действительно эффективны против России и оценить их влияние на российскую экономику. В статье собраны мнения российских экономистов и политологов на западные санкции против России. Цель статьи - представить мнения, анализы и прогнозы ведущих российских экспертов, проживающих в России и за рубежом, и занимающих должности в правительстве РФ и/или в академической сфере. Были изучены мнения ряда экспертов относительно ситуации, сложившейся сразу после введения санкций, и относительно перспектив будущего развития России под влиянием санкций. В этой статье рассматривается влияние западных санкций на различные сектора экономики и обсуждается их общее влияние на российскую экономику. В частности, в статье рассматриваются мнения российских экономистов и политологов о финансовых санкциях и их влиянии на российский банковский сектор; влияние на прямые иностранные инвестиции; влияние на экономическую и политическую стабильность; и эффект от введения российского

сельскохозяйственного эмбарго на импорт. Один из разделов посвящен взглядам экономистов на эффективность санкций как политического инструмента. Последний раздел суммирует основные политические и экономические последствия санкций для России с 2014 года.

**Ключевые слова:** Российская внешняя политика, санкции, российские экономисты, аннексия Крыма, санкции ЕС, Россия.



## Introduction

The history of the introduction of sanctions between the EU and Russia began in early 2014. Before the formal annexation of the Crimean Peninsula, Russian troops took control of this region. The President of Russia V. Putin cited the need to protect the rights of Russian citizens and Russian native speakers in Crimea and Eastern Ukraine. In May 2014, pro-Russian separatists in the Donetsk and Luhansk regions held a referendum to declare independence from Ukraine. Approximately 10,300 people were killed and 24,000 injured since April 2014 due to the military conflict between Russian-backed separatist forces and the Ukrainian army.<sup>1</sup>

In March 2014, in response to Russia's military intervention in Eastern Ukraine, the European Council implemented sanctioning measures against Russia. The EU criticized the illegal annexation of Crimea to Russia's territory and intervention against Ukraine's sovereignty and independence. On March 17, 2014, EU with a number of other states<sup>2</sup> decided to use political, diplomatic and sectoral economic sanctions against Russia. Asset freezes and visa bans were applied to the political elite and high-ranking military officials, who were actively involved in destabilizing actions in Ukraine. The second stage expanded the list of sanctioned persons and the implementation of new financial sanctions.<sup>3</sup> A significant change in Russian-European Union relations had occurred after the Malaysia Airlines Flight 17 (MH17) was shot down while flying over Eastern Ukraine. After the air crash, the EU launched the third stage of sectoral and financial sanctions, targeting the largest Russian banks, energy, and defense entities<sup>4</sup>. In response to European sanctions in August 2014, Russia decided to implement a food embargo on imports of final food products and food raw materials from the EU.<sup>5</sup> Since 2014, EU and

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<sup>1</sup> Global conflict tracker, "Conflict in Ukraine," Accessed date: 15.02.2021, URL: <https://www.cfr.org/global-conflict-tracker/conflict/conflict-ukraine>.

<sup>2</sup> USA, Canada, Australia, New Zealand, Switzerland, Norway, Ireland, Montenegro, Albania, Liechtenstein, Japan etc.

<sup>3</sup> Council of the European Union, "EU Restrictive Measures in Response to the Crisis in Ukraine," *European Union Newsroom*, Accessed date: 25.03.2021, URL: <https://www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/>.

<sup>4</sup> European Commission, "Commission Guidance Note on the Implementation of Certain Provisions of Regulation," *Commission Notice* Brussel, Accessed date: 17.02.2021, URL: [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/201217-human-rights-guidance-note\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/201217-human-rights-guidance-note_en.pdf)

<sup>5</sup> Vladimir Putin, "Decree of the Prsedint of the Russian Federation. On the Application of Certain Special Economic Measuresto Ensure the Security of the Russian Federation," Accessed date: 21.03.2021, URL: <http://kremlin.ru/events/president/news/46404>.

Russian sanction policies have been developing in a growing political conflict.

Since the introduction of European sanctions, the economic situation in Russia began deteriorated. The evolution of the economy between 2014-2015 was extremely negative. GDP growth fell to 2.7% in 2015 compared to previous year<sup>6</sup>, annual consumer price index increased up to 12.9% in December 2015<sup>7</sup>, total capital outflow in 2014 was -159 bil. USD and in 2015 – 60.4 bil. USD<sup>8</sup>, depreciation of ruble after 2014 was more than 50% and growing state budget deficit. In this context experts and politicians have connected the fall of Russian economy with two factors. *First*: the fall in oil prices in 2015. In that year, the global oil prices decreased due to oil supply on the market exceeded demand. In January 2016, the barrel of Brent oil cost 28.94 USD versus 114 USD in June 2015.<sup>9</sup> The sharp fall in oil prices has affected the entire global economy, and especially states dependent on oil production and export, such as Russia. *Second*: Western sanctions, and their multilateral influence - application of different types of sanctions and involvement of many states applying sanctions against Russia.

The reason for focusing on the views of Russian economists on Western sanctions is the disparity in the positions of the official Kremlin and the Russian scientific community regarding the impact of sanctions on Russia.

Russian president V. Putin said that sanctions gave an opportunity to increase Russia's economic and technical sovereignty. "In this sense, of all these limitations and sanctions were useful for our economy," he added.<sup>10</sup> At the same time, Russian Government partially admits the economic losses caused by sanctions, but stresses that Russia has quickly adjusted to new conditions.

Despite Moscow's attempts to discredit sanctions, Russian economists found an undeniable effect on the Russian economy, which Moscow cannot ignore in its decision-making.

This article aims to present the views of Russian economists on Western sanctions against Russia and discusses their impact on Russian economy. Published articles and interviews of the leading Russian economists regarding effects of sanctions on Russian banking sector, direct foreign investments, economic and political stability, and agricultural sector were selected to fulfill the above aim. Their independent opinions are accumulated in distinct topic sections of this article.

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<sup>6</sup> Federal state statistic server, "GDP Statistics," Accessed date: 20.02.2021, URL: <https://rosstat.gov.ru/accounts>.

<sup>7</sup> Federal state statistic server, "Consumer Price Indices," Accessed date: 17.01.2021., URL: <https://rosstat.gov.ru/price>.

<sup>8</sup> Bank of Russia, "Balance of Payments," Accessed date: 15.01.2021, URL: [https://www.cbr.ru/statistics/macro\\_itm/svs/](https://www.cbr.ru/statistics/macro_itm/svs/).

<sup>9</sup> Investing.com, Accessed date: 09.03.2021, URL: <https://uk.investing.com/commodities/brent-oil-historical-data>.

<sup>10</sup> Holly Ellyatt, "US Sanctions on Russia Have Helped Russia's Economy, Putin Says," Accessed date: 17.03.2021, URL: <https://www.cnn.com/2019/11/20/us-sanctions-on-russia-have-helped-russias-economy-putin-says.html>.

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## 1) Defining Sanctions

International economic sanctions have a long history. The first economic restrictions were used in ancient Greece. The widespread use sanctions as a political tool started in the 20<sup>th</sup> century before the World War I. R.A. Pape, in his article “Why Economic Sanction do not work?”, wrote, that states use economic pressure against other states for a variety of political purposes. There are two main categories of international economic weapons – trade restrictions and financial restrictions – each of which can be employed with varying intensity and scope. In this article, the author defined three criteria for sanction success: 1) the target state conceded to a significant part of the coercer’s demands, 2) economic sanctions were applied before the target changed its behavior, and 3) no more-credible explanation exists for the target’s change of behavior.<sup>11</sup>

M. Bornstein, in the article “Economic sanctions and Rewards in support of arms control agreements”, said, that the aim of economic sanctions is to deprive the country (or group of countries) of goods or services by interfering with the international trade and capital movements. He defined the important role of *participants* - countries applying the sanctions, and *nonparticipants* - third countries which neither are subject to the sanctions nor participate in it.<sup>12</sup> Application of the sanctions will be ineffective if the target state is able to secure new trade conditions and substitute goods, technologies and finance from nonparticipants. Other critical criteria are *vulnerability of the sanction subject* - the relative dependence to its economy of the sanction subject, and *the scope of the sanction measure* - partial or complete prohibition.<sup>13</sup>

Applying comprehensive sanctions causes large financial costs and may create a humanitarian crisis in the target state and sometimes in neighboring countries. At the same time, political elites escape virtually unscathed. This motivated the development of so-called “smart sanctions”. G.C. Hufbauer, J.J. Schott, and K.A.Elliott in their book “Economic Sanctions Reconsidered” wrote, that the concept of smart sanctions is relatively new, and these sanctions are not used so often.<sup>14</sup> Smart sanctions are aimed at specific officials or government functions, without damaging the overall economy or imposing exceptional hardship on the public. This type of sanctions includes; *arms embargoes* - denying access to weapons and related equipment, *travel bans* - restrictions on all travel to and from a target country or restrictions targeting individuals or groups, *financial measures* - delaying or denying credit or grants, *asset freezes* - not only stopping financial flows, but also impeding trade. Authors emphasized, that smart sanctions have limited efficiency and in practice some of them are primarily symbolic measures. They may satisfy the need in sender states to “do something”, to slake humanitarian concerns

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<sup>11</sup> Robert A. Pape, “Why Economic Sanctions Do Not Work,” *International Security*, 22/2 (1997) Accessed date: 18.02.2021, URL: <https://www.jstor.org/stable/2539368>.

<sup>12</sup> Morris Bornstein, “Economic Sanctions and Rewards in Support of Arms Control Agreements,” *American Economic Association* 58/2 (1968): 417–27, Accessed date: 11.02.2021, URL: <https://www.jstor.org/stable/1831826>.

<sup>13</sup> Bornstein, “Economic Sanctions and Rewards in Support of Arms Control Agreements.”

<sup>14</sup> In the 20<sup>th</sup> century only 20 cases were smart sanctions (such as arms embargoes, asset freezes, and travel sanctions) Gary Clyde Hufbauer et al., *Economic Sanctions Reconsidered, 3d Ed., Peterso Institute for International Economics*, 2007.

and to unify fraying coalitions. But they are not a magic bullet for achieving foreign policy goals.<sup>15</sup>

In the case of EU-Russia, smart sanctions were imposed from both sides of the political conflict. EU and other states have been using: diplomatic measures, asset freeze and travel restrictions, restrictions on economic relations with Crimea and Sevastopol, economic (sectoral) sanctions, measures concerning economic cooperation (financial sanctions). From the Russian side: food embargo and diplomatic measures (see more Appendix I).

## 2) Overall Impact of Sanctions on Russia

The opinions of Russian economists regarding the overall assessment of sanctions are quite different. Some argue that GDP growth in Russia persists though it has slowed significantly. Just in 2015 Russian economy showed a 2.7%<sup>16</sup> negative growth.<sup>17</sup> This decline is explained by the slump in oil prices. After 2015 Russia had a small, but positive GDP growth. Other economists focusing on economic problems argue that sanctions have changed living standards in Russia. Since 2014, real wages have decreased, poverty has increased, and some medicines from EU and other countries have become difficult to obtain for consumers. Furthermore, consumers have experienced a decrease in the quality and assortment of domestic food products substituting banned products from EU.

Based on the economic and political situation in 2014, V. Polterovich from The Russian Academy of Natural Science identifies the main systemic problems that impede GDP growth in Russia. According to him, sanctions can increase domestic market demand on the condition that domestic production of goods are of high enough quality. The realization of the policy of import substitution is quite possible as Russia has a high level of regional and industrial differentiation. V. Polterovich stressed, that Russia's economic problems are intensified in confronting the West. The USA aims to isolate Russia; sanctions are being taken to limit access to world markets, finance, and technologies. In the short run, isolating provokes strengthening of ultrapatriotic ideas and empowers the influence of authoritarians in the suppression of civil liberties. However, in the long run, the growth of oppositional power is inevitable, which would be unacceptable for the irremovable presidential leadership in Russia.<sup>18</sup> Therefore, strengthening of the dominant political power is expectable. In the article, V. Polterovich concludes, that the best strategy of response to foreign policy pressure is modernization of the judicial system, respect for human rights and political opposition, and improving the investment

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<sup>15</sup> Gary Clyde Hufbauer et al., *Economic Sanctions Reconsidered*, 3d Ed., Peterso Institute for International Economics, 2007.

<sup>16</sup> The discrepancy in the GDP is due to the revaluation of the index to constant prices, which was carried out in 2018 according to the new Federal State Statistic service's methodology. See more: <https://www.gks.ru/accounts>

<sup>17</sup> Russian Federal State Statistic Service, "Gross Domestic Product, Annual Data," Accessed date: 25.02.2021, URL: <https://gks.ru/accounts>.

<sup>18</sup> Viktor Polterovich, "Kuda Idti: Dvadcat Chetire Tezisa," 2014, Accessed date: 01.03.2021, URL: <https://istina.msu.ru/profile/polterovich.v/>.

climate.<sup>19</sup>

In 2017, a team of economists published the study “Economic Sanctions against Russia: Expectation and Reality”, edited by Prof. R. Nureev from the HSE University in Moscow. The publication demonstrates several studies showing the negative impact of sanctions on the Russian economy. Nevertheless, the authors underline that from 2014 the Russian economy has been under pressure from two external factors: the low price of oil on the global market and the economic and political isolation of Russia. The Russian oil industry contributes to the inflow of foreign currency, fulfill the state budget, and creates a significant demand for foreign high-tech equipment to develop new oilfields.<sup>20</sup> The authors suggested that it is theoretically possible to return to a sustainable GDP growth after a positive market shock. This shock on the investment market could be caused by a “big deal” (for example with China) or by another major international economic event with Russian participation, but not by the cancelation of sanctions.<sup>21</sup>

A. Pestova and M. Mamonov from Moscow State Institute of International Affairs and CERGE-EI (Center for Economic Research and Graduate Education – Economics Institute, Czech Republic) investigated the impact of sanctions on the Russian economy over the period 2014-2015. They concluded that the financial sanctions slowed GDP growth by 1.17 p.p. for 2014-2015. The actual growth rates in 2014 and 2015 were 0.7% and -2.3%<sup>1</sup>, respectively. Therefore, the effect of financial sanctions was negative, but less than devastating. The cumulative impact of sanctions on retail sales and investments was quite similar to the effect obtained for GDP growth rates – 1.19 p.p. for two years. Likewise, financial sanctions caused a decline in investments in Russia, but also these were of modest magnitude.<sup>22</sup>

Significant impact of sanctions was recorded on Russian imports, accounting for 36% of the observed decline. Note that approximately 50% of the Russian imports came from EU countries, meaning that sanctions may have also negatively affected Russia’s EU trading partners.<sup>23</sup> The authors also confirmed the effect of financial sanctions on the number of loans issued to companies and non-financial institutions by Russian banks. The growth of such loans amounted to 18% compared to the end of 2013. This is a substitution effect, replacing Russian external debt with domestic loans in internal Russian banks. Overall, the study shows that the lack of access of Russian companies to new debt

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<sup>19</sup> Polterovich, ““Kuda Idti: Dvadcat Chetire Tezisa.”

<sup>20</sup> P.V. Arefev et al., *Economic Sanctions against Russia: Expectation and Reality*, 2017, Accessed date: 28.02.2021, URL: [http://rustem-nureev.ru/wp-content/uploads/2017/11/13640\\_NUREEV\\_Economicheskije\\_sankcii\\_protiv\\_Rossii\\_Avropy-1.pdf](http://rustem-nureev.ru/wp-content/uploads/2017/11/13640_NUREEV_Economicheskije_sankcii_protiv_Rossii_Avropy-1.pdf).

<sup>21</sup> Arefev et al., *Economic Sanctions against Russia: Expectation and Reality*.

<sup>22</sup> A.Pestova, M.Mamonov, “Should we care? The economic effects of financial sanctions on the Russian economy”, BOFIT Discussion Papers, Accessed date: 30.12.2020, URL: <https://helda.helsinki.fi/bof/handle/123456789/16219>.

<sup>23</sup> In the article, the authors do not consider that the reduction in imports could be majorly influenced by the food embargo on the import of products from Europe to Russia, introduced on August 6<sup>th</sup>, 2014 (V. Putin 2014). The impact of European financial sanctions on Russian imports is difficult to assess. A.Pestova, M.Mamonov, “Should we care? The economic effects of financial sanctions on the Russian economy”, BOFIT Discussion Papers, Accessed date: 30.12.2020, URL: <https://helda.helsinki.fi/bof/handle/123456789/16219>.

issuance, amplified the economic and financial crisis in Russia. Part of the recession seems to have been driven by financial sanctions, however the effects are modest for most economic indicators. According to this research, the decline in oil prices, in the period 2014-2015, cannot explain Russia's macroeconomic recession, that was associated with the preceding structural crisis.<sup>24</sup>

### 3) Impact on Investments

A. Kudrin, Chairman of the Russian Accounts Chamber, said in the beginning of 2019, that Russia still loses from sanctions. Targeted sanctions on Russian companies have significant impact, not only on the market, but also on the investor's mood. In this sense, sanctions have been influencing the market, but not so harshly and shockingly. "We cannot say today that we have nullified sanction's influence on the Russian market. It is still negative", Kudrin added.<sup>25</sup>

At the same time, Kudrin acknowledged that "Those sanctions that have been introduced are absorbed in the economy". Over the five years of Western sanctions, Russian companies have adapted to new conditions and found new business solutions. On the other hand, Kudrin stressed: "Due to Russian involvement in world trade and communications, and the large import of technology into Russia (in some sectors up to 70-80%), we are sensitive to any external sanctions, and they can be tough."<sup>26</sup>

V. Mau from The Gaidar Institute for Economic Policy and Russian Presidential Academy of National Economy and Public Administration, both in Moscow, wrote, that sustainable growth in the long run is accompanied by modernization. This requires investments from the state or private businesses since external access are restricted by sanctions. V. Mau calls for a strategy of *liberalization*, which aims to create private savings that will be transformed into investments and will thereby contribute to the acceleration of economic growth. This way does not give quick results and requires trust between economic actors on the market. An important obstacle to sustainable economic growth is the limits and barriers of the monetary situation in Russia. Foreign financial markets are practically closed to Russia. Loans provided by commercial banks to businesses are very expensive – this is the price of market instability and mistrust. High inflation and base rates are the principal macroeconomic barriers to growth. Due to sanctions and falling oil prices in 2014, the Russian ruble became an unstable currency. In this regard, the interest rate is not the only important component of the monetary policy: confidence in the currency is no less important.<sup>27</sup> In another article, V. Mau stated that the most important channel of sanctions influence was a sharp increase of uncertainty in the economy and politics. This affects decision-makers on the market: internal and external investors.

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<sup>24</sup> A.Pestova, M.Mamonov, "Should we care? The economic effects of financial sanctions on the Russian economy."

<sup>25</sup> "Kudrin Skazal, Chto u Rossii Ne Virabotalsya Immunitet k Sankciyam," *Interfax.Ru*, 2019, Accessed date: 22.03.2021, URL: <https://www.interfax.ru/russia/651196>.

<sup>26</sup> "Kudrin Skazal, Chto u Rossii Ne Virabotalsya Immunitet k Sankciyam."

<sup>27</sup> V. Mau, "Between crises and sanctions: economic policy of the Russian Federation," *Post-Soviet Affairs*, Accessed date: 08.03.2021, 2016, URL: <https://www.tandfonline.com/doi/abs/10.1080/1060586x.2015.1053723>.

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Hereinafter, the author said, that the cost of borrowed funding was increased, especially long-term funding, that reduced investment opportunities for businesses willing to make investments or to refinance current debts.<sup>28</sup>

V. Mau said that the Russian government should provide legal and political guarantees for businesses; sustain competition on market; dismantle administrative barriers that impede business activity; develop a human capital sectors (education and health care) and provide institutional reforms in these spheres; improvement in the efficiency of the financial sector, etc.<sup>29</sup>

R. Enikolopov, a rector of the New Economic School in Moscow and a research professor at The University Pompeu Fabra and Barcelona Institute of Political Economy and Governance, said, that the reduction in direct investments after the Ukrainian crises directly correlated to the growth of technological lag. Most likely, this has a greater impact on industrial development than the ban on the transfer of certain technologies included in the sanctions list. Due to increased trade uncertainty, all exports and imports in Russia have been reduced. Business development is sacrificed, especially in the fastest growing sectors, such as Internet or 5G networks, - added Prof. Enikolopov.<sup>30</sup>

#### **4) Impact of the Financial Sanctions**

In accordance with the research results of G.C.Hufbauer, J.J. Schott, K.A. Elliott, financial sanctions more often are used in combination with trade controls. In this case, impact of sanctions coasts the target more and practically nothing for senders. For the target state, it is likely to lose up to 3% of GDP per year on average.<sup>31</sup> In Russian case, financial sanctions were accompanied by export and import ban on trade in arms and dual use goods for military goods and ban on access to oil production technologies and services.

E. Gurvich and I. Prilepskiy from the independent analytical center in Moscow, Economic Expert Group (EEG), dealing with macroeconomics and public finance, in 2016 assessed the impact of financial sanctions on the Russian economy. The main objects of the financial sanctions were banks (Sberbank, VTB, Gazprombank, Russian Agricultural Bank, VEB, Bank of Moscow) and large state-owned companies related to the fuel and energy sector and the military industrial complex.<sup>32</sup> Authors argued that financial

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<sup>28</sup> V. Mau and A. Ulyukaev, "Global crisis and challenges for Russian economic development," *Russian Journal of Economics*, Accessed date: 12.01.2021, 2015, URL: <https://www.sciencedirect.com/science/article/pii/S2405473915000045>.

<sup>29</sup> Mau, "Between crises and sanctions: economic policy of the Russian Federation."

<sup>30</sup> R. Enikolopov, "'Iskanderi' Priunili. Stali Li Sankcii Prichinoy Ekonomicheskoy Stagnacii v Rossii," Accessed date: 02.03.2021, URL: <https://www.forbes.ru/biznes/384055-iskandery-priunyly-stali-li-sankcii-prichinoy-ekonomicheskoy-stagnacii-v-rossii>.

<sup>31</sup> Gary Clyde Hufbauer et al., *Economic Sanctions Reconsidered, 3d Ed.*, Peterso Institute for International Economics, 2007.

<sup>32</sup> European External Action Service (EEAS), "EU Sanctions Map," 2020, Accessed date: 26.02.2021, URL: [https://www.sanctionsmap.eu/#/main/details/26/?search=%7B%22value%22:%22%22,%22searchType%22:%7B%7D%7D.](https://www.sanctionsmap.eu/#/main/details/26/?search=%7B%22value%22:%22%22,%22searchType%22:%7B%7D%7D.;); Historically, the main creditor of Russia was the EU banking market. Approximately, half of all credit resources came from EU banks. After the implementation of sanctions, borrowers began to look for financial resources in Asian markets to service their obligations (Martin Russell, "Sanctions over Ukraine. Impact on Russia," *European Parliamentary Research Service*, 2016,

sanctions had primary (direct and indirect) and secondary effects. *Direct*: restricted access to EU funds for Russian loan issuers. Theoretically, Russian banks and companies could find alternative lenders on the East and South-East Asia financial markets. Due to weak initial positions and concerns of Asian investors regarding a possible US reaction, a reorientation to Asian markets did not occur. *Indirect*: Geopolitical tensions and the danger of new sanctions were perceived by investors as additional economic risks. The attractiveness of the Russian economy to investors was reduced. *Secondary effects*: changes in key macroeconomic indicators (exchange rate, prices, and export volumes etc.) in response to reduced net capital inflows. It is important to clarify that the volume of financial repayments of external loans of Russian banks in 2014 was 2.5 times higher than the decrease in total liabilities of the banking sector.<sup>33</sup> This means, that the indirect effects of financial sanctions exceeded the direct effects.

In the article, the authors separately considered the impact of two shocks on the Russian economy – decrease in oil prices in 2015 and the implementation of Western sanctions in 2014. There is a big difference in the impact of these shocks on budget revenues. The fall in oil prices lowered the relative value of state budget revenues in 2016-2017 by 19-20%. The impact of sanctions reduced budget revenues by 1-2%. The fall in oil prices led to 8.5 p.p. of total growth between 2014-2017.<sup>34</sup> The effect of financial sanctions was amplified by the fall in oil prices, as the capital inflow decreased further in relation to GDP. According to the study, the effect of sanctions increased by more than 1.5 times GDP, investment, and retail trade due to this amplification effect.<sup>35</sup>

N. Orlova, professor, chief economist, and head of the Alfa Bank Center for Macroeconomic Analysis in Moscow, defined three groups of financial sanctions. First were the “sectoral” sanctions, which were focused primarily on Russian government banks. Access to U.S. and EU credit markets is prohibited for Russian banks. Second group included several Russian private banks, mainly in the defense sector. This type of sanctions banned any foreign exchange payments to, or on behalf of the sanctioned banks, or companies. And finally, the most important third group was so-called “soft” sanctions. In fact, this group was the result of the previous two, since these sanctions were not officially announced. However, the effect of these measures was so large that it led to changes in the business climate, the interbank payment regime, financial control procedures, etc. Due to longer inspection times of participants in bank transactions, the realization of international payments in 2014 switched to manual mode. The longer duration in payment transactions, and sometimes unpredictable timing of payments,

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Accessed date: 07.02.2021, URL: <http://www.europarl.europa.eu/EPRS/EPRS-Briefing-579084-Sanctions-over-Ukraine-impact-Russia-FINAL.pdf>.) This negative trend together with the depreciation of the ruble, have put strong pressure on the Russian banking sector.

<sup>33</sup> Repayment of external loans by Sanctioned Russian banks under sanctions in the second half of 2014 – 11.2 bil. USD, decrease in the volume of foreign liabilities of the banking sector in the second half of 2014 - 30.8 bil. USD (See more <https://www.cbr.ru/eng/statistics/>)

<sup>34</sup> E. Gurvich and I. Prilepskiy, “The Impact of Financial Sanctions on the Russian Economy,” *Voprosi Ekonomiki* 1 (2016): 5–35, Accessed date: 01.02.2021, URL: <https://www.vopreco.ru/jour/issue/view/19>.

<sup>35</sup> E. Gurvich I. Prilepskiy, “The Impact of Financial Sanctions on the Russian Economy.”

became an important consequence for Russian banks and companies. Failure to comply with the sanctions regime in banks was fraught with huge financial fines from regulatory authorities. An additional soft sanction effect was the increased security of the credit portfolios of Russian banks.<sup>36</sup>

The greatest sanction negative effect was caused by the decision to deny Russian state-owned banks access to long-term and short-term foreign currency loans. This created a dollar liquidity deficit on the Russian market. Before this measure, the daily dollar exchange turnover of the interbank market was 1-2 bil. USD. After sanctions, it dropped to 100 mil. USD/day. This deficit further increased the pressure to depreciation of the Russian ruble in 2014.<sup>37</sup>

For the past decade, the Central Bank of the Russian Federation (CBR) has tried to maintain an inflation-targeting regime. In 2014, inflation accelerated significantly due to mainly two factors. First, a significant impact on prices was caused by the depreciation of the ruble. Second, the introduction of market restriction in August 2014 (Russian food embargo) and unfavorable market conditions for certain goods.

Another important step was the transition to a floating exchange rate regime. On November 10, 2014, the CBR abolished the existing exchange rate policy mechanism by canceling the interval of acceptable values for the value of the dual-currency basket and canceling the regular interventions. However, after switching to floating regime, the CBR continued to conduct foreign exchange interventions in a limited mode. The daily volume of currency interventions was not exceeded by 350 mil. USD, except for episodes in November-December 2014 that might have threatened the financial stability on the domestic market. On some days, the volume of interventions reached 2.9 bil. USD.<sup>38</sup> This transition to a floating exchange rate regime helped the CBR to fully concentrate on managing interest rates and achieve the inflation target. The domestic foreign exchange market became less controlled, especially because sanctions were causing a critical decrease in foreign currency liquidity on the Russian market.<sup>39</sup>

The head of the CBR, E. Nabiullina, in an interview in 2015, commented the position of the CBR regarding Western sanctions. "The central bank's primary goal is to reduce inflation. Attempts to cut interest rates too quickly or even buy some assets can simply lead to inflation, capital outflows, and dollarization economic. This will hinder economic growth, not help. Reduced liquidity in the Russian stock and banking markets is partially covered by the state. Due to restrictions on access to European capital, the government already decided to recapitalize Russian banks. This step could help to increase the capital

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<sup>36</sup> N. Orlova, "Financial Sanctions. Consequences for Russia's Economy and Economic Policy," *Problems of Economic Transition* 58 (2016): 203-17, Accessed date: 05.02.2021, URL: <https://www.tandfonline.com/doi/abs/10.1080/10611991.2016.1200389>.

<sup>37</sup> Orlova, "Financial Sanctions. Consequences for Russia's Economy and Economic Policy."

<sup>38</sup> Central bank of Russia, "Data on the Bank of Russia FX Operations," Accessed date: 30.01.2021, URL: [https://www.cbr.ru/archive/db/valint\\_day/?UniDbQuery.Posted=True&UniDbQuery.From=01.01.2014&UniDbQuery.To=31.01.2017](https://www.cbr.ru/archive/db/valint_day/?UniDbQuery.Posted=True&UniDbQuery.From=01.01.2014&UniDbQuery.To=31.01.2017)

<sup>39</sup> Central bank of Russia, "Osnovnie Napravleniya Edinoy Gosudarstvennoy Denezhno-Kreditnoy Politiki Na 2015 God, i Period 2016 i 2017 Godov," 106/1584, 2014, Accessed date: 30.01.2021, URL: <http://www.cbr.ru/publ/Vestnik/ves141201106.pdf>.

of banks up to 12%, which will support banking lending.”<sup>40</sup>

According to E. Nabiullina, sanctions did not have to be imposed at all. “There are negative consequences for the Russian economy, and for Russian partners. This is a double-edged weapon. Of course, the financial sector felt the effect. But our financial system and balance of payments have already adapted to these sanctions. The economy is gradually adapting. Now, there is an ongoing process of replacing external sources of financing with internal sources. This is a process of import substitution in finance.”<sup>41</sup>

### 5) Western Sanctions as a Political Tool

Considering the question of the effectiveness of sanctions policies between Russia and the West, there is a certain split among representatives of the official Kremlin and Russian political and economic scientists. Minister of Foreign Affairs of Russia, S. Lavrov, in one of his speech in 2019 said: “All those who have even a simple political insight of the situation, should understand, that sanctions do not work in the direction in which they have been focused. I think, sanctions will never work.”<sup>42</sup>

S. Guriev, Professor of Economics at Sciences Po in Paris, in his article “Political Origins and Implications of the Economic Crisis in Russia” wrote that the main effect of European sanctions was a deteriorating investment climate. According to him, the threat of political sanctions immediately affected investors’ willingness to invest in Russia – both domestic and foreign. The author also emphasized, that the Russian government fully understood, that after the annexation of Crimea and further escalation in eastern Ukraine, Russia would be internationally isolated and would incur sanction losses and costs to the economy. Despite this fact, Russian political elites prefer to remain in power through an imperialistic and nationalistic ideology. An aggressive foreign policy of the Russian government helps to justify all internal economic problems, especially in the presence of external enemies.<sup>43</sup>

In another publication, S. Guriev drew attention to the impact of sanctions on the average Russian citizen. EU’s sanctions target the individuals and companies that were violating international law. However, under the influence of the non-democratic Russian regime, the impact of sanctions was redistributed towards civilians. “As long as the regime remains in power, it will continue to protect the economic interest of its friends – at the expense of everybody else” - says S. Guriev.<sup>44</sup>

S. Aleksashenko, former deputy Minister of Finance of the Russian Federation and

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<sup>40</sup> E. Nabiullina, “Interview with the Chairman of the Bank of Russia E. Nabiullina to CNBC TV Channel,” *Central Bank of Russia*, 2015, Accessed date: 15.01.2021, URL: <https://www.cbr.ru/press/event/?id=5106>.

<sup>41</sup> Nabiullina, “Interview with the Chairman of the Bank of Russia E. Nabiullina to CNBC TV Channel.”

<sup>42</sup> “Lavrov: Sanctions against Russia Do Not Work and Will Never Work,” *Tass.Ru*, 2019, Accessed date: 23.02.2021, URL: <https://tass.ru/politika/6954626>.

<sup>43</sup> S. Guriev, L. Aron, “Political Origins and Implications of the Economic Crisis in Russia,” In *Putin’s Russia*, American Enterprise Institute, 2015, Accessed date: 02.03.2021, URL: <https://spire.sciencespo.fr/notice/2441/1vp83va54p9ja90dlpvct6i4mi>.

<sup>44</sup> Sergei Guriev, “The Impact of Sanctions on Russian Policy,” 2015, Accessed date: 22.02.2021, URL: <https://www.europeanleadershipnetwork.org/commentary/the-impact-of-sanctions-on-russian-policy/>.

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the first Chairman of the Central Bank of Russia, migrated to USA, and in 2016 he published the report “Evaluating Western sanctions on Russia”. The article was primarily notable for considering that the impact of sanctions on the Russian economy does not necessarily mean that the sanctions have been effective as a political tool. The author gave policy recommendations to strengthen and expand sanctions on the Russian energy sector, specifically to state-owned oil companies, which use Western technology extensive.<sup>45</sup> Financial restrictions should be systematically applied to Russian state-owned banks and their subsidiaries abroad. According to the author, only a stricter and more comprehensive sanctions regime could change Russian foreign policy.<sup>46</sup>

S. Aleksashenko concluded, that the political instruments used by the West to pressure Russia have had little political effect and have not changed Putin’s aggressive policies. Sanctions did not increase the costs of Russian foreign policy and did not clearly affect the Kremlin’s behavior. The effectiveness of sanctions is very low and will fade in time. This demonstrates the West’s inability to impede Russian actions.<sup>47</sup>

L. Shevtsova chaired the Russian Domestic Politics and Political Institutions Program at the Carnegie Moscow Center, dividing her time between Carnegie’s offices in Washington DC, and Moscow. She said that, after the annexation of Crimea, Putin has dismantled the post-cold war settlement that allowed him to engage economically with the West in the interests of the Russian petro-state. Regarding the effectiveness of sanctions as a political tool, in 2014 Shevtsova said the following: The West dare not call the Russian incursion an act of aggression. The NATO summit in Wales in September 2014 demonstrated that the alliance was not prepared to do much more than to condemn Russia. This fact does not mean that Putin won the fight for the Crimea. Putin’s efforts were to put Russia into a state of permanent confrontation with the West, which had been working against him for a long period. Nevertheless, Russian society does not want to accept declining living standards.<sup>48</sup>

Another well-known Russian economist working concurrently at the University of Chicago and the Higher School of Economics in Moscow, K. Sonin, expressed his critical stance on the political situation in Russia in the last decade. In one of his interviews in 2019 for the radio Echo of Moscow, K. Sonin said that without major reforms, that are not possible without major changes in politics, stagnation will continue in Russia. He stated that the large number of political prisoners, arrests of activists, oppositionists, and

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<sup>45</sup> Certainly, European sanctions cover a relatively small part of Russian oil and gas companies in comparison to the US sanctions list. Europe has largely limited their sanctions to the capital market without applying restrictions in the field of oil exploration and production. See more: Risk Advisory, “Russia Sanctions List,” [www.riskadvisory.com](http://www.riskadvisory.com), 2019, Accessed date: 24.01.2021, URL: <https://www.riskadvisory.com/sanctions/russia-sanctions-list/>.

<sup>46</sup> Sergey Aleksashenko, “Evaluating Western Sanctions on Russia,” 2016, Accessed date: 05.02.2021, URL: [https://issuu.com/atlanticcouncil/docs/evaluating\\_western\\_sanctions\\_on\\_rus](https://issuu.com/atlanticcouncil/docs/evaluating_western_sanctions_on_rus).

<sup>47</sup> Aleksashenko, “Evaluating Western Sanctions on Russia.”

<sup>48</sup> Lilia Shevtsova, “Putin Has Fought His Way Into a Corner,” *The Financial Times*, 2014, Accessed date: 22.02.2021, URL: <https://carnegie.ru/2014/09/29/putin-has-fought-his-way-into-corner-pub-56799>.

politically independent candidates for managerial positions in the state government<sup>49</sup> are hindering the formation of trust in government and optimism among people. This optimism and confidence in a prosperous future are directly related to the investment climate. In addition to the tough political regime and the Western sanctions, there are also many laws that hamper the development of the economy. These include all restrictions on the access of foreigners to different industries. K. Sonin said: “We have to understand that there cannot be growth and development without foreign investment in a country like Russia. We do not make any technological inventions – neither organizational, nor productional. Accordingly, a key role for Russia is the speed of technological adaptation of Western innovations. All restrictions against foreign investors block economic development.”<sup>50</sup>

Unfortunately, sanctions are one example of such an economic blocker. Western sanctions cannot be cancelled, since the option of returning Crimea to Ukraine is not realistic. However, the Russian government could make positive changes to the situation in East Ukraine and cancel the import food embargo, which highly influence the rate of inflation. These simple steps could help the economy but have not yet been taken.<sup>51</sup>

In analyzing the effectiveness of imposed sanctions, sender countries from both sides of conflict had not clearly announced their policy objectives. In this regard, it is difficult to evaluate the achievement of the set political goals. From EU, the sanctions were applied as a response to the actions of the Russian authorities in Ukraine. On the Russian side, sanctions are used “to ensure state security.”

## **6) Russian Embargo**

In response to European sanctions, on August 6, 2014 the Russian President signed a decree “On the application of certain special economic measures to ensure the security of Russia.”<sup>52</sup> The decree prohibits import into the territory of Russia of certain agricultural products, raw materials and foodstuffs originating from EU countries, USA, Canada, Australia, and Norway.<sup>53</sup> As a result of this, the total value of imported agricultural supplies into Russia between Q1 2014 -Q1 2015 decreased by 41%.<sup>54</sup>

The effect of the Russian counter-sanction was researched in 2019 by P.

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<sup>49</sup> For example, a series of arrests of candidates in the Moscow’s city council in the summer of 2019. See more: The Moscow Time, “An Overview of Russian Opposition Figures Sentenced Over Mass Election Rally,” *The Moscow Time*, 2019, Accessed date: 26.01.2021, URL: <https://www.themoscowtimes.com/2019/07/30/an-overview-of-russian-opposition-figures-sentenced-over-mass-election-rally-a66626>.

<sup>50</sup> Konstantin Sonin and Mariya Mayers, “Interview for the Radio Echo of Moscow,” *The Echo of Moscow*, 2019, Accessed date: 11.02.2021, URL: <https://echo.msk.ru/programs/personalno/2479197-echo/>.

<sup>51</sup> Konstantin Sonin and Mariya Mayers, “Interview for the Radio Echo of Moscow.”

<sup>52</sup> V. Putin, “Decree of the Prsedint of the Russian Federation. On the Application of Certain Special Economic Measuresto Ensure the Security of the Russian Federation,” Accessed date: 12.03.2021, URL: <http://kremlin.ru/events/president/news/46404>.

<sup>53</sup> Putin, “Decree of the Prsedint of the Russian Federation. On the application of certain special economic measuresto ensure the security of the Russian Federation.”

<sup>54</sup> Analytical center for the government of the Russian Federation, “Prodovolstvennoe Embargo: Importozameshenie i Izmenenie Struktury Vneshney Torgovli,” 2015, Accessed date: 28.01.2021, URL: <http://ac.gov.ru/publications/>.

Kuznetsova from Russian Presidential Academy of National and Public Administration, and N. Volchkova from New Economic School, Moscow. According to the authors, the primary goal of the food embargo was to limit market access for Western countries, which supported sectoral and political sanctions against Russia. A secondary goal was to motivate domestic producers via trade restrictions – to substitute import food goods on the Russian market. The classic case of import substitution implies a ban or increase in the tariff on the import good, regardless of country of origin. In this case, the decline in imports comes from increased competition among importers. According to their study, a result of the embargo introduced in 2014 in Russia was appearance of expensive goods from distant Latin America and Africa on the Russian market. Before the embargo, products from these distant countries were rare on the Russian market due to competition with cheaper products from Europe. The authors of the study were able to identify groups of goods in which import substitution did not take place due to the climatic conditions in Russia. These include apples, cheeses, fish, and seafood. Domestic production of these products has not changed relative to the level of 2013, while consumption fell by 15-20%. The so-called “*expensive import substitution*” took place in the dairy group. However, the new prices are significantly higher than the pre-sanctioned prices. These costs are borne by the Russian consumers.<sup>55</sup> “*Successful import substitution*” took place in only three product categories - poultry, pork, and tomatoes. In these categories, there was a decline in prices and an increase in consumption relative to 2013. For other food groups, there was a change in the importer-countries and an increase in their profit on the Russian market due to higher supply prices. The total negative effect from Russian embargo (implemented in August 2014) amounts to 445 bil. Rub. annually, which is 3,00 Rub. for 1 person a year.<sup>56</sup>

According to T. Radchenko, K. Sukhorukova, E. Parshina and A. Volkov from the Analytical Center for the Government of the Russian Federation, there were several immediate effects of the embargo on domestic market. *First*, a significant increase in food prices on Russian domestic market. Food inflation was intensified by devaluation of Russian national currency. For 1.5 year by May 2015, food inflation reached 28.7% (compared to prices in December 2013). The main growth occurred in November 2014 – February 2015. Precisely during this period, the ruble fell at its maximum, that accounted for 1/5 of the actual inflation. The rest of the inflation related to standard annual inflation and the behavior of retailers under the pressure of limited import supplies. Notable that the prices of non-banned goods grew at the same rate.<sup>57</sup> *Second*, the embargo created opportunities for expanding domestic production. However, the dynamics of production in 2015, showed that substitution of production carried out sparsely, mainly in the meat and dairy sectors. *Third*, threats of increased re-export and dumping from the Republic of

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<sup>55</sup> N. Volchkova and P. Kuznetsova, “How Much Do Counter-Sanctions Cost: Well-Being Analysis,” *Journal of the New Economic Association, New Economic Association* 43/3 (2019): 173–83, Accessed date: 03.02.2021, URL: <https://ideas.repec.org/a/nea/journal/y2019i43p173-183.html>.

<sup>56</sup> Volchkova and Kuznetsova, “How Much Do Counter-Sanctions Cost: Well-Being Analysis.”

<sup>57</sup> Analytical center for the government of the Russian Federation, “Prodovolstvennoe Embargo: Importozameshenie i Izmenenie Struktury Vneshney Torgovli.”, Accessed date: 05.03.2021, URL: <https://ac.gov.ru/archive/files/publication/a/6007.pdf>.

Belarus had largely failed. Although supplies of salted fish and apples from Belarus to Russia increased and the share in Russian imports of milk powder grew to almost 95%.<sup>58</sup>

## 7) Conclusion and Evaluation

Comparing the positions of Russian economists regarding sanctions regimes between Russia and the EU, there are both points of agreement and disagreement. *Agreement:* There is economic stagnation in Russia. This is a situation that can be corrected (even being in the sanctions regime with the West) and Russia has the capabilities and sufficient resources to realize the strategy. *Disagreement:* The cause of economic stagnation. The Russian government understates or denies the effect of Western sanctions on the Russian economy, finding other explanations for economic stagnation. Regarding this, economists with ties to government agencies generally adhere to the official position of the Kremlin. Other renowned Russian economists are more direct in issues of the sanctions impact and recognize negative impact on business climate and political and economic stability in Russia.

Nowadays, Russia is in a complicated economic and political situation. However, due to liberal reforms in the beginning of 2000s and financial savings, the Russian economy can now withstand serious external shocks. Through land privatization, the government succeeded in development of the agriculture sector. Expansion of the banking system has made it possible for citizens to get retail loans and mortgages from banks. In the long run, relatively low inflation in Russia can be maintained. After the implementation of sanctions in 2014, over 6 years, Russia's foreign debt decreased by almost 32%, and amounted to only 491,5 bil. USD.<sup>59</sup> This is a good indicator, but it coincides with a large outflow of capital from the economy. By switching to a floating exchange rate in 2014, Russia is more resistant against external influences. In this sense a fall in oil prices does not lead to a macroeconomic collapse, but “only” to a depreciation of the ruble, a reduction in budget reserves, a reduction in national projects, etc.

Evaluating the views of Russian economists on the impact of Western sanctions on Russia, several main points can be identified:

- The most important sanctions impact on Russia is the growing instability of the political system, which impedes economic development, direct foreign investment and in the end limit the technological development of the production and energy sectors. This emphasizes the importance of political reforms that will contribute to a positive business climate, which in turn will attract both foreign and domestic investments.
- In terms of fulfillment of the political objectives, the sanctions had varying success. In the context of the Russian political regime, it would be difficult to achieve real changes in Russia's foreign political activity. Returning the Crimea to Ukraine was not a realistic goal. On the other hand, the West managed to prevent further escalation of the military conflict in eastern Ukraine and

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<sup>58</sup> Ibid., Accessed date: 05.03.2021, URL: <https://ac.gov.ru/archive/files/publication/a/6007.pdf>.

<sup>59</sup> Bank of Russia, “Russian Debt,” 2020, Accessed date: 11.03.2021, URL: [http://www.cbr.ru/statistics/macro\\_itm/svs/](http://www.cbr.ru/statistics/macro_itm/svs/).

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partially isolated Russia on the international political stage.

- The most striking direct effect of the sanctions was the denial of access to long-term European capital. This led to a sharp increase in capital outflow from Russia and the emergence of foreign currency deficit on Russian market, that affected the depreciation of Russian ruble.
- Some types of sanctions used in EU-Russian case are not even discussed in Russian society, since the absence of their functionality. In practice, travel bans, and asset freeze are primary symbolic measures. It is always hard to determine the target group of people and entities that need to be sanctioned.
- The Russian food embargo, used as an economic counter-sanction, has actually failed to fulfill its import substitution function in Russia. This economic measure turned out to be not only ineffective, but also causing more financial costs to Russian consumers. In addition to the ever-present high food inflation, the quality of manufactured products in Russia and virtually impossible replacement of unique European food products remain unaddressed issues.

In sum, the implementation of smart sanctions had required availability of detailed information about the Russian subjects, and therefore effectiveness of these sanctions was very limited. However, in practice, implementation (or just threat) of any sanctions almost immediately causes negative reaction and impact on the target economy. In this regard, it is clearly a mistake to ignore or deny the impact of any type of sanctions on Russian economy.

#### Appendix 1: Sanctions against Russia providing by EU and other states<sup>60</sup>

| Types of restrictive measures                                 | Description  | Date  |
|---|--|---|
| Diplomatic measures   | G8 summit in Sochi (Russia) in 2014 was cancelled<br>The suspension of negotiation over Russia's joining the Organization for Economic Co-operation and Development (OECD) and the International Energy Agency (IEA)<br>In 2014, the EU-Russia summit was cancelled<br>Bilateral discussion on visa régime was suspended | March 2014, periodic extension, or prolongation |
| Asset freeze and travel restrictions                          | 175 people and 44 entities are subject to an asset freeze and a travel ban   | March 2014, periodic extension                  |
| Restrictions on economic relations with Crimea and Sevastopol | Import ban on goods from Crimea and Sevastopol<br>Restrictions on trade and investment related to certain economic sectors and infrastructure projects<br>Prohibition to supply tourism services in Crimea or Sevastopol<br>Export ban for certain goods and technologies  | March 2014, periodic extension, or prolongation |
| Economic sanctions  | Limit access to EU primary and secondary capital markets for certain Russian banks and companies<br>Impose an export and import ban on trade in arms<br>Establish an export ban for dual-use goods for military use or military end users in Russia  | July 2014, periodic extension, or prolongation  |

<sup>60</sup> Council of the European Union, "EU Restrictive Measures in Response to the Crisis in Ukraine," *European Union Newsroom*, Accessed date: 25.03.2021, URL: <https://www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/>.

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|--|--|--|
|  | Curtail Russian access to certain sensitive technologies and services that can be used for oil production and exploration  |  |
| Measures concerning economic cooperation | The EIB was requested to suspend the signature of new financing operations in the Russian Federation<br>EU member states agreed to coordinate their positions within the European Bank for Reconstruction and Development (EBRD) Board of Directors with a view to also suspend the financing of new operations<br>The implementation of EU bilateral and regional cooperation programs with Russia was re-assessed and certain programs suspended | July 2014, periodic extension, or prolongation |

**Appendix 2: Russian sanctions against EU, Ukraine, and other states<sup>61,62</sup>**

| Types of restrictive measures    | Description  | Date   |
|----------------------------------|--|--|
| Food embargo                     | Total ban or selected restriction of import of agricultural products, raw materials and foodstuffs from EU states that supported economic or political sanctions against Russia. | August 2014, periodic extension, or prolongation   |
| Economic and diplomatic measures | 322 people and 68 mostly Ukrainian entities are subject to an asset freeze and a travel ban  | November 2018, periodic extension, or prolongation |



**Katkı Oranı ve Çıkar Çatışması Beyanı (Zorunlu)**

Tek yazarlı makaledir. Katkı payı %100 yazara aittir. Çıkar çatılması yoktur.



**KAYNAKÇA**

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<sup>61</sup> "On Measures for Implementation of the Decree of the President of the Russian Federation Dated 22nd Oct, 2018 'On the Application of Certain Special Economic Measures in Response of Ukraine Actions against Russian Citizens and Companies.'" Accessed date: 24.03.2021, URL: <http://publication.pravo.gov.ru/Document/View/0001201810220017?index=1&rangeSize=1>.

<sup>62</sup> Russian Government, "On Measures for Implementation of the Decree of the President of the Russian Federation Dated August 6, 2014 No 560 'On the Application of Certain Special Economic Measures to Ensure the Security of the Russian Federation'", Accessed date: 21.03.2021, URL: [https://ec.europa.eu/food/sites/food/files/safety/docs/ia\\_eu-russia\\_ru-eu-import-ban\\_20140806\\_unoff-trans-en.pdf](https://ec.europa.eu/food/sites/food/files/safety/docs/ia_eu-russia_ru-eu-import-ban_20140806_unoff-trans-en.pdf).

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