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Sanctions and countersanctions – Effects on economy, trade and finance

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Sanctions timeline 2014-2015



Source: European Parliamentary Research Service, <https://libraryeuroparl.files.wordpress.com/2016/03/sanctions-timeline-2014-2018.png>



Economic effects of 2014 sanctions on Russia

- Direct effects
 - Diplomatic sanctions
 - Sanctions on individuals / entities
 - Sectoral sanctions (export bans, restrictions of financing)
 - Crimea sanctions (trade ban, investment ban)
 - Russia's import ban (agrifood)

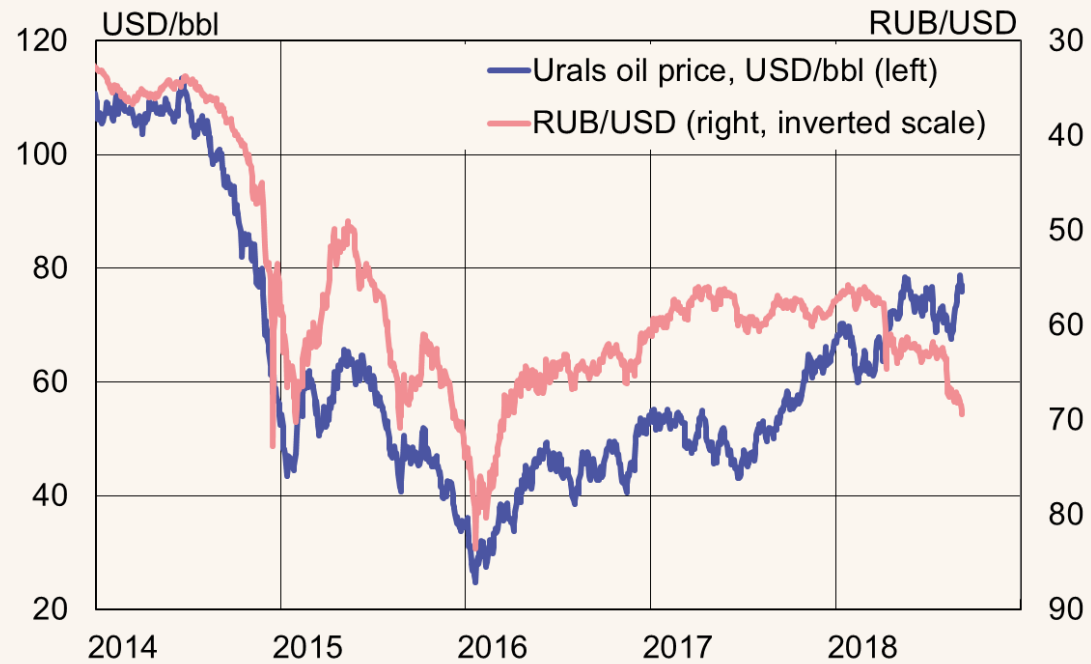
- Indirect effects
 - Increased uncertainty
 - Volatility in forex and stock markets
 - Increasingly protectionist trade policies and increasing role of state in the Russian economy



MACROECONOMIC BACKGROUND

Oil price collapsed in 2H2014

Price of oil and Russia's exchange rate

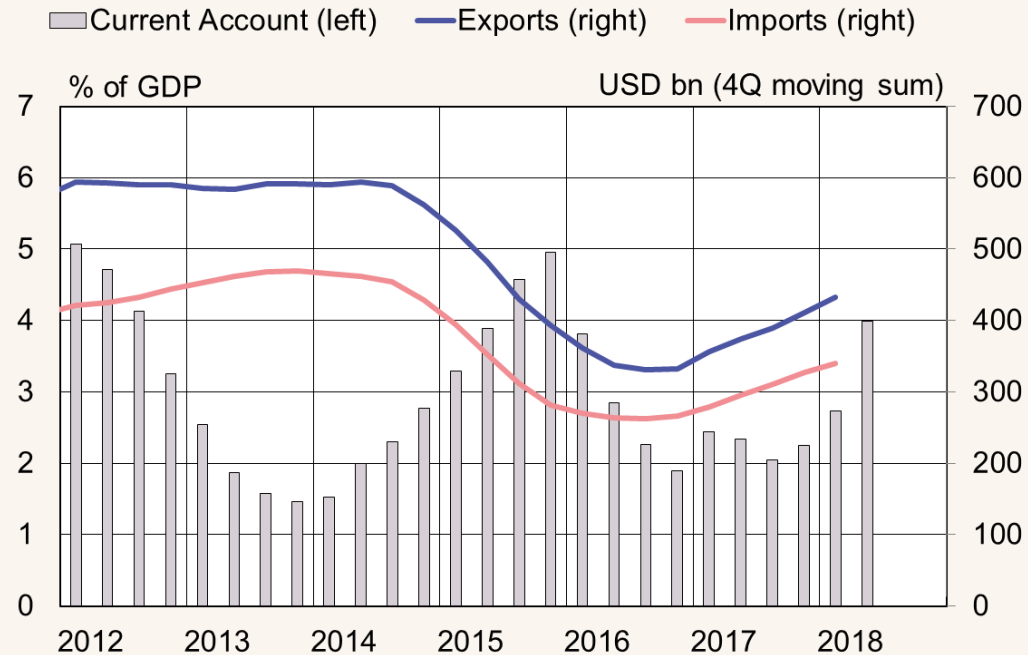


Source: Reuters.



Oil price drives the value of Russia's exports and imports

Russia's Foreign Trade and Current Account



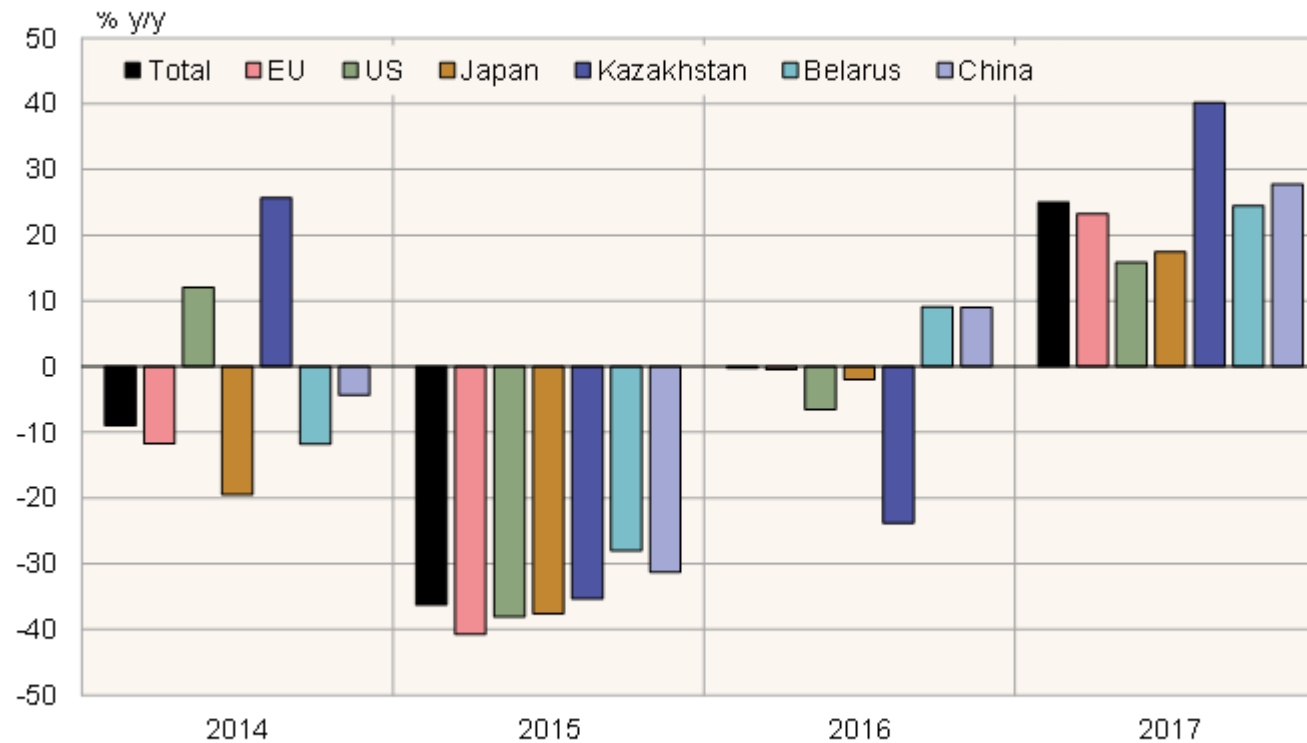
Source: Macrobond / Bank of Russia.



EFFECTS ON TRADE AND FINANCE

Changes in Russia's foreign trade (goods and services)

Change in the (USD) value of Russian goods imports by country in 2014–2017, %

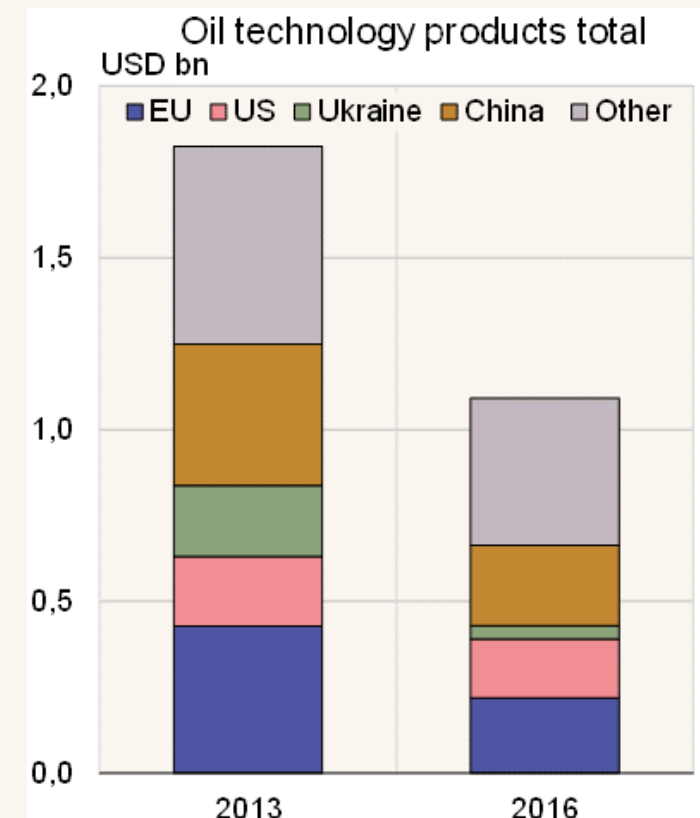


Sources: CEIC and Russian Customs.

EU export restrictions

- Innovative oil exploration and production technologies used to develop deep-water, Arctic and shale oil reserves
 - Effects on Russia will likely occur in longer run
- Arms embargo
- Dual use goods for military clients
 - Russia's defence sector has been forced to adapt

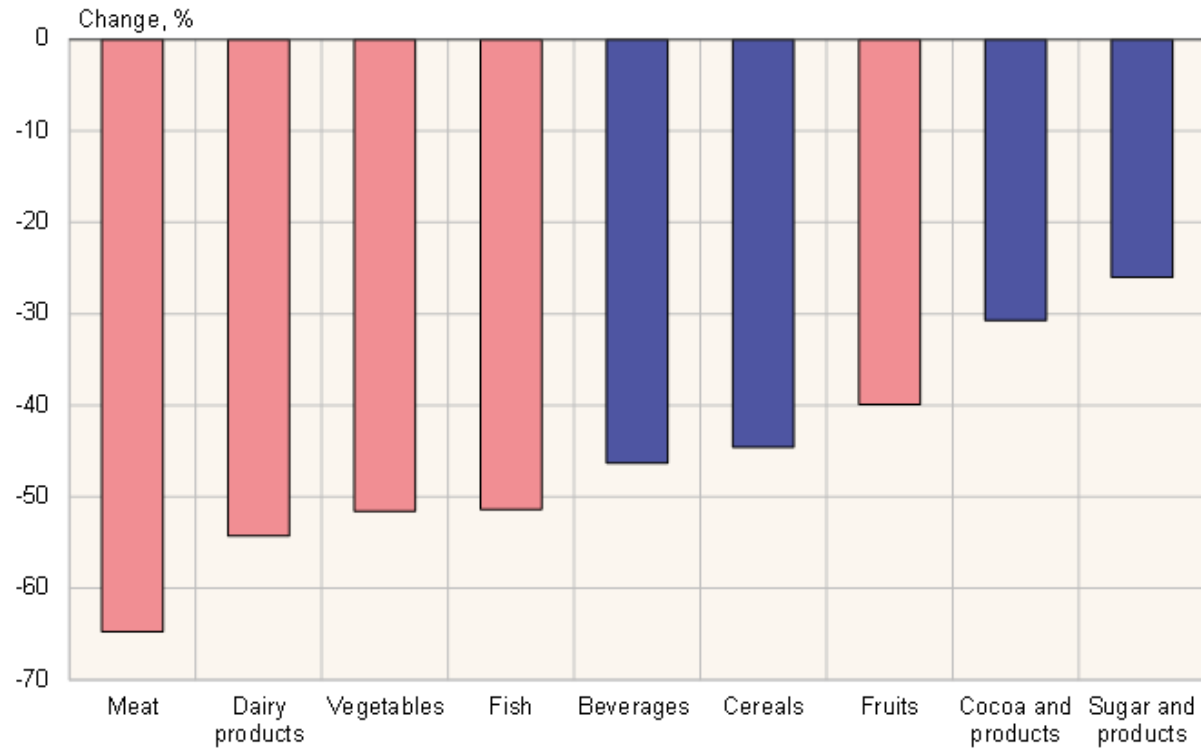
The value of Russian imports in 2013 and 2016 of the products related to oil exploration and production in oil technology



Source: UN Comtrade.

Russian food imports have declined overall

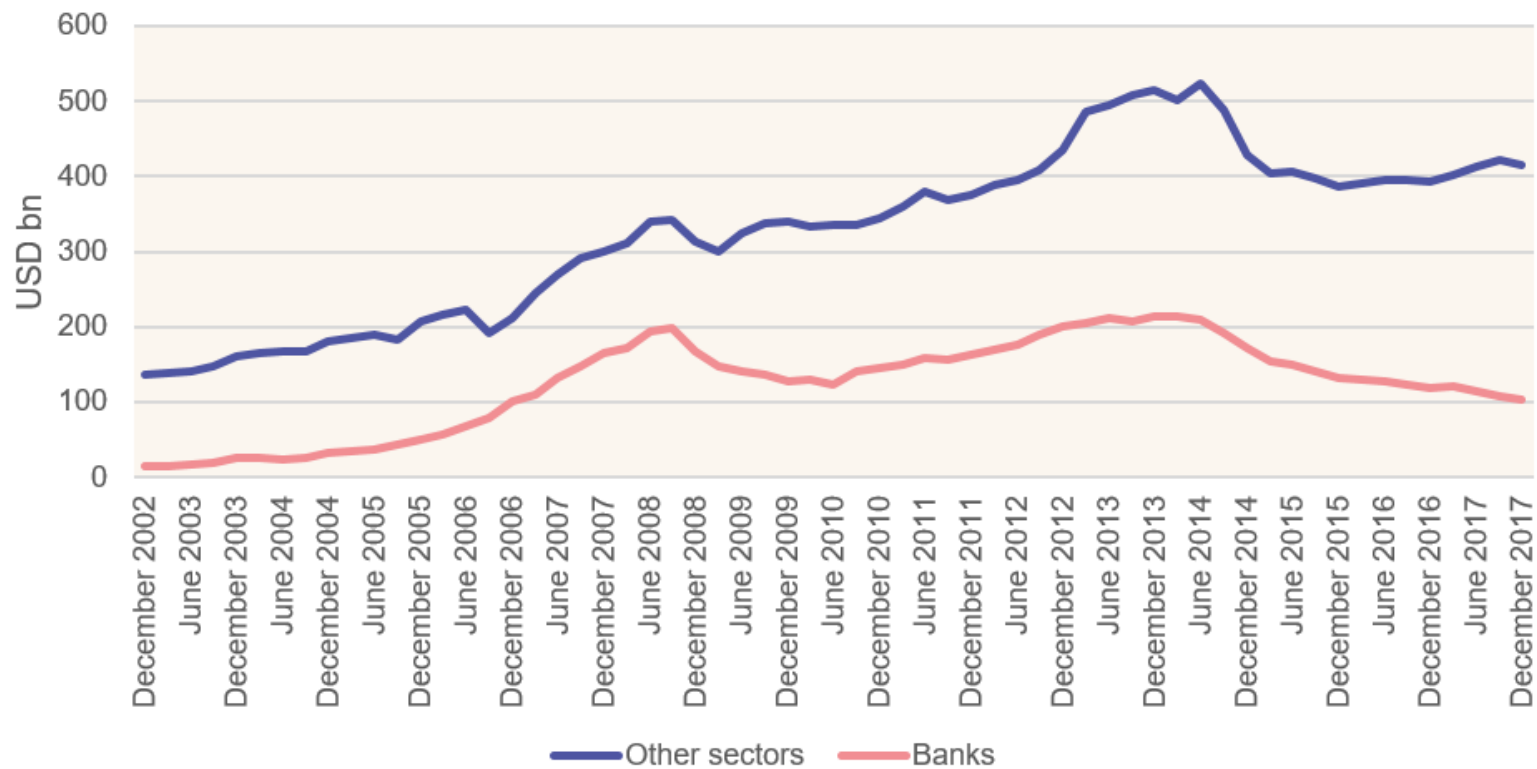
Change in the value of Russian imports of certain foodstuffs in 2013–2016, % (pink bars depict products where import restrictions were applied, blue bars are products not subject to restrictions)



Source: UN Comtrade.

Has access to finance deteriorated?

Foreign debt of Russia's corporate sector, USD billion



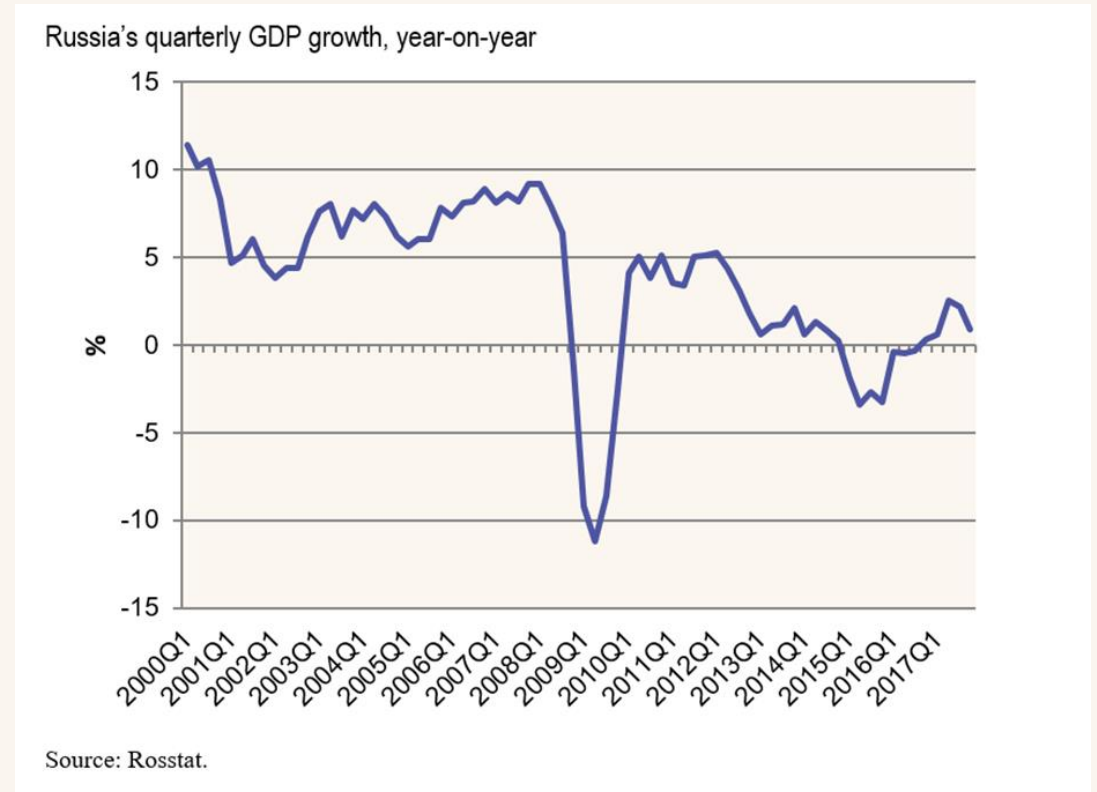
Source: Central Bank of Russia.



EFFECTS ON GDP

Available estimates suggest sanctions played minor role

- IMF (2015) immediate reduction in real GDP by 1 – 1.5 %
- Gurvich and Prilepskiy (2015); reduction in the level of GDP by 2.4 p.p. in 2014-2017
- Citibank (2019); 10% of output decline in 2014-2015 due to sanctions





Summary of the economic effects

- Effects on Russia
 - Decrease in real incomes as food inflation picked up
 - Defence sector cut off supplies of Western weapons and equipment
 - Defence industry forced to adjust
 - Restricted cooperation in the oil and gas sectors
 - Effects on Russia will likely occur in longer run
 - Restrictions on Crimea weigh on the peninsula's economy
 - Sanctioned companies heavily affected
 - Overall mild decline in GDP
- Effects on the EU:
 - Foregone export revenues due to sanctions for producers of food, arms and dual-use goods difficult to separate from overall decline in Russia's demand
 - Foregone interest and non-interest income for European/US financial institutions ?



Have the sanctions on Russia been effective?

- Western sanctions imposed in 2014-2015 against Russia have not been designed to cause a collapse of the Russian economy.
- Instead the restrictive measures have been carefully drafted to inflict pain on a few narrowly defined sectors
- Sanctions are tightened to fulfilment of Minsk II agreements and/or status of Crimea.
- Have sanctions helped in reversing Russia's past actions or in deterring further actions?



THANK YOU !

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