

# EU sanctions on Russia: Update, economic impact and outlook

## SUMMARY

Outraged by Russia's illegal and unprovoked full-scale invasion of Ukraine in February 2022, the European Union swiftly adopted unprecedentedly tough sanctions, in close cooperation with partners including the United States, the United Kingdom, Canada, Australia and Japan. The rapid succession of 11 packages of EU sanctions adopted since then, in what has already been labelled a 'sanctions revolution', have resulted in an unparalleled set of measures targeting key sectors of the Russian economy and the political elites. New sanctions have also been adopted against Belarus and Iran, in response to their involvement in Russia's war of aggression.

The unprecedented nature of the sanctions imposed against Russia, in scale and scope, has created new implementation challenges, in particular for the EU. Member States and EU institutions have renewed efforts to make alignment truly global, and to close loopholes to prevent circumvention. In November 2022, the violation of 'restrictive measures' (sanctions) was added to the list of 'EU crimes' for which special provisions are made in the Treaties. A specific anti-circumvention tool was included in the latest package of sanctions, adopted in June 2023.

The real impact of sanctions on Russia's economy, 18 months after the adoption of the first package, has been widely researched and debated. Despite the challenges, analysts consider that sanctions have already met three important objectives: they have sent the Kremlin a strong signal of Western resolve and unity, they have permanently degraded Russia's military capabilities, and they are asphyxiating its economy and energy sector, with long-term consequences. However, most experts warn that the impact of sanctions is not severe enough to limit Russia's ability to wage war against Ukraine in the coming months, pointing at the need for additional measures to reinforce sanctions.

Since Russia's illegal annexation of Crimea and Sevastopol in 2014, the European Parliament has been a vocal advocate of severe sanctions. It has condemned Russia's unjustified aggression against Ukraine unequivocally, and demanded broader and better-enforced sanctions, and the confiscation of Russian assets frozen by the EU to pay for Ukraine's reconstruction. On 23 November 2022, Parliament adopted a resolution recognising Russia as a state sponsor of terrorism.

*This briefing updates and complements a previous [briefing](#) published in March 2023.*



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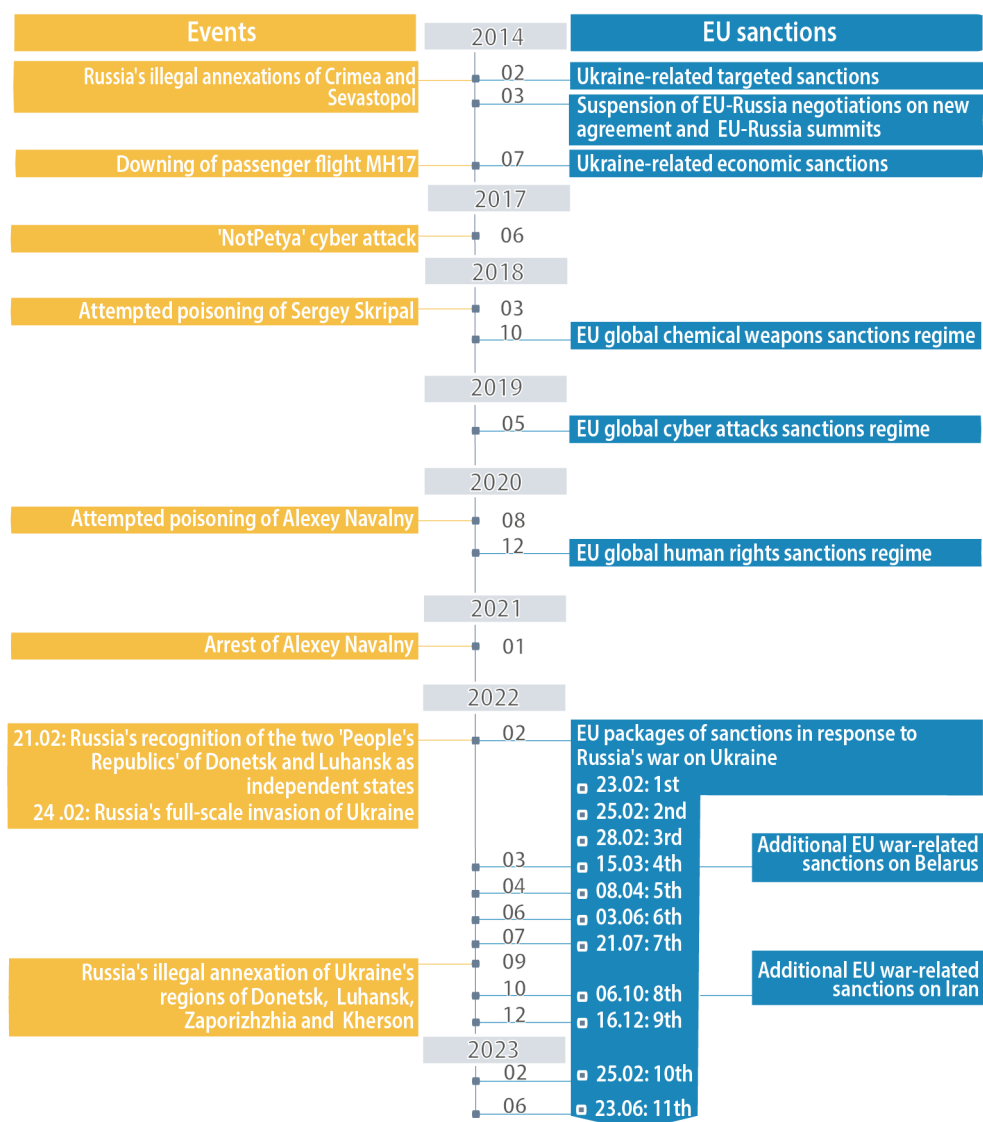
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## EU sanctions on Russia: State of play

Figure 1 – Timeline of EU sanctions



Source: EPRS.

The first set of [EU sanctions](#) ('restrictive measures') against Russia were [adopted](#) in March 2014, following Russia's illegal annexation of Crimea and Sevastopol, and its support for a separatist insurgency in eastern Ukraine. These signalled the start of a [major review](#) of EU policy towards Russia. Russia's behaviour during the August 2008 [Russia-Georgia war](#) had previously been [condemned](#) in statements and [resolutions](#), but did not trigger sanctions, despite Georgia's [request](#) for 'smart sanctions'.

Russia's illegal and unprovoked full-scale invasion of Ukraine was immediately met with a new set of EU sanctions, meant to be [unprecedented](#) in scale and nature, and coordinated with global partners. In what has been labelled a '[sanctions revolution](#)', EU Member States have adopted 11 sanctions packages in [swift succession](#) over 18 months. Each package has incrementally amended and broadened the scope of sanctions regimes adopted from 2014 onwards, with the addition (in February 2022) of a new regime banning imports of goods originating in the illegally annexed territories of Donetsk, Luhansk, Kherson and Zaporizhzhia to the EU (Table 1).

Table 1 – Overview of EU sanctions against Russia

Russian activity targeted by sanctions	Type of sanction*	Legal basis**	Date initially adopted	Renewal***	Scope
Violations of Ukrainian sovereignty	Individual; geographical	<a href="#">Council Decision</a> 2014/145/CFSP; <a href="#">Council Regulation</a> (EU) 269/2014	17.3.2014	Every 6 months	Close to 1 800 individuals and entities
Violations of Ukrainian sovereignty	Economic; geographical	<a href="#">Council Decision</a> 2014/512/CFSP; is <a href="#">Council Regulation</a> (EU) 833/2014	31.7.2014	Every 6 months	Finance, transport, defence, energy, technology, export-import restrictions
Violations of Ukrainian sovereignty (Crimea)	Economic; geographical	<a href="#">Council Decision</a> 2014/386/CFSP; <a href="#">Council Regulation</a> (EU) 692/2014	23.6.2014	Every 12 months	Trade and financial restrictions
Violations of Ukrainian sovereignty (Donetsk, Kherson, Luhansk and Zaporizhzhia)	Economic; geographical	<a href="#">Council Decision</a> 2022/266/CFSP <a href="#">Council Regulation</a> (EU) 2022/263	23.2.2022	Every 12 months	Trade and financial restrictions
Chemical weapons	Individual; thematic	<a href="#">Council Decision</a> (CFSP) 2018/1544; <a href="#">Council Regulation</a> (EU) 2018/1542	15.10.2018	Every 12 months	Russia: 17 individuals, 1 entity. Total: 22 individuals, 3 entities
Cyber attacks	Individual; thematic	<a href="#">Council Decision</a> (CFSP) 2019/797; <a href="#">Council Regulation</a> (EU) 2019/796	17.5.2019	Every 12 months	Russia: 6 individuals, 2 entities. Total: 8 individuals, 4 entities
Human rights abuses	Individual; thematic	<a href="#">Council Decision</a> (CFSP) 2020/1999; <a href="#">Council Regulation</a> (EU) 2020/1998	7.12.2020	Every 12 months	Russia: 44 individuals, 13 entities (incl. Wagner group & associated); Total: 62 individuals 20 entities

Data source: [EU sanctions map](#) (as of 19 September 2023).

\* Individual/economic/thematic/geographical. Individual sanctions (sometimes referred to as 'targeted' sanctions) concern individual persons and entities, and take the form of visa bans, asset freezes and financial restrictions, whereas economic sanctions concern entire sectors or the economy as a whole. Thematic (global) sanctions concern particular types of behaviour, regardless of location, as opposed to geographical sanctions.

\*\* Restrictive measures (sanctions) are [adopted](#) within the EU's common foreign and security policy: under [Article 29 of the Treaty on European Union](#), the Council takes decisions to adopt, renew or lift sanctions regimes by unanimity, on the basis of proposals from the High Representative of the Union for Foreign Affairs and Security Policy. The economic and financial aspects of such decisions (e.g. import/export restrictions and freezing of assets) are implemented by regulations adopted by the Council on the basis of [Article 215 of the Treaty on the Functioning of the European Union](#), by qualified majority, upon a joint proposal by the High Representative and the European Commission. The Council decision and Council regulation are therefore adopted simultaneously.

\*\*\* The renewal period for EU sanctions regimes ranges from 6 to 12 months. Since February 2022, a number of EU Member States and the European Parliament have demanded the renewal period for all sanctions regimes applicable to Russia to be extended to 12 months, to limit negotiation delays. Hungary has so far [opposed](#) the change.

In addition to individual (also known as 'targeted') and economic sanctions, a number of subsequent **diplomatic** sanctions have been imposed, including the [suspension of visa facilitation](#) between the EU and Russia. Together with other World Trade Organization (WTO) members, the EU has agreed to deny [most-favoured-nation treatment](#) for Russian products and services on EU markets. Beyond Russia, the EU has also adopted additional sanctions against [Belarus](#), in response to its involvement in the invasion of Ukraine, and [Iran](#), in relation to the use of Iranian drones in Russia's war on Ukraine.

The [cumulative effect](#) of successive waves of EU sanctions since February 2022, constituting an exponential escalation of the 2014 sanctions previously in place, is intended to weaken Russia's [economic base](#) and curtail its ability to wage war. It is also designed to hamper Russia's access to military technologies and components, whilst targeting political and economic elites to undermine their support for the regime. Sanctions set by the EU to date [include](#) (non-exhaustive list):

- ✓ [targeted personal sanctions](#): asset-freezing (€21.5 billion in the EU so far) and travel bans, applicable to almost 1 800 individuals and entities, including Russian officials, elites and propagandists, including Russian President Vladimir Putin, commanders of the Wagner group, as well as associated entities;
- ✓ measures [blocking access](#) to Russia's Central Bank reserve holdings (€300 billion);
- ✓ a [ban on transactions](#) with certain Russian state-owned military-industrial enterprises;
- ✓ [disconnection](#) of 10 leading Russian financial institutions – including Russia's largest bank, Sberbank – from the SWIFT international financial messaging system;
- ✓ [prohibition](#) on exports to Russia (including [transit](#)) of dual-use goods/technology, drone engines, arms, civilian firearms, ammunition, military vehicles, paramilitary equipment;
- ✓ a ban on certain exports in the aviation, maritime, and technology sectors (e.g, semiconductors) and on the export of [luxury goods](#) to Russia;
- ✓ closure of EU [airspace](#), seaports, and roads to Russian aircraft, vessels, and transport operators, respectively;
- ✓ [suspension](#) of the broadcasting activities of several Russian state-owned media outlets;
- ✓ a ban on imports from Russia of [coal](#) and of [crude oil and petroleum products](#), phased and with limited exceptions;
- ✓ a [price cap](#) on Russian crude oil and petroleum products exported to third countries, and a ban on the provision of maritime transport, [insurance](#) and other assistance services for the transport of products sold above the cap (G7 oil price cap);
- ✓ a prohibition on exports to Russia of goods and technologies in the oil-refining sector and prohibiting new investments in the Russian energy and mining sector;
- ✓ the application of restrictions on Russian nationals holding any position on the [governing bodies](#) of EU critical infrastructures and entities;
- ✓ new anti-circumvention tool to combat sanctions circumvention by third country operators.

EU sanctions on Russia, 2022 to 2023

1st package – [23 February 2022](#)

2nd package – [25 February 2022](#)

3rd package – [28 February 2022](#)

4th package – [15 March 2022](#)

5th package – [8 April 2022](#)

6th package – [3 June 2022](#)

7th package – [21-22 July 2022](#)

8th package – [6 October 2022](#)

9th package – [16 December 2022](#)

10th package – [25th February 2023](#)

11th package – [23 June 2023](#)

Data source: Council [Timeline](#).

## New elements in the eleventh package of sanctions

The EU Member States [adopted](#) their 11th package of EU sanctions on 23 June 2023, following six weeks of [negotiations](#). The new [package](#), focused on enforcement and anti-circumvention measures, [includes](#) the following key elements.

### • Anti-circumvention tool

A new [anti-circumvention tool](#) has been designed, to be used as a last resort to restrict the sale, supply, transfer or export of specified sanctioned goods and technology – notably 'sensitive dual-

use goods and technology, or other goods and technology that might contribute' ... to strengthening 'Russia's ability to wage war' – to certain third countries whose jurisdictions are considered to be at continued and particularly high risk of being used for circumvention. Before resorting to this exceptional measure, the EU will strengthen cooperation with third countries, including the provision of technical assistance, followed if needed by proportionate and individual (targeted) measures addressing the involvement of third-country operators in facilitating circumvention. Only when both avenues prove insufficient, and circumvention remains substantial and systemic, will the EU resort to stopping the export of specific goods of concern to those third countries. Specific anti-circumvention measures, which have not yet been used, require a unanimous vote in the Council.<sup>1</sup>

The anti-circumvention tool has sometimes been [labelled](#) a form of 'secondary sanctions'. This can be misleading, as this terminology is associated with extra-territorial sanctions. The anti-circumvention tool does not imply that EU sanctions have [extra-territorial](#) effect, meaning that foreign operators are expected to apply EU sanctions as such. Rather, the purpose of the anti-circumvention tool is to prevent the systematic re-export of sanctioned EU goods to Russia, to the point of undermining the EU sanctions.

- **Transit ban**

The prohibition on transiting Russian territory is extended to additional goods and technology (including aviation, the space industry, jet fuel and fuel additives), when exported from the EU to third countries.

- **Import-export controls and restrictions**

Eighty-seven new entities have been added to the list of those directly supporting Russia's military and industrial complex in its war of aggression against Ukraine (Annex IV to Regulation (EU) No [833/2014](#)). These entities will be subject to tighter export restrictions concerning dual use goods and technologies. In addition to the Russian and Iranian entities already listed, the new ones are registered in China, Uzbekistan, the United Arab Emirates (UAE), Syria and Armenia.

- **Fight against disinformation**

Broadcasting licences have been suspended for an additional five media outlets – RT Balkan, Oriental Review, Tsargrad, New Eastern Outlook and Katehon – found to be systematically used by the leadership of the Russian Federation for disinformation and destabilisation purposes in the EU and neighbouring countries.<sup>2</sup>

- **Transport measures**

A full ban has been placed on trailers and semi-trailers registered in Russia, including when hauled by trucks registered outside of Russia.

A prohibition on entering EU ports has been imposed on vessels engaging in ship-to-ship transfers suspected to be in breach of the Russian oil import ban or the G7 coalition price cap, and also on vessels that manipulate or turn off their navigation tracking systems when transporting Russian crude oil and petroleum products, in breach of international agreements, rules and standards.

- **Energy**

The temporary derogation granted to Germany and Poland for the supply of crude oil from Russia through the northern section of the Druzhba oil pipeline is terminated. However, oil originating in Kazakhstan or another third country will still be able to transit through Russia for import into the EU via the Druzhba oil pipeline.

- **Individual listings**

Over 100 additional individuals and entities are now subject to asset freezes and travel bans. The list includes senior military officials, people involved in the illegal deportation of Ukrainian children to Russia, people responsible for the looting of cultural heritage, propagandists, as well as Russian IT companies providing critical technology and software to Russian intelligence, and banks operating in the occupied territories.

Furthermore, on 28 July 2023 the Council [decided](#) to extend restrictive measures (sanctions) to an additional seven individuals and five entities, found responsible for digital information manipulation on behalf of the Russian Federation, using fake web pages usurping the identity of national media outlets and government websites, and also fake accounts on social media. On 8 September 2023 the Council [decided](#) to impose restrictive measures on six individuals responsible for serious human rights violations in the Russian Federation and in the temporarily occupied territories of Ukraine, targeting prosecutors and judges who have taken part in politically motivated court proceedings.<sup>3</sup> Previously, on [5 June 2023](#), the Council had added [nine Russian citizens](#) to the list of sanctioned individuals for serious human rights abuses – Russian deputy justice minister Oleg Sviridenko, four Russian judges, a notorious prison chief, and three officials – who were responsible for the politically motivated 25-year prison sentence and ill-treatment of outspoken opposition politician and democracy activist [Vladimir Kara-Murza](#).

- **Sanction effectiveness: Alignment and enforcement**

Negotiations over the 11th package were held in parallel with other measures, also aimed at closing sanction loopholes, preventing [circumvention](#) and enhancing enforcement [consistency](#).

The EU has stepped up its 'sanctions diplomacy': David O'Sullivan, the first [International Special Envoy for the Implementation of EU Sanctions](#), has travelled intensively, visiting Turkey, Uzbekistan, Kazakhstan, Armenia and Georgia, among others. The EU, together with the US, UK and Japan, has agreed [a priority list of sanctioned battlefield goods](#), to which businesses should apply particular due diligence and which third countries must not export to Russia. In addition, the EU [has identified economically critical goods](#) for which businesses and third countries are asked to be especially vigilant.

The EU has also made significant efforts in enforcement coordination: publishing consolidated sanctions implementation [clarifications](#) and an exhaustive [guidance note](#) addressed to European operators to help them identify and avoid circumvention.

In November 2022, the Council [adopted](#) a decision to add the violation of restrictive measures (sanctions) to the list of particularly serious crime ('EU crimes') under [Article 83\(1\) of the Treaty on the Functioning of the European Union](#). Shortly afterwards, the Commission presented its [proposal](#) for a directive 'on the definition of criminal offences and penalties for the violation of Union restrictive measures', establishing harmonised minimum rules across the EU – necessary for implementation of the above decision. The [draft directive](#), still under [negotiation by the co-legislators](#), is seen by [experts](#) as a 'major milestone in the harmonization of EU sanctions enforcement, as well as in the development of European criminal law more generally'.

## Impact of sanctions on Russian economy after 18 months

### State of Russian economy in December 2022

[In 2022](#), increased commodity prices led to an increase in exports to US\$636 billion (from US\$550 billion in 2021), whereas imports fell to \$351 billion (from \$380 billion). This effect boosted Russia's [trade balance](#) (US\$285 billion) and its [current account](#) surplus (US\$233 billion, from US\$122 billion in 2021). The country's expenditure also grew significantly (+25 % on 2021), driven principally by growth in military expenditure. The current budget (2023-2025) forecasts a reduction in expenditure from RUB31.1 trillion in 2022 to RUB29.0 trillion in 2023.<sup>4</sup> This is to be achieved by reducing expenditure in non-military areas. At the same time, providing there are no significant new sanctions or geopolitical developments, budget revenues are expected to [remain stable](#): revenues from oil and gas should be lower in 2023 than in 2022, but they remain higher than the pre-war 7-year average. In addition, revenues derived from non-oil and gas sources were more stable and exceeded the 7-year average in every month of 2022.

## Partial success of sanctions

At the start of the war, the United States (US) and the EU [introduced](#) unprecedented **financial sanctions**, including prohibitions on transactions with Russia's biggest state-owned banks, prohibitions on trading Russian sovereign bonds, limits on the ability to lend to major Russian companies, action to block key banks from the SWIFT financial messaging system, and a freeze on the Russian Central Bank's foreign-exchange reserves. However, throughout 2022, this group of [sanctions](#) was generally evaluated as only partially [successful](#) in achieving the desired outcome – namely provoking the collapse of the Russian economy. The sanctions were offset by Russia's current account surplus from energy revenues, as well as severe restrictions on capital and foreign currency markets imposed by the Central Bank of Russia.

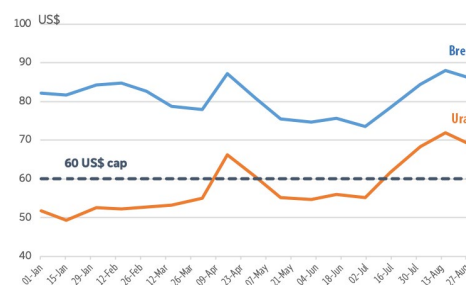
Maria Snegovaya et al. [noted](#) already in February 2023 that the denial of **exports of Western-produced sensitive technology** to Russia appears to have worked: output declined not only in defence and aviation, but also in machine-building and pharmaceuticals. It seems however that Russia has been able to find substitutes for imports from the EU and other sanctioning countries, to some extent. A recent [paper](#) by Borin et al. estimates that overall, the increase in imports from non-sanctioning countries substituted between 10% and 25% of missing shipments in EU-restricted products from sanctioning countries in the fourth quarter of 2022, depending on the data source.

At the same time, there are reasons to [believe](#) that Russia is continuing to access restricted Western goods through [supply chains](#) running through China and former Soviet states. Vladimir Milov [notes](#) that according to the data at hand, the countries most active in facilitating the circumvention of wartime sanctions by Russia include China, Turkey, UAE and central Asian countries, such as Georgia and Armenia. At the same time, Russia's reliance on black market and illicit supply chains is prone to delay and disruption, which increases the time needed to produce new systems and raises costs for the Kremlin as it tries to obtain sensitive technology. Moscow may have to prioritise military applications of such items over civilian uses.

## Oil cap update

The introduction of the [oil embargo and price cap](#) had an immediate impact. By some [estimates](#), the first month of the **oil embargo and price cap** cost Moscow approximately €160 million per day, representing a 17% decline in Russia's earnings from fossil fuel exports. According to [data](#) released by the Russian Finance Ministry on 1 August 2023, the average price of Urals crude oil in the January to July 2023 period was **US\$53.94 per barrel**, down from **US\$83.27** per barrel in the same period in 2022. As a result, in the period January-July 2023, oil and gas revenues for the Russian budget decreased by 41.4% compared with the previous year, according to [data](#) published by the Russian Finance Ministry.

Figure 2 – Brent and Urals oil prices and price cap



Data source: [Neste](#).

To counter the impact of energy sanctions, Russia has ramped up its oil shipments to Asia. In the pre-invasion period of January 2021 to February 2022, China's seaborne imports from Russia averaged about 590 000 barrels per day, while from February until December 2022, they averaged around 857 000, an increase of about 45%. Asia is unlikely to serve as a full substitute for the volumes Russia used to ship to Europe, however. In addition to longer shipping times (it takes about a month to ship oil to India as opposed to only a couple of days to Rotterdam or Genoa), tankers must also go through a set of bottlenecks – namely the Danish straits, the Strait of Gibraltar, the Bosphorus Strait, the Suez Canal, and the Bab el-Mandeb Strait – where they run a risk of delays.

However, following Russia's July [announcement](#) that it was planning to reduce its oil exports by 500 thousand barrels per day in August 2023, and pushed by the supply [cut](#) by Saudi Arabia, the average price of Urals oil [increased](#) in July 2023 to an average of US\$64.37 per barrel. As a result, Russian [oil exports](#) are currently ineligible for G7 and EU maritime services. Some things must be noted in this context. The price in July exceeded the price cap, but remained significantly lower than the high of US\$78.41 per barrel a year earlier (July 2022). In addition, oil still traded at a significant [discount](#) compared with Brent oil ([around US\\$16-19/barrel](#)). Apart from reducing Russia's revenues, this policy also [benefits](#) low- and middle-income countries, such as India, which can import oil at lower prices than they did in the first few months after Russia's invasion of Ukraine.

In addition to the above, the *Financial Times* [estimated](#) that in spring 2023, Russia tried to sell at a price higher than the price cap to India while still benefitting from insurance and shipping services, by artificially increasing shipping costs for transporting oil.<sup>5</sup> Lastly, there is evidence of potentially widespread [violations of the price cap](#) at Russia's Pacific port of Kozmino. Benjamin Hilgenstock et al. estimate that at least 24 million barrels with a price above US\$60/barrel have been transported on vessels that fall under the cap's regulations, thanks to falsification of the records oil buyers are required to provide to G7/EU shipping and insurance companies to demonstrate price-cap compliance. While such initiatives come at a [cost](#) to Russia itself (Russia's investment in its shadow fleet or its own insurance companies draws funding away from its war chest), experts are calling for more stringent application of the sanctions, and the addition of more [disclosure requirements](#).

## State of Russian economy today

The **Russian rouble** has had a period of [turbulence](#) since Russia invaded Ukraine in February 2022, dropping to a record low of 150 roubles to US\$1 2 weeks after the start of the war, before recovering sharply. The recovery was due to strict capital controls imposed by the Russian central bank, which limited the flow of money out of the country, but also to the increase in oil and gas prices, which raised export revenues.

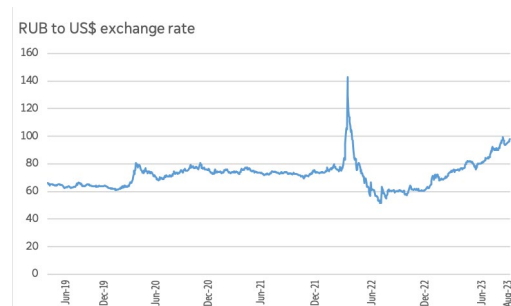
However, the sanctions introduced by the West and the resulting collapse in export revenues, as well as increasing military expenditures have led to a steady [weakening](#) of the rouble. This accelerated after the aborted Wagner uprising in June 2023 caused

Russians to move money into foreign accounts. In the January-August 2023 period, the currency weakened by 26% reaching an exchange rate of RUB100 to US\$1. As a result, the Bank of Russia said it would stop conducting the Finance Ministry's foreign exchange purchases, as prescribed by Russia's budget rule,<sup>6</sup> in order to reduce market volatility.

## Changes in the economy and potential redistribution

The most recent [outlook](#) for the Russian economy published by the Bank of Finland notes that the Russian economy has outperformed last year's negative forecast, for a variety of reasons. These include primarily the country's shift to a wartime economy. Russia has dropped its fiscal prudence of previous years, imposed capital controls and embarked on unprecedented efforts to increase public spending to support the war. Departing from tepid investment trends, it has invested heavily, albeit in infrastructure and war-related projects (the highest [increases](#) in sectoral investment were in military security, pipelines and railroad transport). Such investments in low-productivity sectors and the increase in the size of the public sector at the expense of the private sector are expected to reduce productivity and competitiveness.

Figure 3 – Rouble-US dollar exchange rate



Data source: [Nasdaq](#).



In [April 2023](#), Putin [authorised the expropriation](#) of foreign-owned assets in response to the seizure and freezing of Russian assets abroad. Another source of assets for redistribution have been the assets of Russian entrepreneurs who liquidated their assets and moved abroad. As a result, there is an unprecedented turnover of heavily discounted assets in Russia today. One option that Russia [reportedly](#) envisages is to swap Western investors' stranded assets in the country for some Russian assets frozen by the West following the invasion. Another is for the Russian state to acquire the abandoned assets at a maximum discount, then redistribute them in such a way as benefits Russian industry. In a recent post, Ekaterina Kurbangaleeva [notes](#) that these assets may serve to reshape the middle layer of Russia's social structure. In return for their loyalty, high-placed Russians who chose to remain may receive high-quality assets at a significant discount, which may turn them into a pillar of the regime and a source of patriotic optimism and even radicalism.

## Geopolitical consequences of Russia's isolation

Sanctions have isolated Russia from the Western economies and increased its dependence on certain foreign partners. As mentioned earlier, there is evidence that Russia has used Turkey, UAE, as well as central Asian countries, such as Georgia and Armenia to circumvent Western sanctions. There are also [reports](#) that Russia increased its exports to India and Brazil by 50 % in 2022 compared with the previous year.

The war is [driving](#) Russia and Iran closer together, both as economic partners and because the Russian war effort increasingly needs Iran and others to help replenish its armaments. After years of empty promises, Russia seems to be investing in Iranian industry and increasing two-way trade (from a very low base) to deepen political ties between the two autocratic governments.

However, the main partner Russia has been turning to (and becoming dependent on) since the beginning of the war is China, which is providing an economic lifeline for Russia via its energy purchases. [Energy commodities](#) account for more than two thirds of Russian exports to China. Russia's imports from China, meanwhile, consist not only of [consumer](#) goods<sup>7</sup> but also, increasingly, [high-tech](#) goods. Payments to and from Chinese partners are largely conducted in [yuan](#) rather than in roubles in what has been dubbed the *yuanisation* of Russia's foreign trade. In April 2023, the Chinese currency was used for a record 23 % of exports and 31 % of imports, while the rouble accounted for 38 % and 28 %, respectively. This means that Russia already uses more yuan to pay for imports than roubles. [Experts](#) have [noted](#) that such a move increases the country's dependence on China going forward. While trade already existed and grown significantly, foreign direct investment between Asian countries and Russia was almost non-existent<sup>8</sup> and has not increased significantly. In his aforementioned paper, Vladimir Milov is of the view that going forward, foreign direct investment is likely to remain tepid, as neither China nor India want to create the conditions for the emergence of a competitor for their manufacturing industries. By contrast, both China and India are likely to keep Russia as a commodities' exporter and, navigating Western sanctions, will try to obtain gas and oil at the lowest price.

The recent [summit](#) between Vladimir Putin and Kim Jong Un confirms that Russia is reaching out to strengthen alliances with authoritarian regimes, as existing [allies](#) and [partners](#) distance themselves.

## Outlook for Russia's economy

In June 2023, the Central Bank of Finland [reported](#) that output in most branches of the Russian economy was still below the pre-invasion levels. Export revenues had fallen significantly given the drop in the oil price and the reduced exports of natural gas. These trends have contributed to a sharp contraction of the country's current account surplus.

However, at the same time, the very [isolation](#) of the Russian economy from global financial markets allowed it to escape the March 2023 bank turmoil in the US and Switzerland [unscathed](#). Moreover, Russia remains one of the biggest economies in the world, and a critical supplier of energy and

other raw materials. Any belief that sanctions alone would immediately bring Russia down and stop the war has proven to be misplaced.

At the same time, a July 2023 [paper](#) from the Kyiv School of Economics notes that Russia's economy is not (yet) approaching any inflection point that would force it to stop its war of aggression against Ukraine in the near term. Indeed, despite the price cap and embargo, Russia earned around \$425 million per day from the sale of oil in the January-June 2023 period. The weaker rouble hits the poor because they have to spend more on necessities like food. However, at the same time, it [helps](#) the government with its budget, given that it [earns](#) more roubles for every dollar of earnings from oil and other products Russia sells. That bolsters spending on the military and on social programmes aimed at blunting the impact of sanctions on the Russian people. After increasing significantly over the first 3 months of 2023, the federal government deficit declined considerably because of reduced spending and is expected to remain [contained](#) (3% of gross domestic product). Russia can also still count on its National Wealth Fund (NWF) to finance its war. According to the Russian Ministry of Finance, the NWF stood at RUB13.6 trillion in February 2022, ended the year with RUB11.4 trillion, and by August 2023 had [risen again](#) to RUB13.3 trillion (around US\$146.3 billion). However, only half – around US\$79 billion – is liquid funds. Moreover, state-owned enterprises and companies had accumulated savings in recent years, which they can still use with one-time taxes (or with a change in taxation), as happened in some sectors last year. Russia could also mobilise the finances of its population by issuing domestic debt. As a last resort, the country could even turn to direct central bank financing, although the inflation risks this carries are significant.

The sanctions imposed on [Russia](#) following its invasion of Ukraine have however limited its access to turbines and technology for building modern tankers, locomotives, cars, next-generation communication networks, and other high-tech products. In other words, they have [made](#) the country's economy more self-reliant and less productive. The focus on military production has accentuated its [chronic under-investment](#) in other industries, a problem that has been particularly acute over the last decade. The above, coupled with [the 1.3 million](#) estimated people leaving the country in 2022, mainly younger and higher-educated people, has removed Russia as a serious player in the race towards artificial intelligence and quantum computing.<sup>9</sup> Russia is expected to remain a commodities exporter and not to have any comparative advantage in industry or services.

Moreover, using the experiences of Iran and apartheid South African, Snegovaya et al. conclude that, while Russia's economy is unlikely to collapse, sanctions will constrain its ability to generate economic growth. The growing trend of nationalisation of the economy will undermine its competitiveness, while current efforts towards import substitution are unlikely to yield much success. In addition, the Central Bank's capacity to control inflation might be constrained, particularly as convertible foreign exchange earnings might fall owing to a drop in oil exports, while defence expenditures continue. The above will create economic challenges that could [aggravate](#) the public mood. Sanctions are [unlikely](#) to cause a patriotic outburst and increase support for the government. On the other hand, maintaining or increasing the repressive state apparatus will further strain finances. Those finances are the object of intense debate, given that economic data are [unavailable and Russia may have distorted](#) any such data that are accessible.

Some [speculate](#) that Putin's plan is to keep the Russian economy afloat until next year. Indeed, 2024 is very important in this schedule because it is not only the year of elections in Russia in March, but also the presidential elections in the US in November. If the next US president and Congress depart from the current sanctions policy, Russia may be able to continue its war.

## Expert views on the future of sanctions

Looking ahead, various experts argue in favour of stepping up the pressure significantly in the coming months. Such proposals, put forward by the [International Working Group on Russian](#)

[Sanctions](#) or the [Atlantic Council](#), among others, include [measures](#) to **strengthen** various types of sanction.

- **Sanctions on oil and energy.** US Treasury officials have argued before that without [adjustments](#), the effectiveness of economic pressure tends to weaken over time. Brian O'Toole and Daniel Fried [propose](#) that G7 countries also target Russian efforts to amass oil tankers that operate outside the G7 strictures, by banning such vessels from their waters (because they maintain inadequate insurance) or simply by sanctioning the Russian front companies buying up these '[ghost ships](#)' and the vessels themselves. Measures could also include lowering the oil price cap, a measure that has already been proposed by former US Ambassador to Russia [Michael McFaul](#).
- **Sanctions on non-energy trade.** This implies stronger sanctions on metals and diamonds for instance.
- **Better sanctions enforcement.** In this context, O'Toole and Fried [note](#) that the West could intensify the activity of the [G7 Enforcement Coordination Mechanism](#) to develop and enforce shared standards on aspects of export control (e.g. harmonise and apply principles similar to banking industry '[know your customer](#)' procedures to high-tech manufacturers, freight forwarders, insurance firms, and others down the supply chain).
- **Financial sanctions.** While the West has imposed sanctions on several major Russian banks, there are [fears](#) that they still use smaller, unsanctioned banks, to conduct business. A formal financial embargo on Russia – accompanied by carve-outs for example on oil, food, medicine, or medical goods – would ease enforcement of existing sanctions and export controls and have strong symbolic significance. O'Toole and Fried note that Russia's attempt to use yuan or rupees instead of G7 currencies would have limited impact given that it would increase its dependence on those countries and limit – for the moment, at least – its trade to them, given that those currencies are not yet broadly used in international markets.
- **Confiscation of Russian sovereign assets.** G7 countries have immobilised an estimated US\$360 billion in Russian foreign exchange reserves held in their jurisdictions and are proposing that they be used for the reconstruction of Ukraine. There is serious debate over this point. Advocates point out that Ukraine needs funds and that the use of Russia's frozen assets would [ease the burden](#) on Europe, the US, and other sources of support, and could be justified under [international law](#). Sceptics have argued that the legal basis for confiscating such assets is questionable and that doing so would set a dangerous precedent. Reflecting the fact that this discussion is still in progress, the G7 issued a relatively [neutral statement](#) at its Tokyo summit in May.
- **Greater transparency.** This would involve enhancing disclosure requirements for companies who have business ties with Russia and Belarus or extending anti-money-laundering regulation to non-bank financial intermediaries such as lawyers, accountants, and real estate firms.

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## ENDNOTES

- <sup>1</sup> Should the Council decide to use this instrument, relevant goods and relevant third countries will be added to [Annex XXIII](#) of Council Regulation (EU) No 833/2014. The description of the relevant process can be found in Recitals 9 to 18 of Council Regulation (EU) No 2023/1214 (in particular from Recital 12).
- <sup>2</sup> In line with the Charter of Fundamental Rights, these measures will not prevent those media outlets and their staff from carrying out activities in the EU other than broadcasting, e.g. research and interviews.
- <sup>3</sup> The politically motivated proceedings were against Vladyslav Yesypenko, a journalist who was sentenced to 6 years in prison, and Nariman Dzhelyalov, a Crimean Tatar.
- <sup>4</sup> US\$459 billion to US\$430 based on an [average exchange rate](#) of RUB1 to US\$0.0148 for 2022.
- <sup>5</sup> For instance, selling the oil at US\$59 but charging an extra US\$11 for shipping, whereas in reality shipping costs less.
- <sup>6</sup> Under its [budget rule](#), Russia sells foreign currency from its National Wealth Fund (NWF) to make up for any shortfall in revenue from oil and gas exports, or to make purchases in the event of a surplus.
- <sup>7</sup> As of 2022, Chinese brands [dominate](#) the Russian car market; from [60 car brands](#) in 2021, only 14 remained on the Russian market in 2022: 11 Chinese and three Russian. In 2022, Chinese models accounted for [20 %](#) of new car sales (in terms of units) in Russia (compared with 6 % in 2021). By some estimates, the share of sales of Chinese cars on the Russian market could reach [40 %](#) in 2023, despite their rising prices for Russian consumers. Similarly, at the end of 2022, major Russian retailers [reported](#) that Chinese producers were now leading the washing machine, refrigerator, personal laptop, and smartphone segments. This is consistent with Chinese export [data](#), which shows a 35.5 % increase in washing machine exports and a 6.4 % increase in refrigerator exports to Russia in 2022 (compared with 2021).
- <sup>8</sup> According to [CBR statistics](#), before the invasion of Ukraine, cumulative foreign direct investment in Russia was US\$3.3 billion from China, US\$2.4 billion from Hong Kong and only US\$600 million from India.
- <sup>9</sup> This can also be seen from the number of patents (foreign and domestic), which has [declined](#) from a high of 45 517 in 2015 to 30 977 in 2021. Last year, patent application filings in Russia by foreign companies [decreased](#) further.

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