



# Russia Sanctions: Diving into the Details

**Elina Ribakova**  
IIF

14. April 2022

Markus

Brunnermeier

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# On Russian Sanctions: Earlier webinars



- Sergei Guriev  
Russian Macroeconomy



- Jim Hamilton  
Oil shocks



- Baqaee-Moll:  
Impact on Germany

# Sanctions

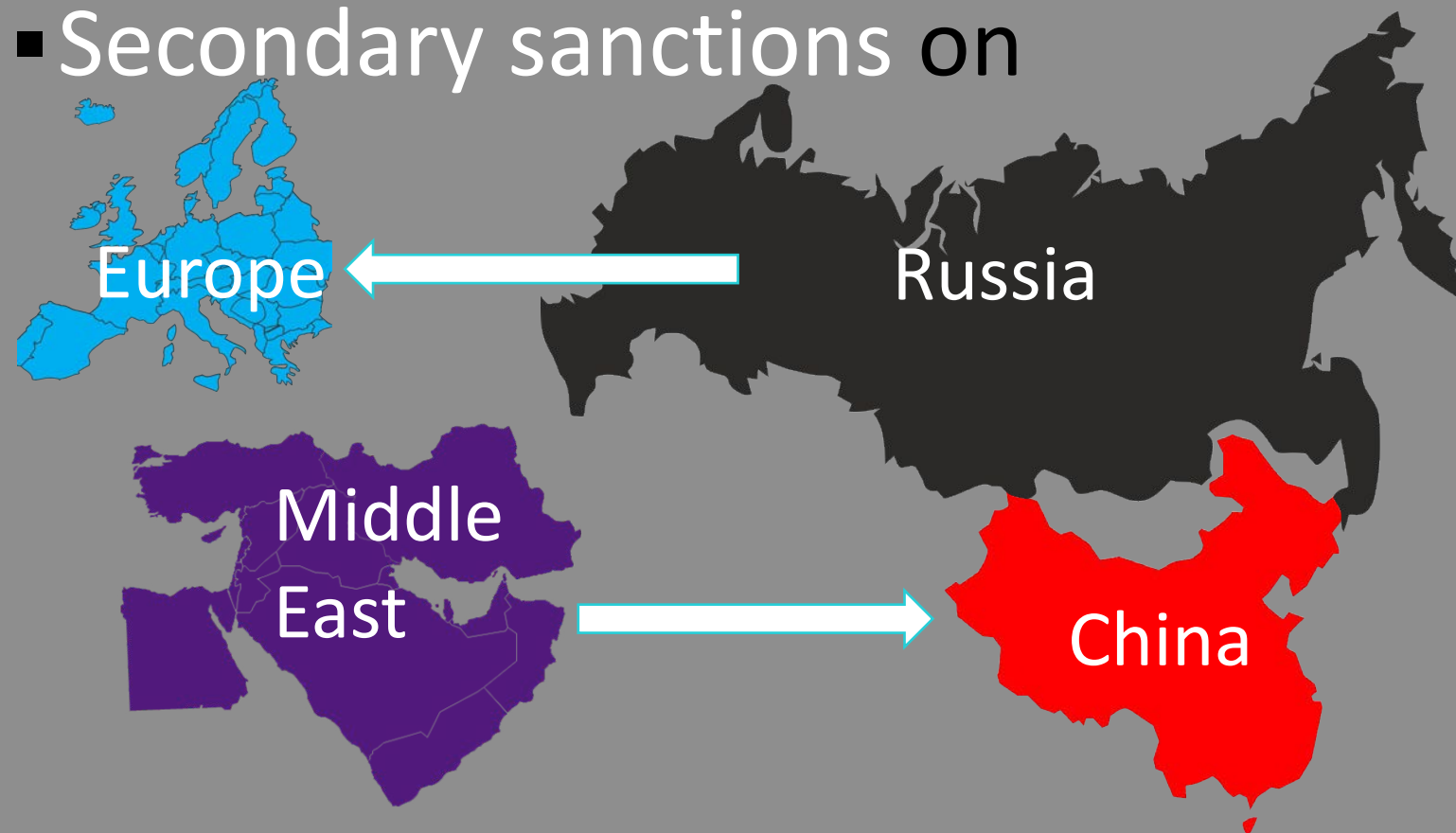
- Trade sanctions
  - Export control (technology)
  - Import restrictions (coal, oil, natural gas)
- Financial sanctions
  - Activities: capital account restrictions
  - Holdings: Freezing of reserves
  - Forced currency conversion
- Individual
  - How to target?
  - Travel restrictions, ...

# Resilience and Sanctions

- Offensive: sustain sanctions
- Defensive: withstand others' sanctions
  - Prepare: build-up reserves, autarky
  - React, agility/flexibility

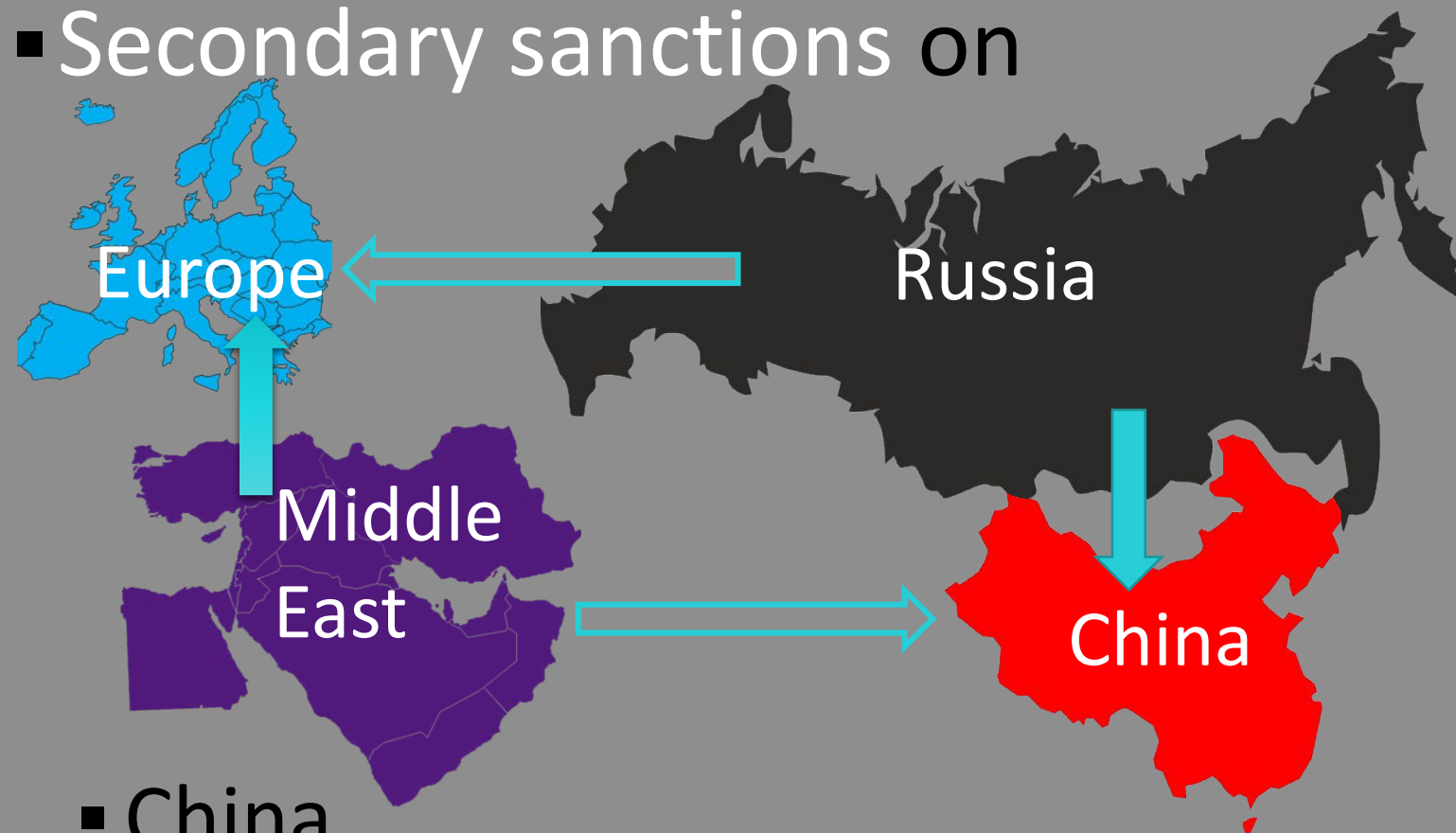
# Resilience and Sanctions

- Offensive: sustain sanctions
- Defensive: withstand others' sanctions
- Secondary sanctions on



# Resilience and Sanctions

- Offensive: sustain sanctions
- Defensive: withstand others' sanctions
- Secondary sanctions on



- China
- Shipping
- Payment

# Hide and Seek Game

- Why does Russia wants pay in Ruble instead of Dollar/Ruble?
  - Let energy importers swap currency
  - Easier to follow pay trail
- Why doesn't Russia want to default on \$-debt, while US wants Russia to (even to US banks)?
  - Downgrade of Russia has many implications
  - Existing debt becomes illiquid
  - Difficult to issue new debt (even after conflict)
- Role of Cryptoassets (Bitcoin et al.)

# Sanctions and International Monetary System

- Freezing of dollar reserves
- VoxEU with Harold James and Jean-Pierre Landau
- No serious alternative currency to US \$
  - Crypto, Australian \$, commodities, ...
  - US improves store of value (medium of exchange)
- Alternative to reserves holdings
  - More frequent imposition of capital controls
  - Hurts globalization



# Poll

1. Does Ruble strengthening mean sanctions are not working?
  - a. Yes
  - b. No
2. Do you think a full embargo is preferable to a more gradual approach?
  - a. Yes
  - b. No
3. Would you pay for sanctions on Russia or a stronger EU armament? What fraction of your annual income?

a. None	d. 10%
b. 2%	e. 25%
c. 5%	f. 50%

# Russia Sanctions

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# Russia Sanctions: Diving into the Details

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Benjamin Hilgenstock

April 14, 2022

Markus Brunnermeier

# It is all “geopolitical” now

## Putin says Western sanctions are akin to declaration of war

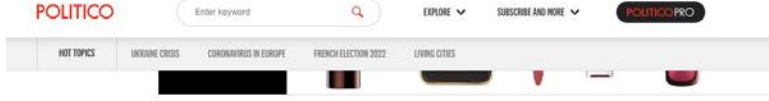
Reuters

3 minute read



## The impact of throwing Russia out of Swift

The messaging network has become the embodiment of the “weaponisation of finance”



## Meet von der Leyen’s ‘geopolitical Commission’

New Commission chief isn’t getting the luxury of a honeymoon period.

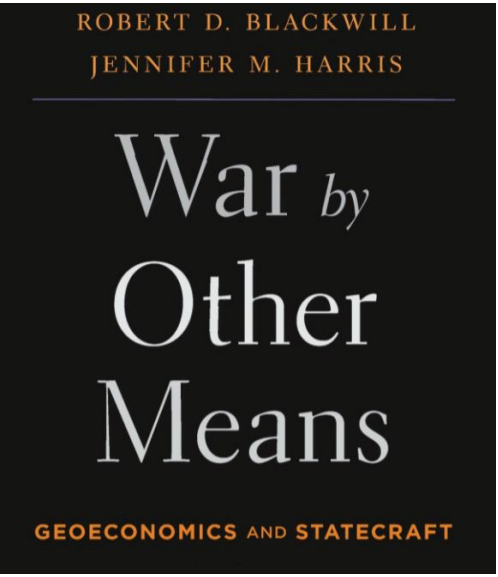


**ARGUMENT** *An expert’s point of view on a current event.*

## America Needs a New Economic Philosophy. Foreign Policy Experts Can Help.

The United States cannot get grand strategy right if it gets economic policy wrong.

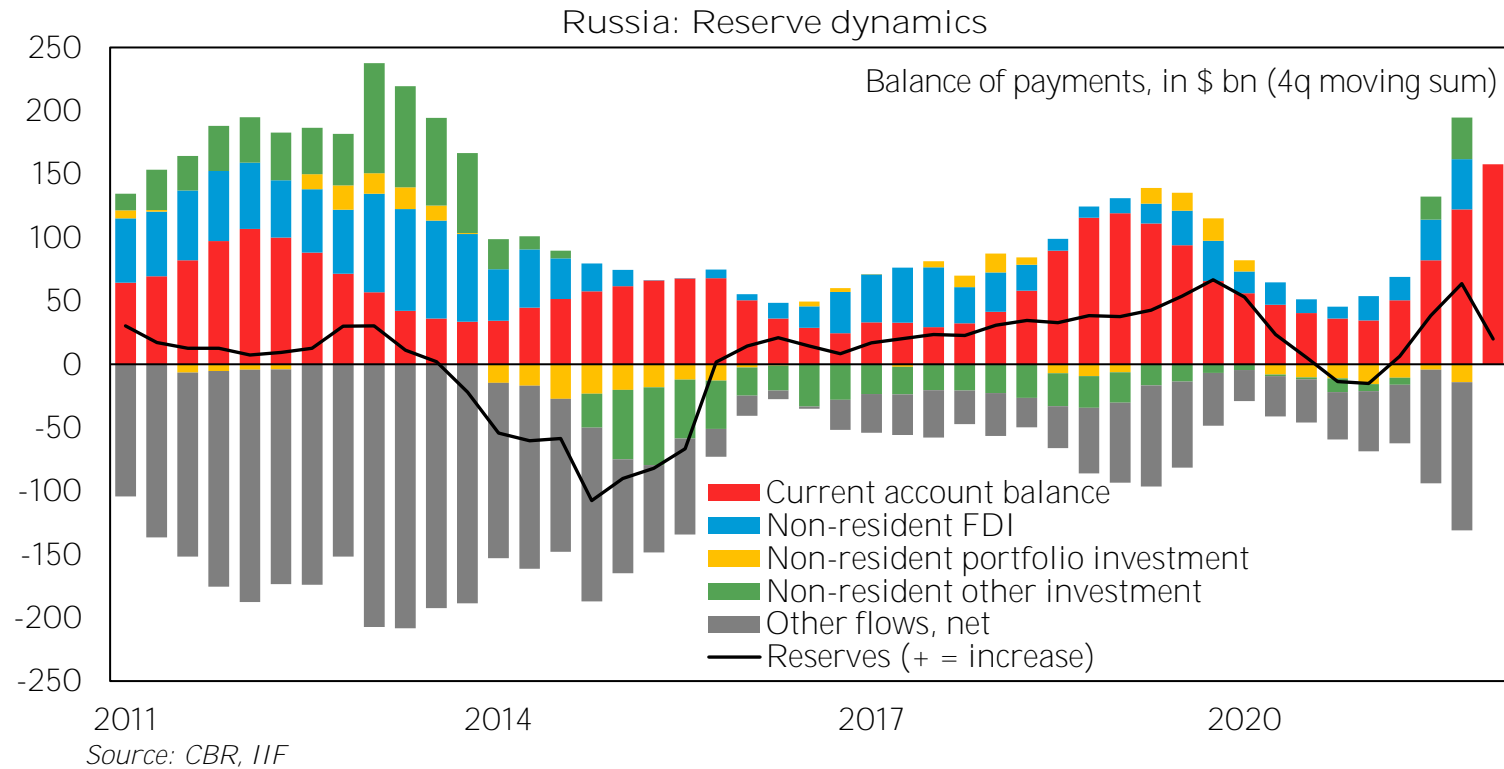
By [Jennifer Harris](#) and [Jake Sullivan](#)



# Russia sanctions: are they working?

1. Sanctions are having an impact
2. We focused on financial sanctions since 2014
3. Time to move to smart sanctions on energy?
  - Escrow accounts for payments for Russia's exports
  - Limitations on oil and gas purchases
  - Wavers vs secondary sanctions on countries like China/India

# What is Russia: in one chart



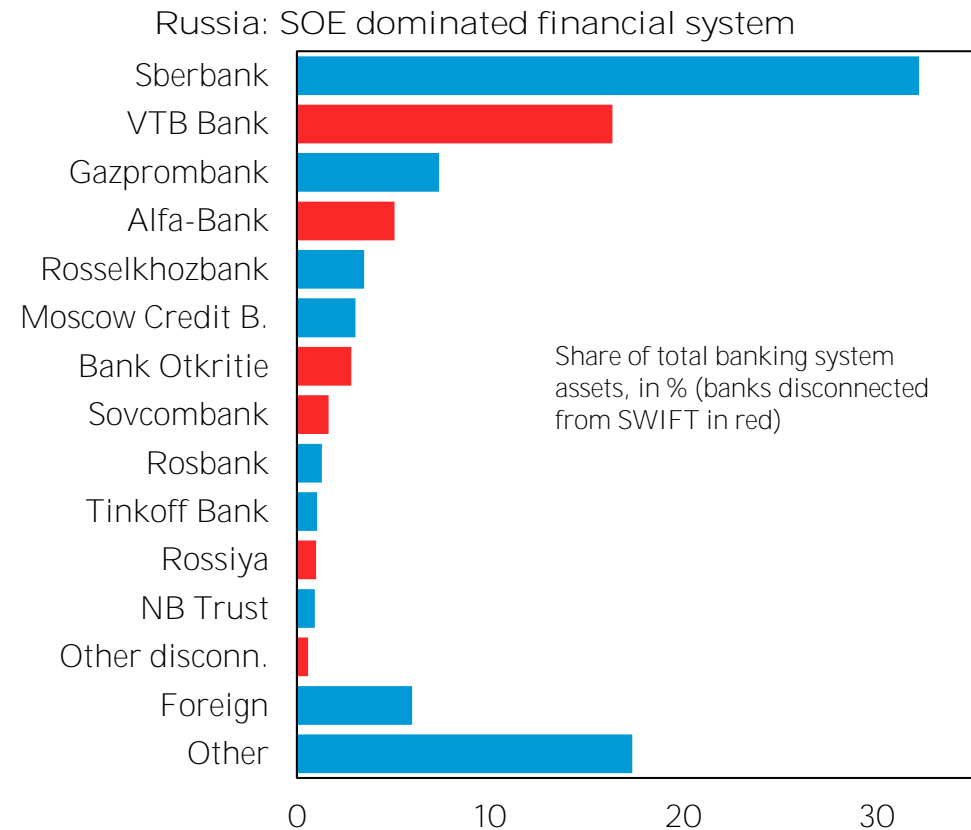
# Financial sanctions from 2014 until now

## 2014

1. Access to capital markets

## 2022

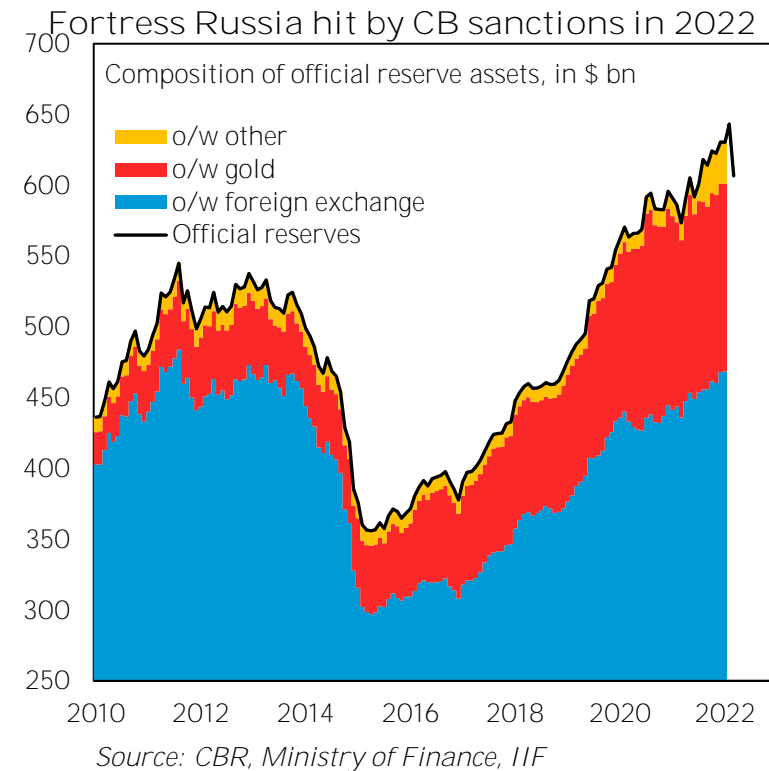
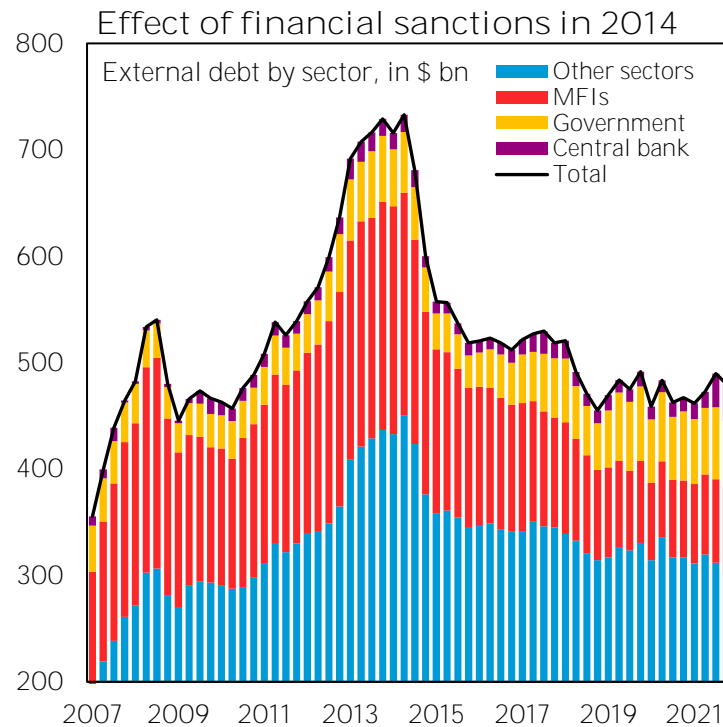
1. Central bank sanctions
2. Russian banks (incl. SWIFT)
3. Export controls
4. Commodity bans
5. Individuals
6. “Self-sanctioning”



Source: banki.ru, IIF

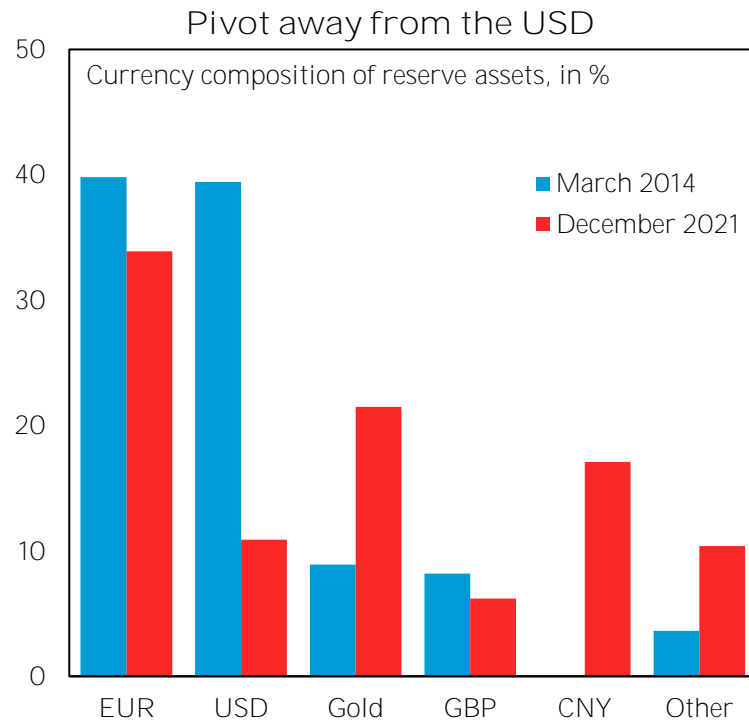
# What happened in 2014?

## Russia lost its access to global markets

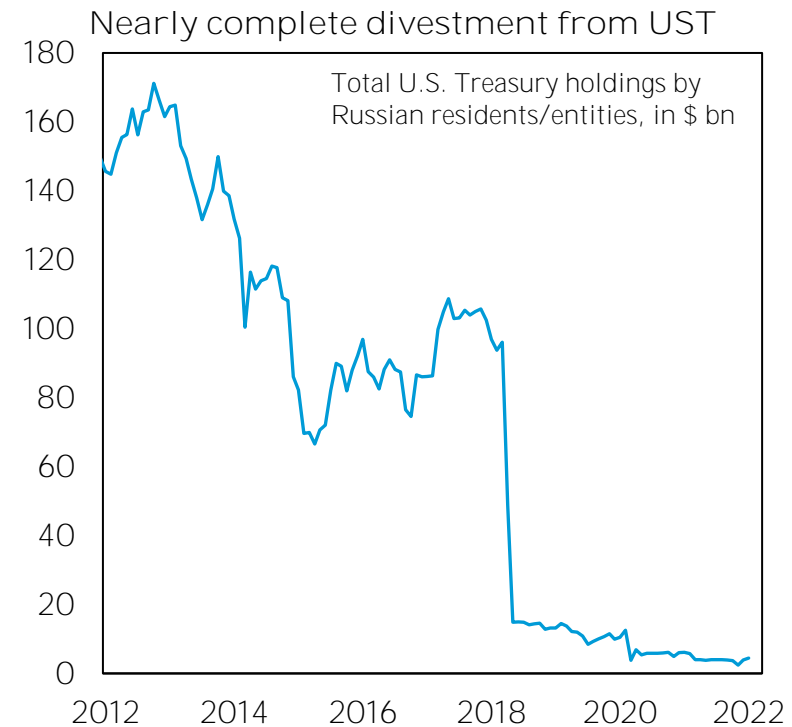




# What did Russia do in response? Built a Fortress



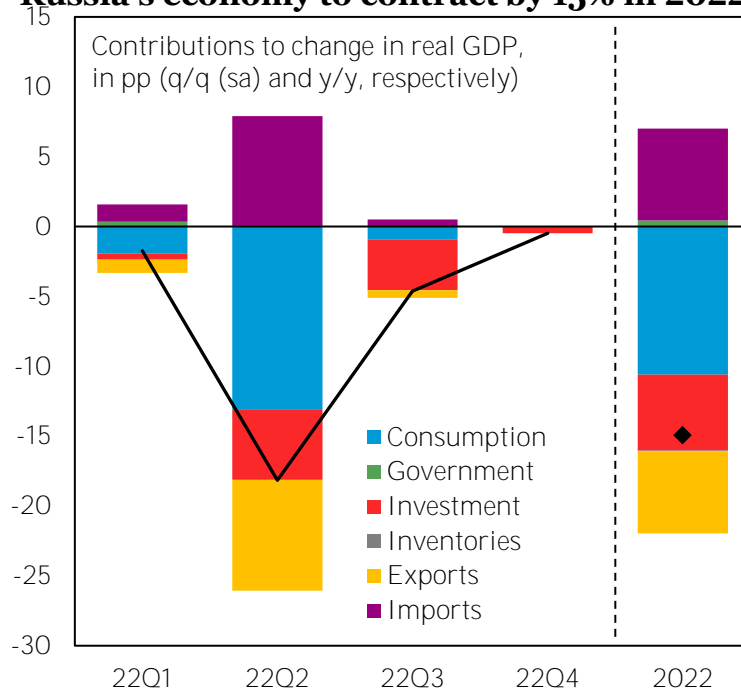
Source: Central Bank of Russia, IIF



Source: U.S. Treasury Department, IIF

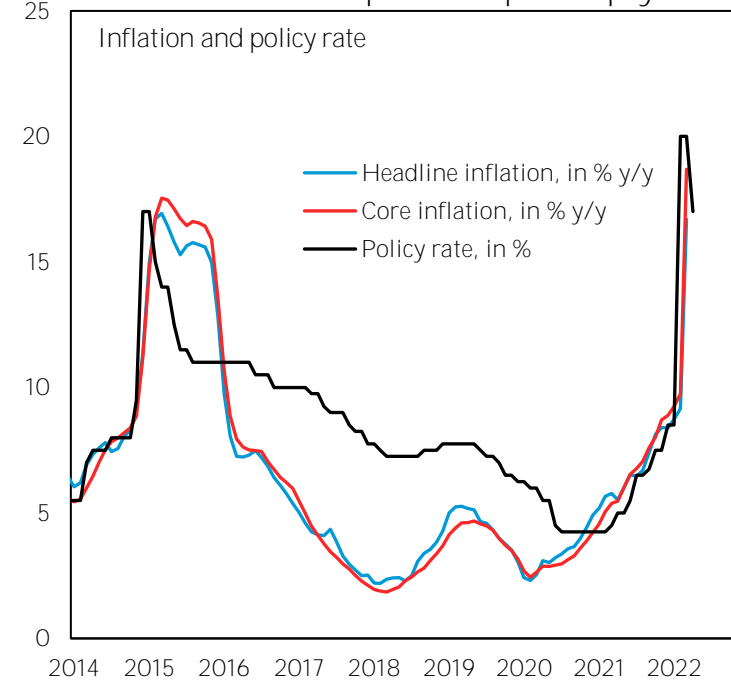
# Are sanctions having an impact?

**Russia's economy to contract by 15% in 2022**



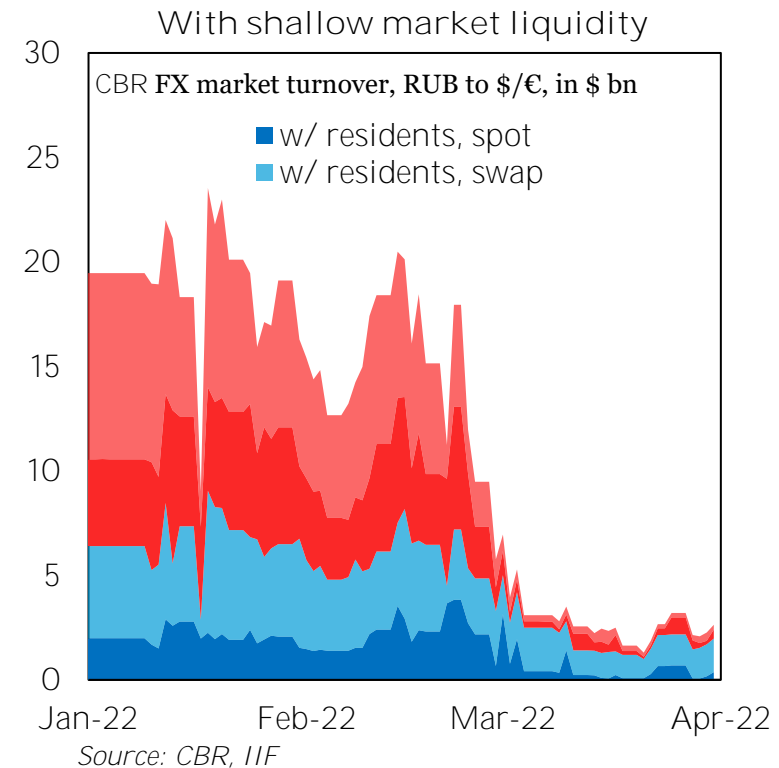
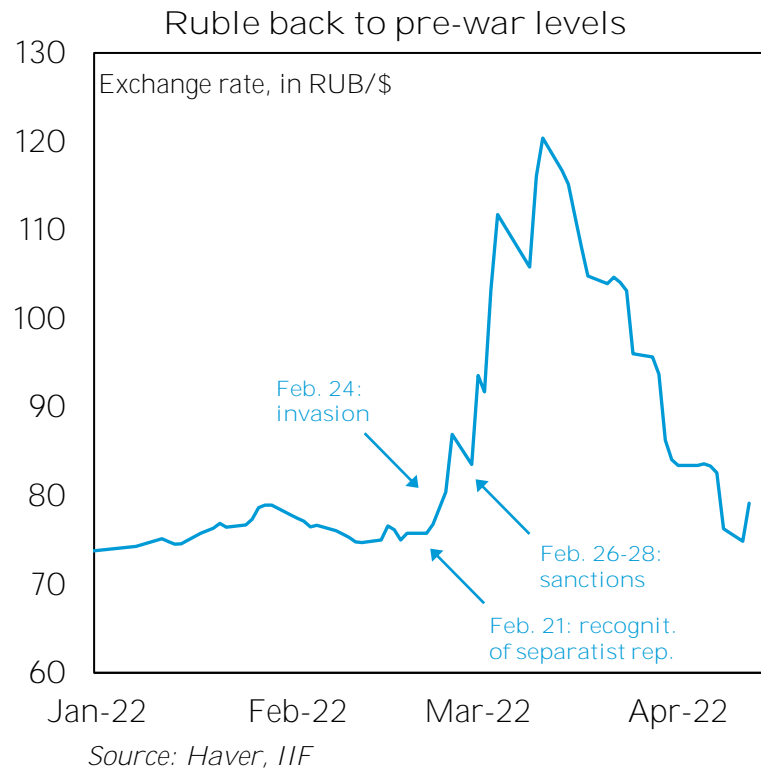
Source: Rosstat, IIF

**Inflation has picked up sharply**

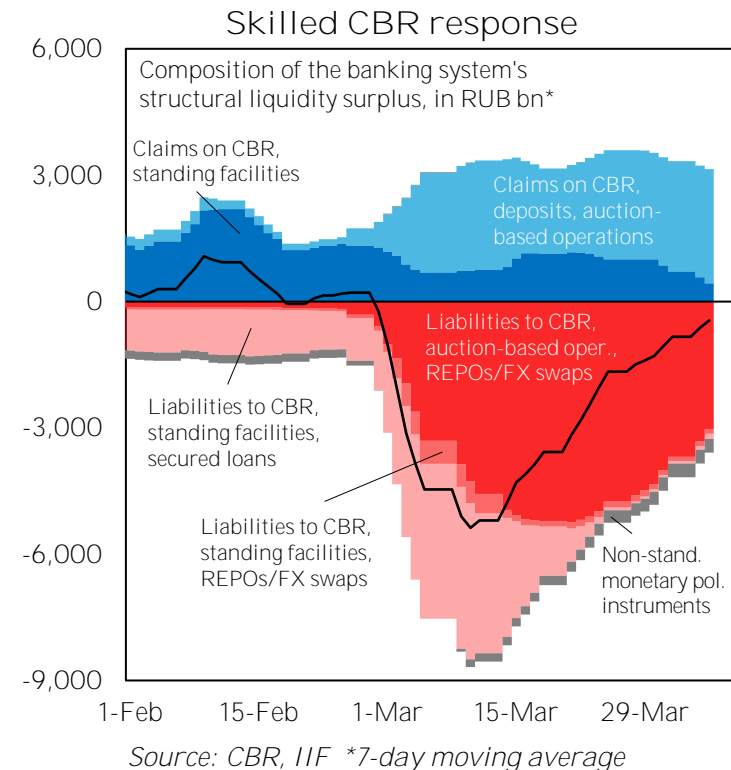
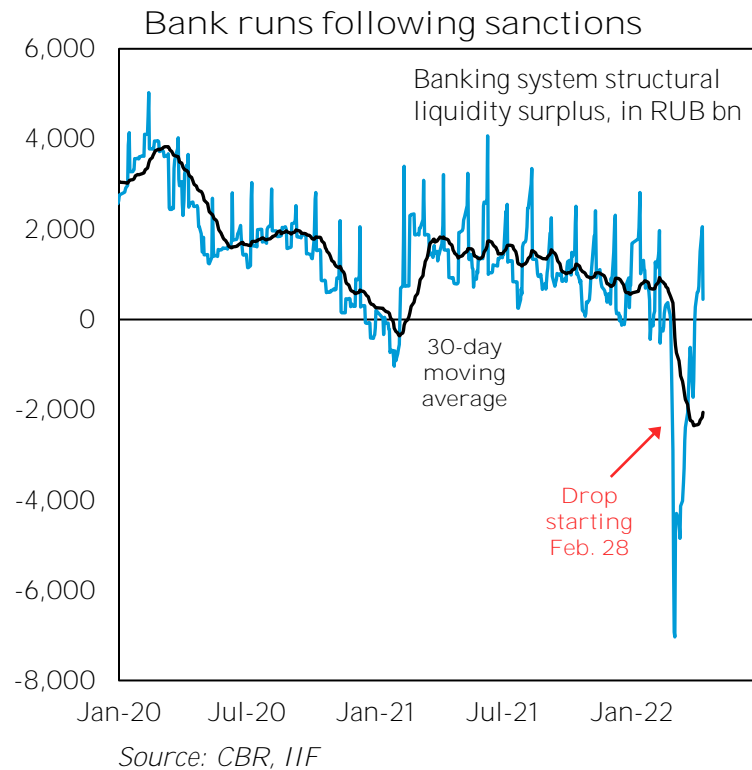


Source: CBR, Rosstat, Eurostat, IIF

# However, Ruble has strengthened...



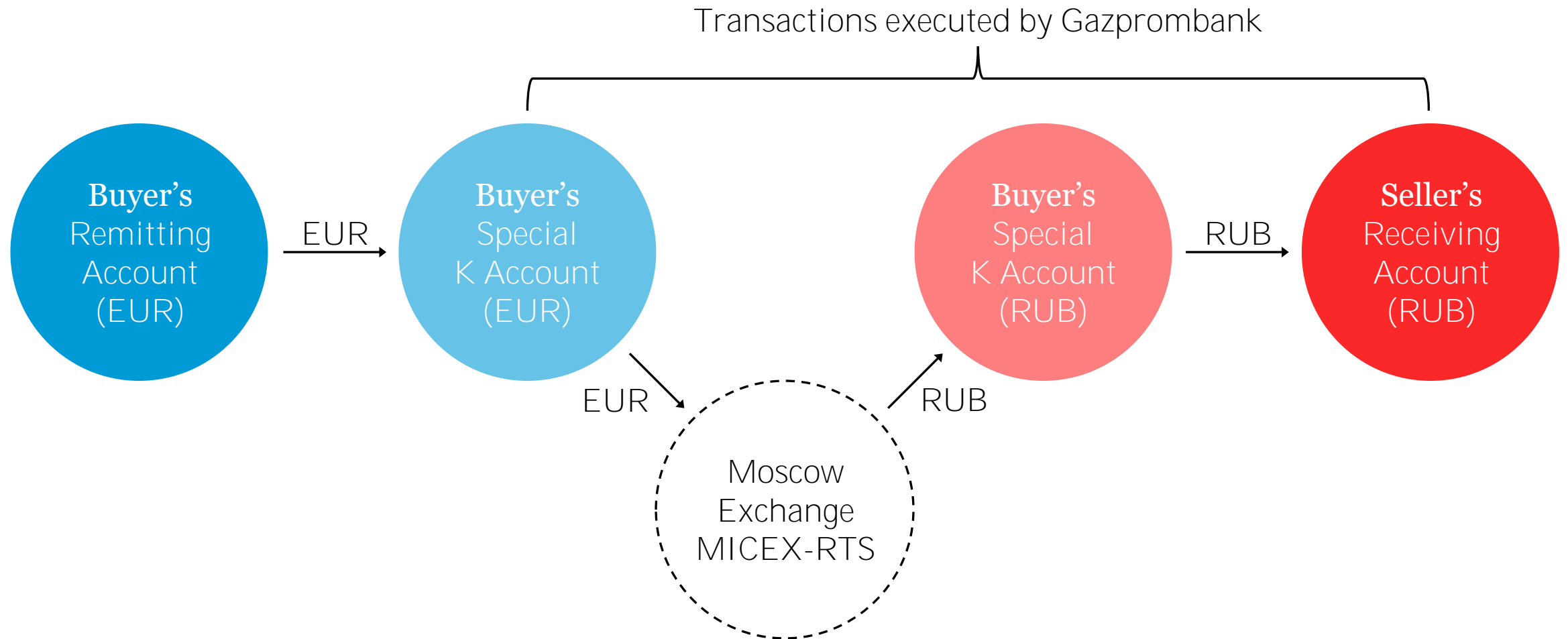
# ... and financial system is stabilizing



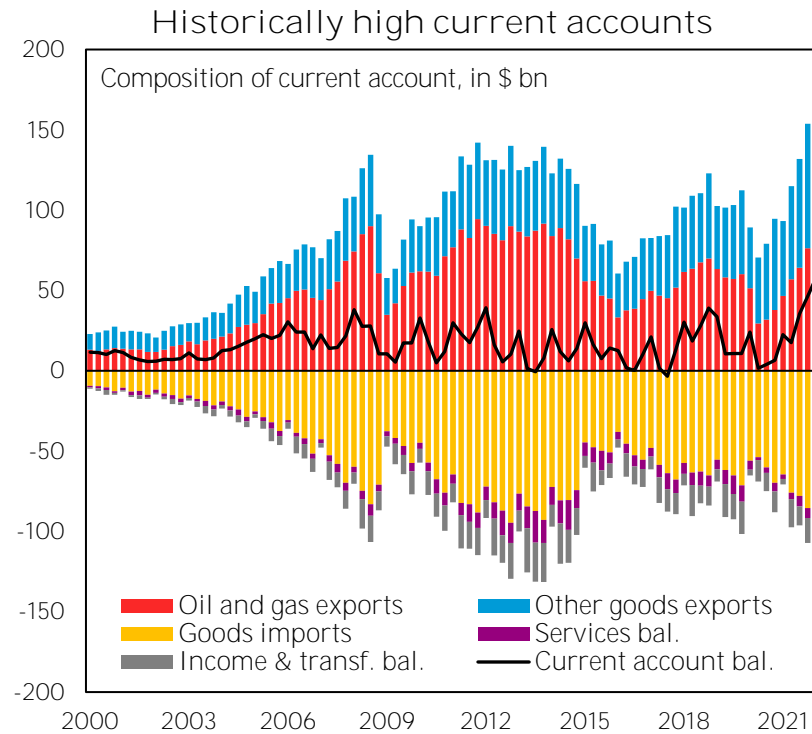
# What is happening? FX from CA is flowing in

1. Exporters are required to surrender 80% of their export proceeds
2. Banking system, oil, and gas sectors are dominated by SOEs
3. Gas used for geopolitical objectives
4. Energy for Rubles via Gazprombank

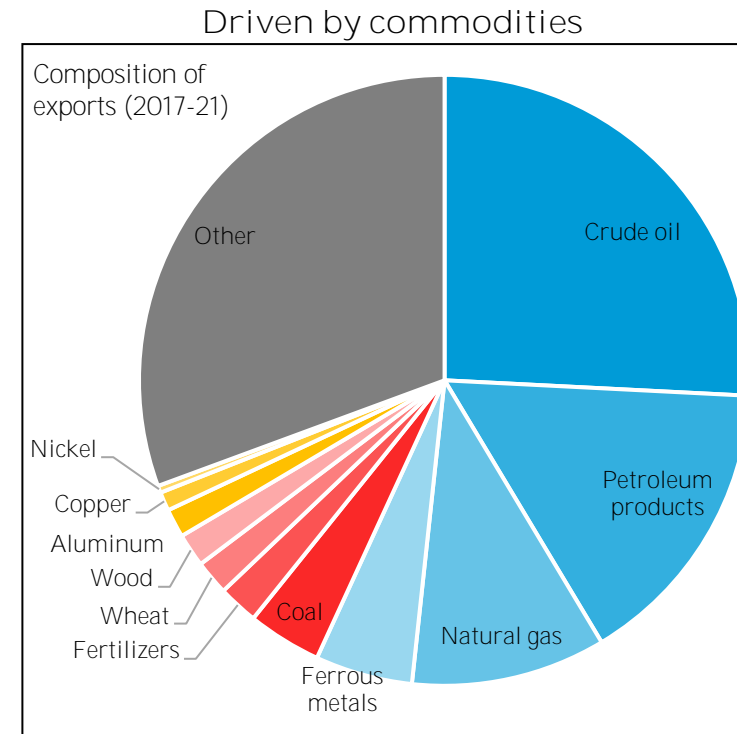
# Ruble payments for gas proposal



# Sanctions have to address current account

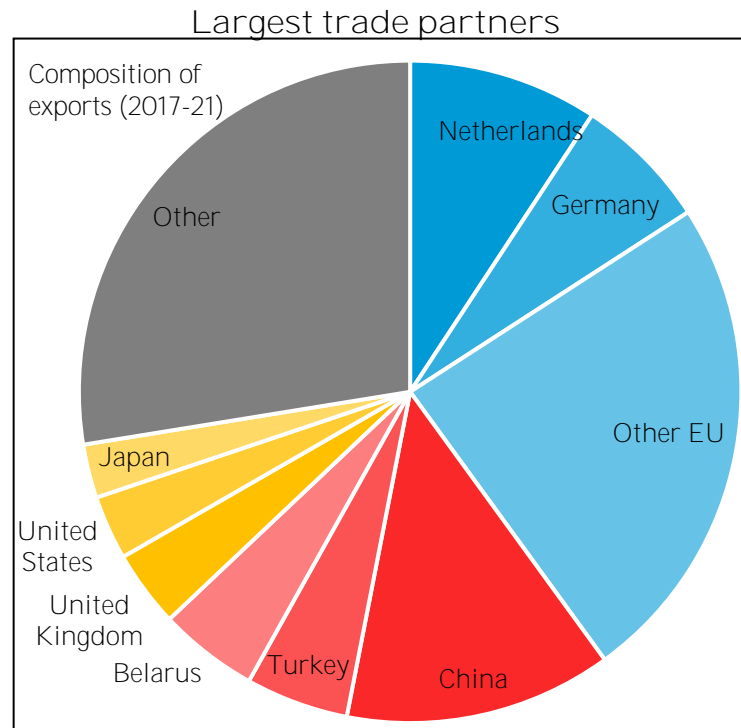


Source: CBR, IIF

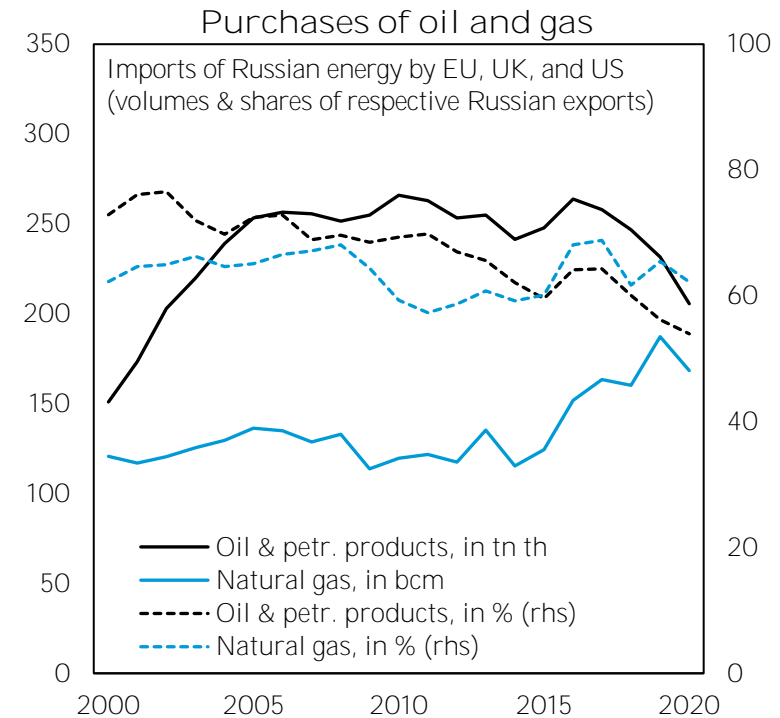


Source: Federal Customs Service, IIF

# Which countries buy Russian energy?



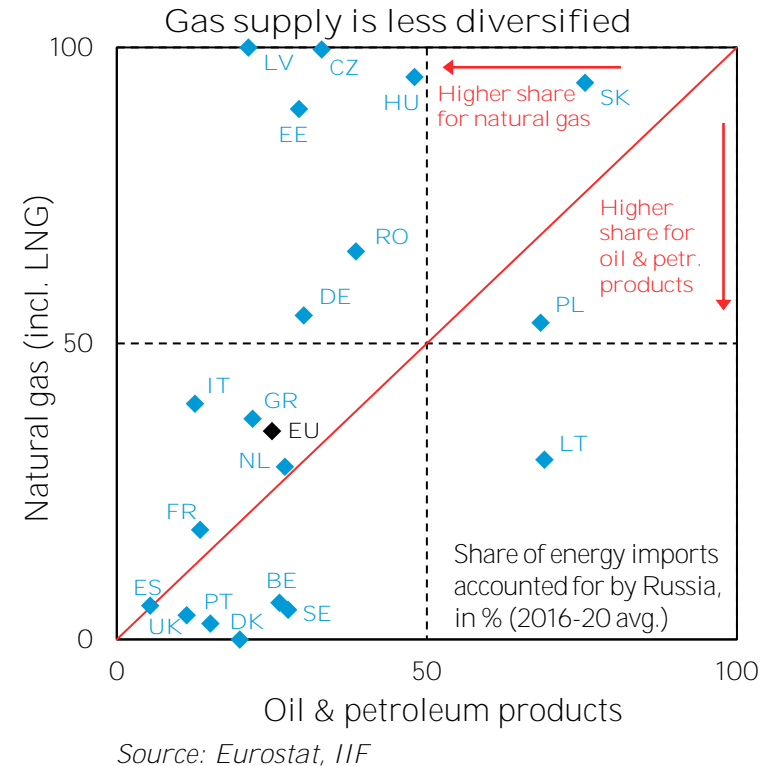
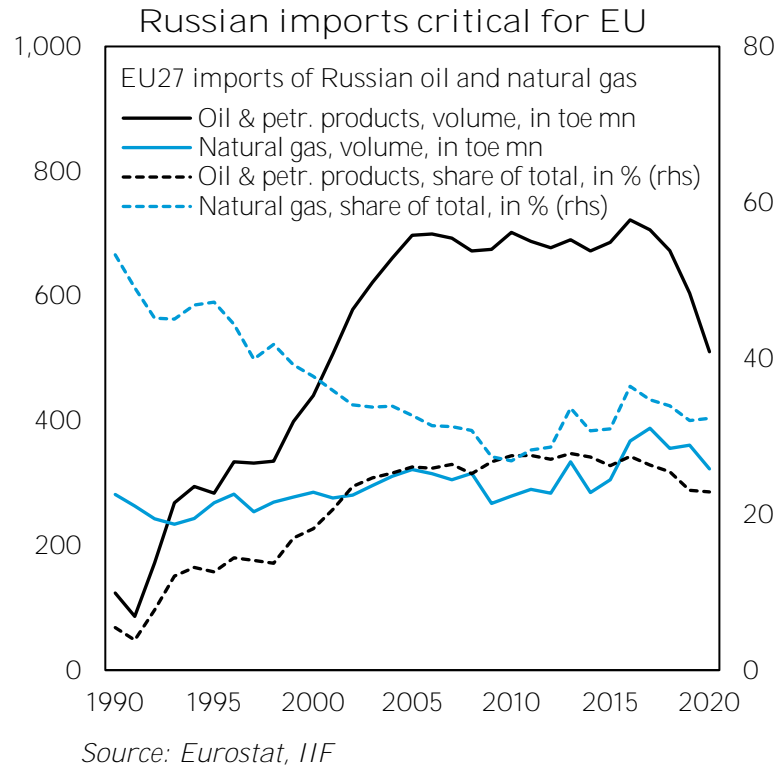
Source: Federal Customs Service, IIF



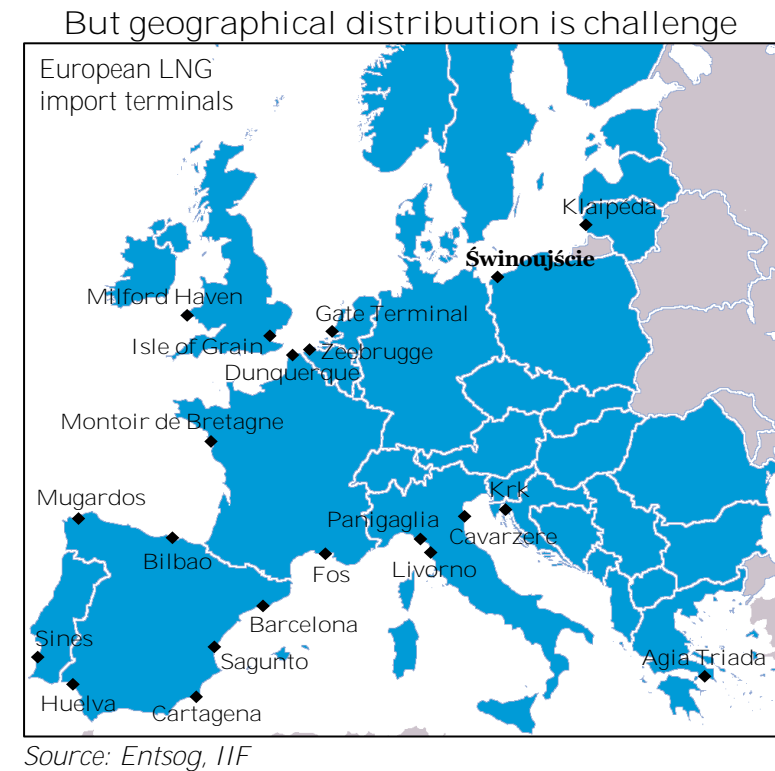
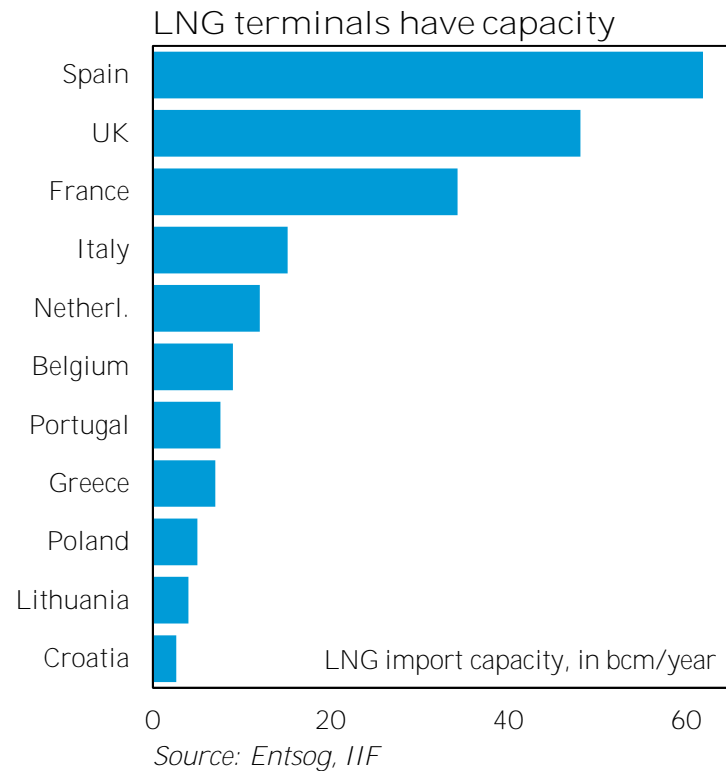
Source: CBR, EIA, Eurostat, IIF



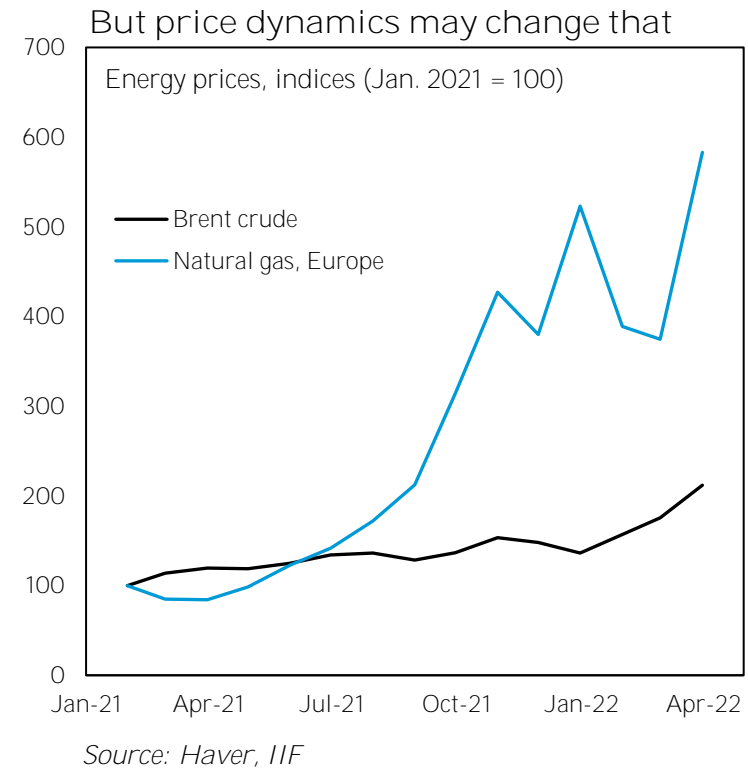
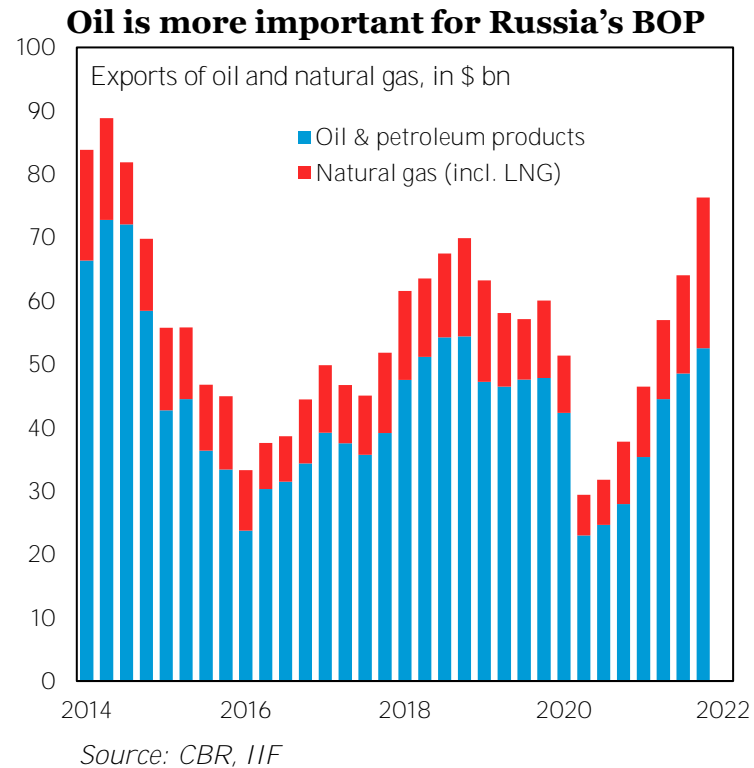
# The EU most reliant on Russian energy



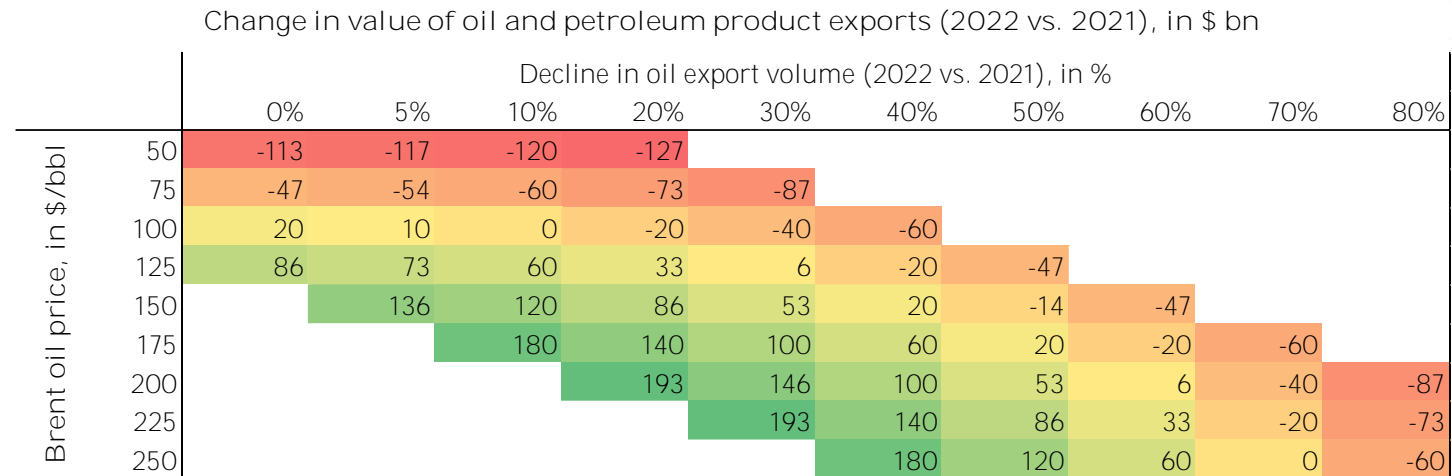
# Including due to lack of LNG infrastructure



# Oil is much more important for BoP



# Oil scenarios for bop

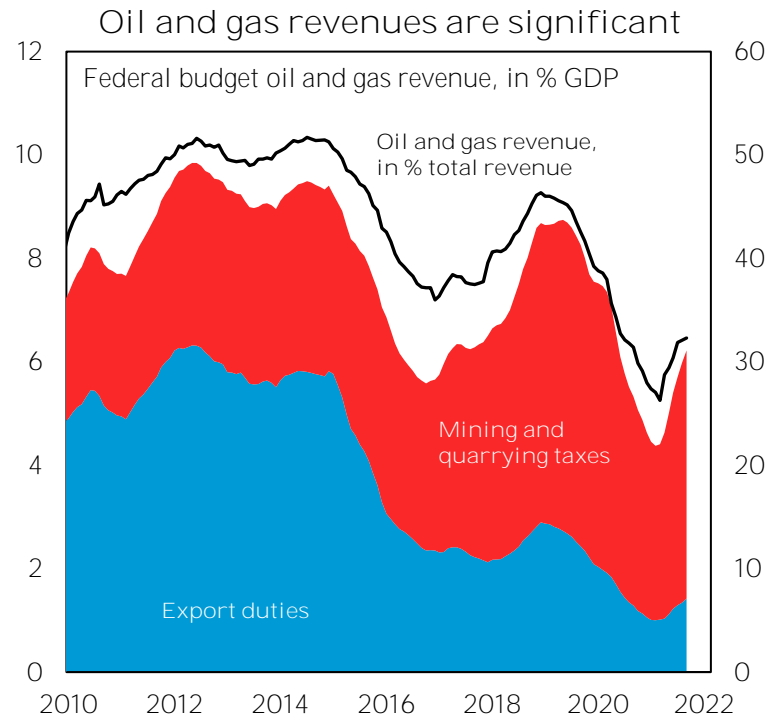


Notes: Urals discount assumed to be \$25/bbl.

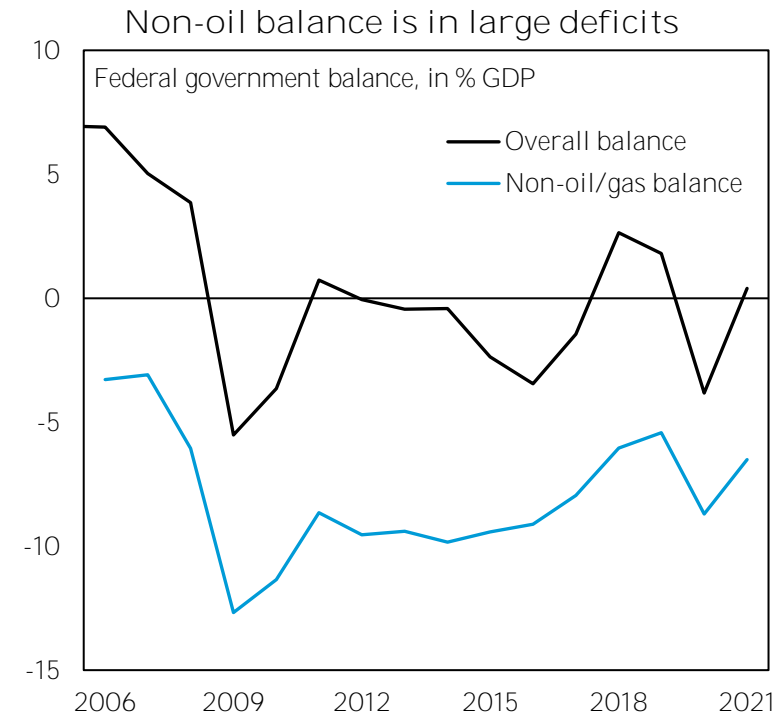
# Oil and gas critical for the budget

1. Oil and gas account for ~ 40% of federal budget revenues
2. Non-oil budget has been consistently in deficit
3. Extraction tax has become more important vs. export duties
4. Other sources of revenues could contract sharply as well

# Oil and gas are important sources of revenue

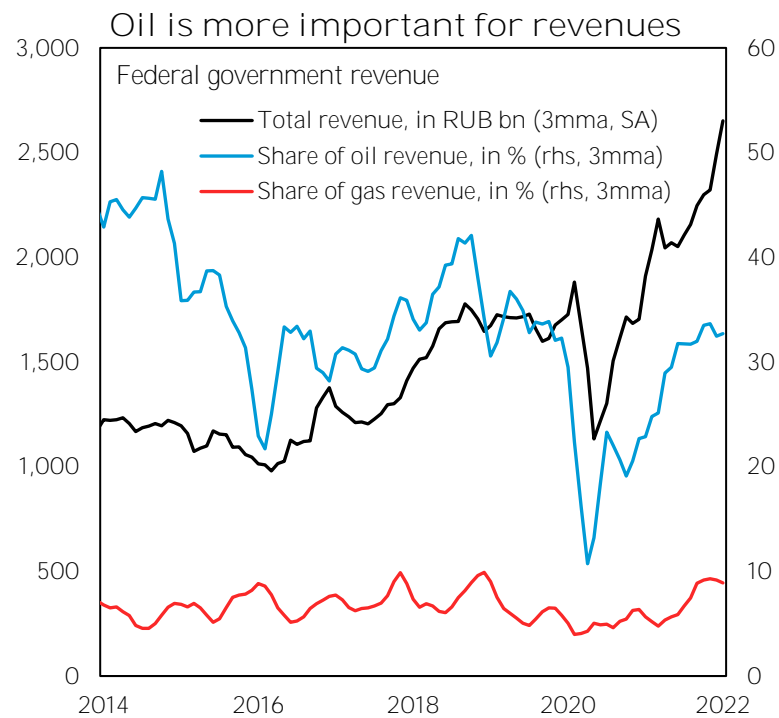


Source: Ministry of Finance, Rosstat, IIF

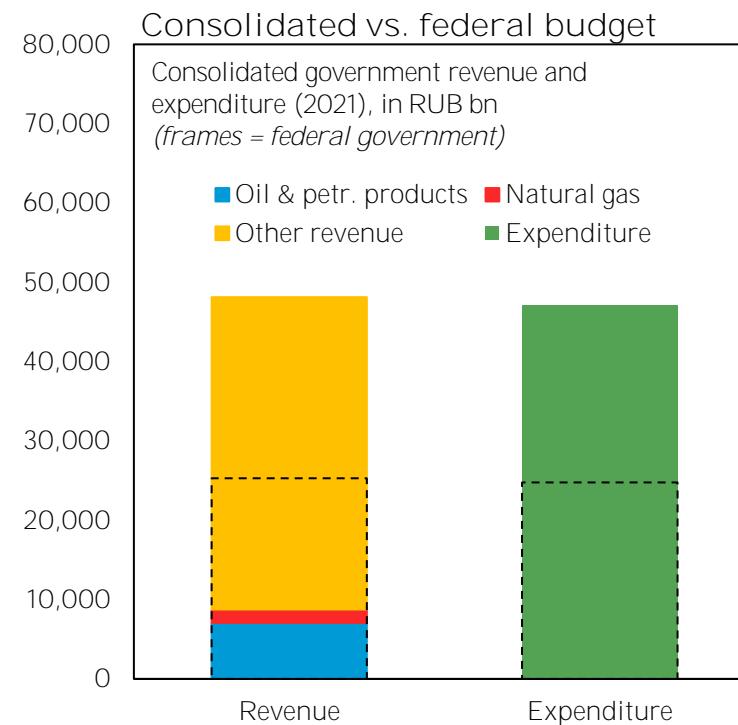


Source: Federal Treasury, Ministry of Finance, IIF

# Oil is also more important for the budget



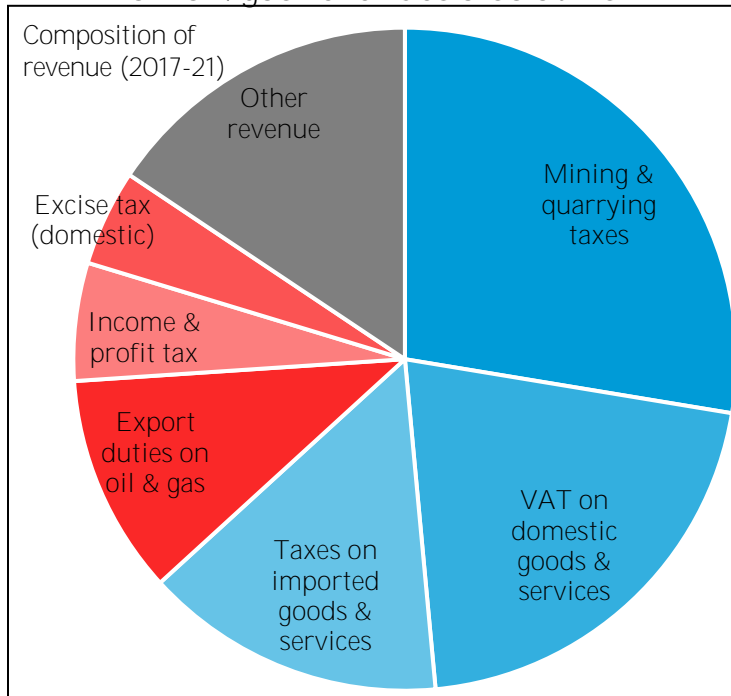
Source: Federal Treasury, IIF



Source: Federal Treasury, Ministry of Finance, IIF

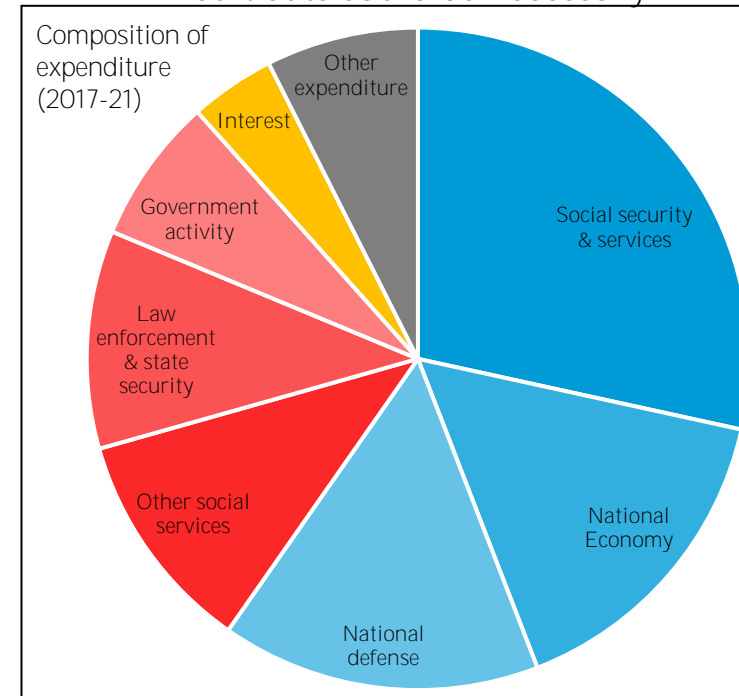
# Other revenues will fall substantially

Non-oil/gas revenues also at risk



Source: Federal Treasury, IIF

Difficult cuts could be necessary



Source: Federal Treasury, IIF



# Oil scenarios for the budget

Change in fiscal revenues, in % 2021 GDP

75 RUB/\$

		Decline in oil export volume (2022 vs. 2021), in %									
		0%	5%	10%	20%	30%	40%	50%	60%	70%	80%
Brent oil price, in \$/bbl	50	-3.4	-3.5	-3.6	-3.8						
	75	-1.4	-1.6	-1.8	-2.2	-2.6					
	100	0.6	0.3	0.0	-0.6	-1.2	-1.8				
	125	2.6	2.2	1.8	1.0	0.2	-0.6	-1.4			
	150		4.1	3.6	2.6	1.6	0.6	-0.4	-1.4		
	175			5.4	4.2	3.0	1.8	0.6	-0.6	-1.8	
	200				5.8	4.4	3.0	1.6	0.2	-1.2	-2.6
	225					5.8	4.2	2.6	1.0	-0.6	-2.2
	250						5.4	3.6	1.8	0.0	-1.8

Notes: Urals discount assumed to be \$25/bbl.

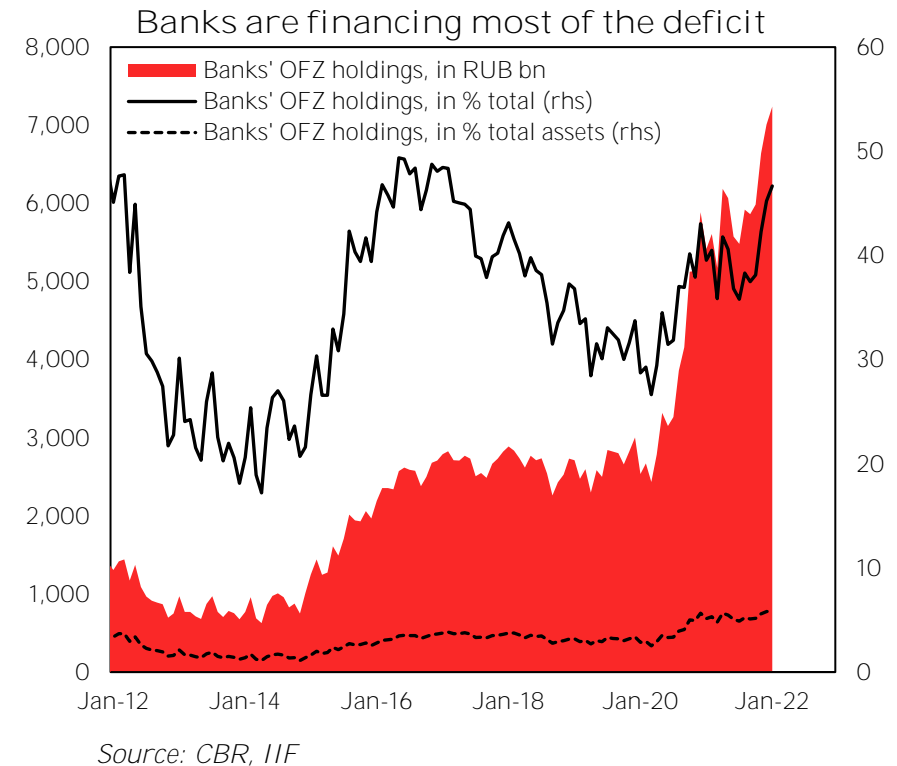
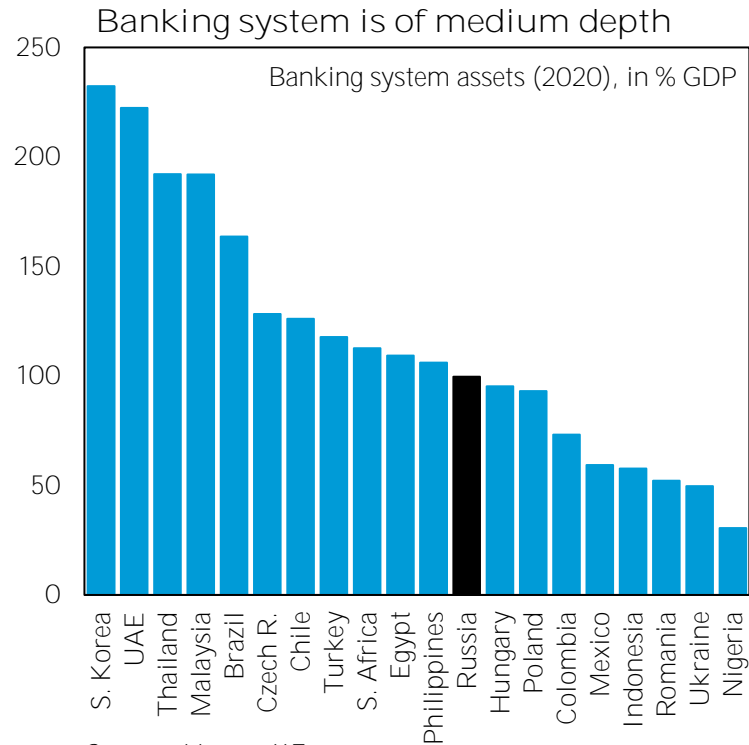
Change in fiscal revenues, in % 2021 GDP

150 RUB/\$

		Decline in oil export volume (2022 vs. 2021), in %									
		0%	5%	10%	20%	30%	40%	50%	60%	70%	80%
Brent oil price, in \$/bbl	50	-1.4	-1.6	-1.8	-2.2						
	75	2.6	2.2	1.8	1.0	0.2					
	100	6.6	6.0	5.4	4.2	3.0	1.8				
	125	10.6	9.8	9.0	7.4	5.8	4.2	2.6			
	150		13.6	12.6	10.6	8.6	6.6	4.6	2.6		
	175			16.2	13.8	11.4	9.0	6.6	4.2	1.8	
	200				17.0	14.2	11.4	8.6	5.8	3.0	0.2
	225					17.0	13.8	10.6	7.4	4.2	1.0
	250						16.2	12.6	9.0	5.4	1.8

Notes: Urals discount assumed to be \$25/bbl.

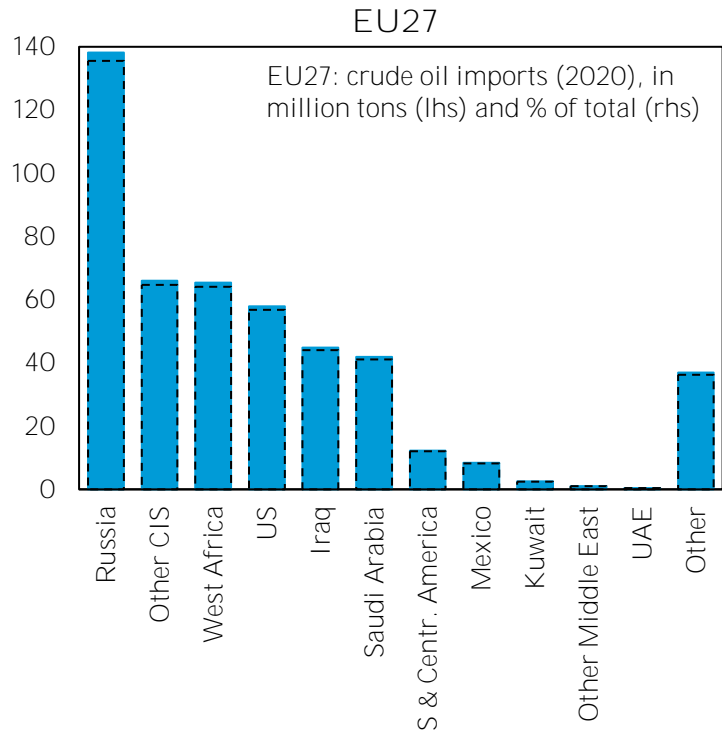
# Domestic financial system is not very deep



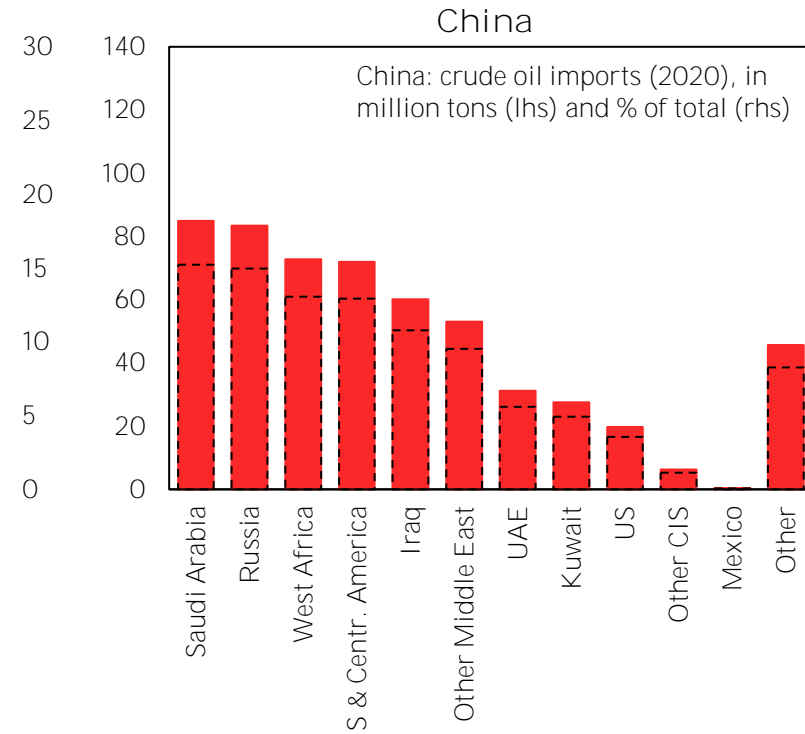
# Can oil be diverted to other countries?

1. Russia's oil infrastructure is geared towards the West
2. Pipeline to China does not have adequate capacity to divert
3. China and India can be threatened with secondary sanctions (Iran)
4. Some diversion is ok as it would help cushion market impact

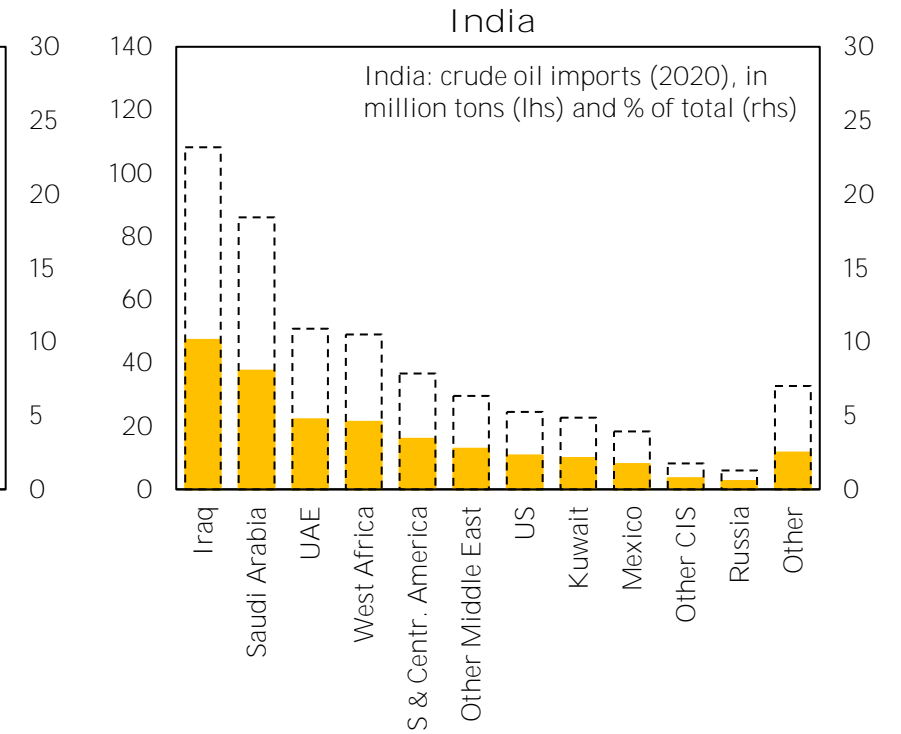
# China and India import of oil



Source: BP, IIF

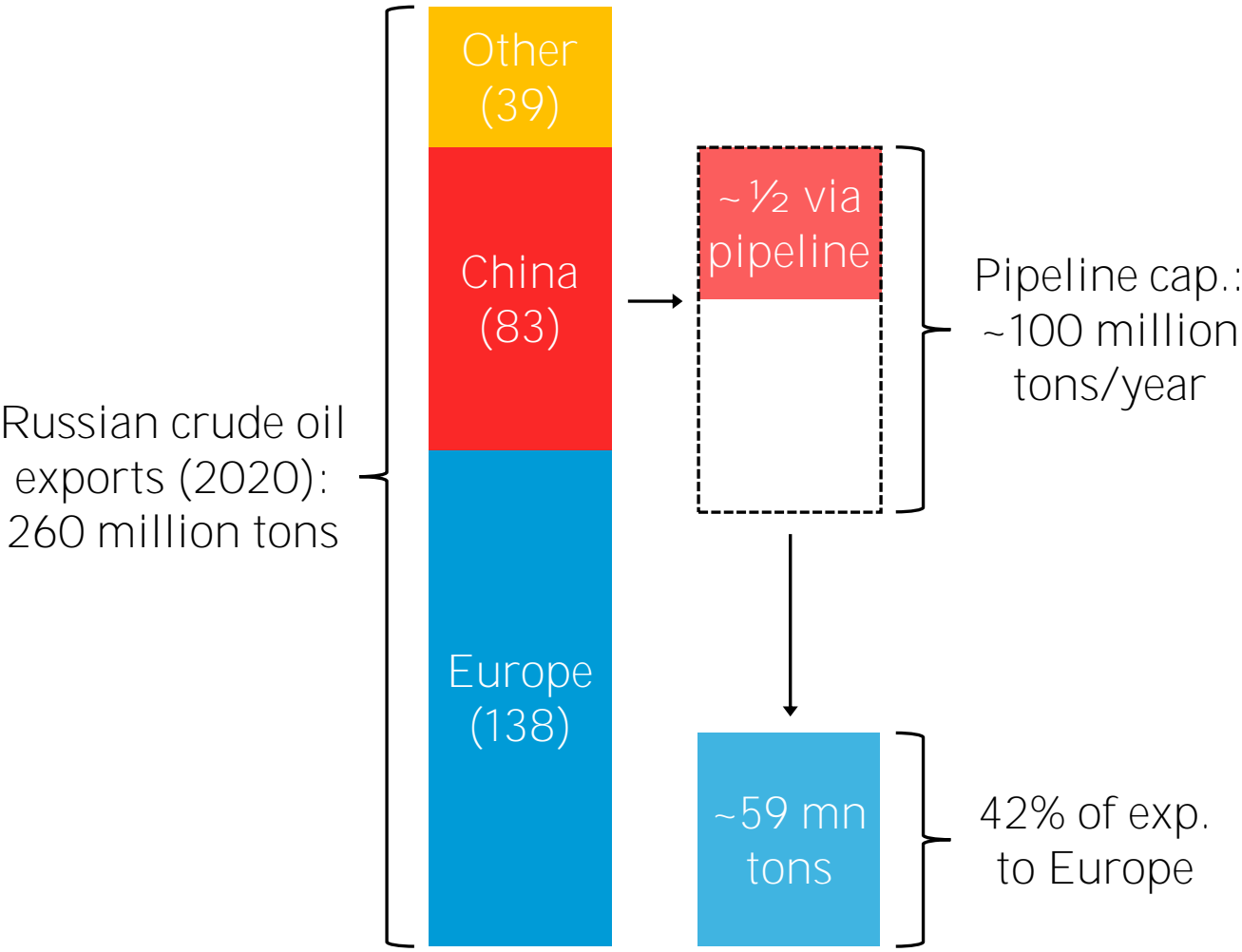


Source: BP, IIF



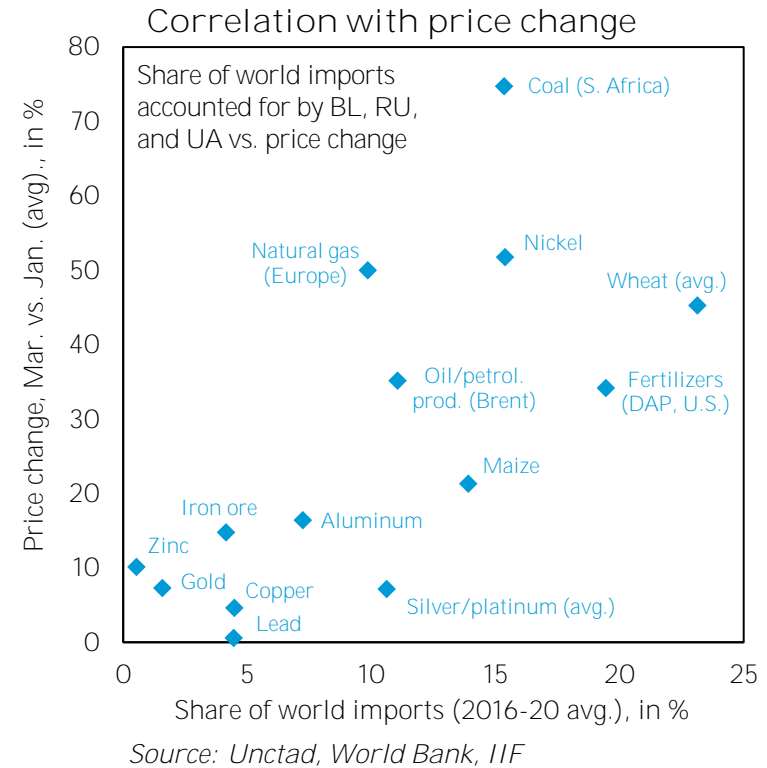
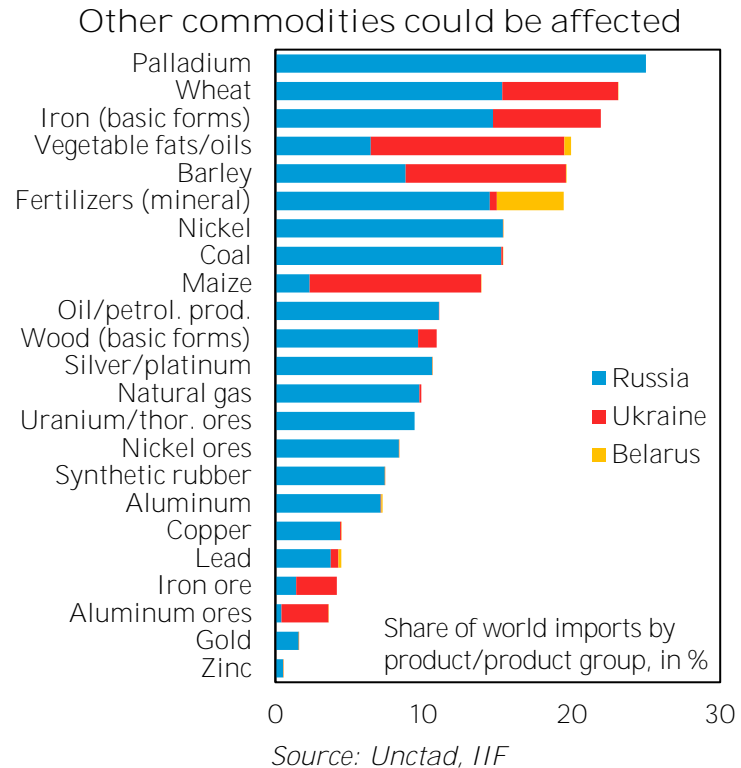
Source: BP, IIF

# Russia's oil infrastructure geared towards West



Source: S&P Global

# Counter-sanctions and spillovers



# Sanctions: what happens next?

- Russia's currency and financial system have stabilized
- Energy exports are the key issue now:
  - 1. Escrow accounts for payments for Russian exports (oil products).
  - 2. Limitations on oil and gas purchases.
  - 3. Wavers vs. secondary sanctions on countries like China/India.
- Beware of unintended consequences

# References

- Russia Sanctions: Climbing the Escalation Ladder, February 28, 2022  
[https://www.iif.com/Portals/0/Files/content/IIF\\_RussiaSanctionsPaper\\_2022.pdf](https://www.iif.com/Portals/0/Files/content/IIF_RussiaSanctionsPaper_2022.pdf)
- Macro Notes: Russia Sanctions - Financial System Stabilizing
- Macro Notes: Russia Sanctions - A Possible Energy Embargo
- Macro Notes: Russia - Economy to Contract Sharply in 2022
- Macro Notes: Russia Sanctions - China's Potentially Crucial Role
- Redefining Europe's economic sovereignty <https://www.bruegel.org/2019/06/redefining-europes-economic-sovereignty/>