



Eurasia Center's International Security Program

March 15, 2022

Economic Sanctions on Putin's Russia for invading Ukraine



Russia Troops Training to Invade Ukraine in Belarus
Photo Credit: Russian Defense Ministry/TASS

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Eurasia News

Economic Sanctions for Russia After Invading the Ukraine



Putin gives a National Address to explain his rationale for invading Ukraine Photo Credit Kremlin.ru

President Vladimir Putin has been consistently warned by the international community that if Russia continued its unwarranted aggression towards the Ukraine that they would face severe economic sanctions. While sanctions imposed from the Western world would not be anything new to Russia, some of the sanctions that have been inflicted are likely to be much more economically devastating for the country. Countries like the United States, Germany, and Japan had hoped that the threat of severe sanctions would prevent Russia from taking drastic military action, although Russian President Vladimir Putin had gone through with a military invasion of Ukraine anyway.

Nord Stream Ag is a Russian company that was building a pipeline from Russia, through the Baltic Sea, and then into Germany. The pipeline was being constructed in order to provide an alternate route for Russian natural gas to be transported to Europe through Germany instead of being transported mainly through Ukraine. However, in light of recent developments, Germany has halted the certification of the Nord Stream 2 Pipeline which will temporarily halt the finalization of putting the pipeline online. In addition to Germany halting the pipeline's certification, the United States has imposed sanctions on Nord Stream Ag and its corporate offices. This has been a sort of surprising move as inflation has greatly bloated the gas prices in both Europe and the United States

and the disruption of oil and natural gas coming from Russia will likely cause gas prices to increase even more. The Russian invasion of Ukraine, may be Putin's miscalculated attempt to secure the original Soviet pipeline that traversed Ukraine. The short-term effects that these sanctions would have on Russia include the sudden lack of income that they normally bring in from exporting these resources. However, the short-term effects for the international community will be that the price of oil and gas will increase substantially.

As Vladimir Putin has now committed to moving his forces into the Donbas region of Ukraine, taking Kiev and other regions in Ukraine, it is clear that these sanctions were not enough to deter Russia from taking further action against the Ukraine. Japan has taken a different course of action against Russia as the country has prohibited the issuance of Russian bonds in Japan, this directly effects the value of the ruble which is Russia's currency. In 2021, 12% of Japan's thermal coal was imported from Russia and now that Japan has also sanctioned this resource, the supply will become limited in coming months.

Japan, Canada, the United Kingdom, the European Union, and the United States, have frozen assets of a number of wealthy Russians including high-level government officials. The European Union has also banned the travel of these people within their bloc of states. This puts pressure on the Russian elite to take stances that would encourage Russia to stop their aggression towards the Ukraine. However, loyalty to Putin and their country will likely prevent their assets being frozen abroad from influencing their choices. However, several oligarchs have bravely spoken out against the war. Finally, after several days of pressure, these nations also sanctioned Russian President Putin and his Secretary of Foreign Affairs, Sergei Lavrov. Putin had invited Russian oligarchs to a meeting in the Kremlin, which included Mazepin, Mordashov, and Vladimir Potanin, Russia's wealthiest person.

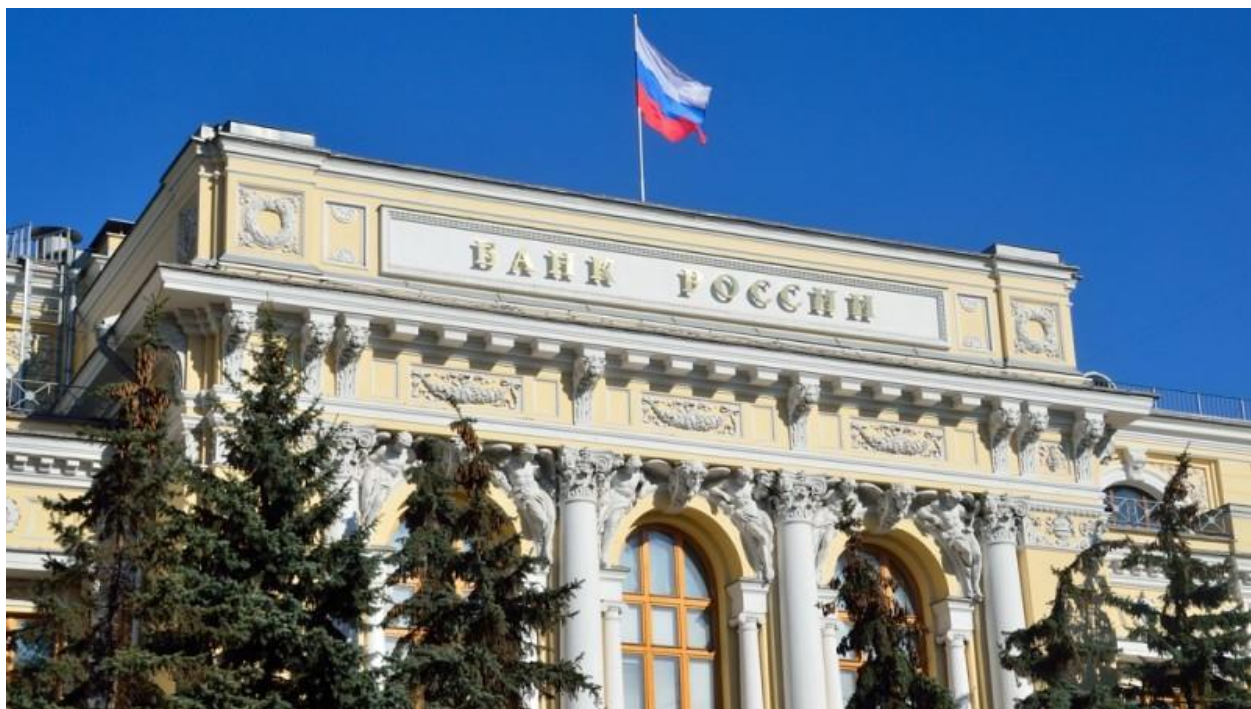
Rushing Out

Russian stocks slump most on record as Ukraine attack begins



One major thing that the international community has done in order to really punish Russia for their actions is to sanction their Central Bank. In recent years Russia has invested heavily into foreign currency such as the U.S. dollar and they have created exceptionally large foreign currency reserves. Sanctioning the Central Bank will be devastating to the Russian economy as if they tried to turn their foreign currency reserves back into rubles, they would find that their assets are frozen and unavailable to be used not only the ruble but default on its national debt payments. Just around eighty percent of Russia's foreign exchange transactions and half of Russia's trade are conducted with the U.S. dollar. The Central Bank would not be able to maintain exchange rates and the value of the ruble would plummet as people scramble to protect their money. The ruble has already lost 50% of its value this year. With the Russian stock market closed indefinitely, for most of March, its stock is being shorted around the world. This would send the Russian economy into a downhill spiral and could be the push that will discourage Russia from taking further military action. The US has sanctioned Iran's central bank in the past and some believe it is time to employ this response on Russia now. The US Department of The Treasury has prohibited transactions with Central Bank of Russia as this move freezes any assets that the Central Bank has abroad. The total collapse of the Russian financial markets is occurring as the Russian economy is in free fall which may be worse than the collapse of the Soviet Union, with no end in sight. The question remains, "Will the average Russian citizen continue to ride on Putin's road to ruin, in a war he cannot sustain, or negotiate." Even in his war of "fratricide" Putin forgot that a Ukrainian Partisan War was devastating to the Nazi war machine.

The United States has already sanctioned five state owned Russian banks that happen to have close ties with Russian military operations and the United Kingdom has placed sanctions on those five Russian banks as well. Both the United States and the United Kingdom are blocking Russia from trading in its debt on U.S. and European markets. This has been a huge move because it is putting a massive strain on the Russian economy and this will likely worsen as the Russian invasion of Ukraine progresses. As time passes it is almost certain that the international community will continue to put hard sanctions on Russia's economy. The Moscow Stock Exchange will see major losses as a result of the hard sanctions and this will ward off foreign investment which will also negatively affect the Russian economy.



The Central Bank of Russia Photo Credit: ING

Russia has continually advanced their invasion of Ukraine and that sanctions and the threat of severe sanctions have failed to deter military action. The United States and its Allies now must choose how to respond to effectively retaliate against Russia in order to punish them for invading. Some suggest that sanctioning the Central Bank would be the best course of action as it would have the costliest effects on the Russian economy. Since the start of Russia's invasion, we have seen the heavy sanctions that the international community has placed on Russia in retaliation for their invasion of Ukraine. It can be safely assured that the sanctions against Russia for the invasion of Ukraine will be quite severe and will likely come from major world power such as the United States, the United Kingdom, and Japan. The US has already sanctioned five Russian banks, including Sberbank and VTB Group, which collectively account for about 50% of the country's

banking assets. Russia has been trying to isolate its economy from these sanctions by importing more dollars, but it still has nearly 16% of its holdings in dollars and 32% in Euros. Meanwhile, China State Banks have begun to restrict financing for Russian commodities and Russia's credit rating is now cut to the junk arena.

On Thursday February 24, 2022, US President Joe Biden held a White House Press Conference in response to the Russian invasion of Ukraine. During the Press Conference, President Biden indicated that new sanctions will soon be imposed on Russia that will be intended to restrict Russian access to technology and financial markets. There are also plans to sanction certain exports as well as a large number of Russian elites. These sanctions have been designed to inflict severe economic damage on Russia both immediately and over a longer period of time. There is a hope that the new sanctions on Russian gas and oil will ease the Western world off of having to rely on Russia for these resources. United Kingdom Prime Minister Boris Johnson made remarks indicating that Europe's reliance on Russian gas and oil has allowed Vladimir Putin to have an influence on Western politics. Now that President Biden has committed to imposing harsher sanctions on Russia, major US Allies have followed suit. It was even indicated that Russia will be restricted in certain aspects of trading in the U.S. Dollar, the Euro, the Pound, and even the Yen. This demonstrates the major powers working together in order to make the economic punishments on Russia even worse.



Ukrainians unite and protest against Putin in Kyiv on February 13, 2022, Photo Credit: AP

Vladimir Putin and other Russian senior officials have stated that Western sanctions on their banks as well as themselves actually do not do as much harm as everyone thinks. Putin indicated that the most effective sanctions the Western world could place on his country are sanctions that impede the exporting of Russian gas and oil. However, sanctioning these resources would likely cause harm to Western countries as well as, since they rely on the gas and oil they import from Russia. Putin also believes that Russia has the industrial capabilities to no longer rely on the west for advancements in technology. During Russia's annexation of Crimea in 2014, Western allies placed sanctions on Russia that were largely seen as ineffective. Now that Russia is once again being placed under heavy economic sanctions for their military actions in the Ukraine, President Putin and other Russian elites scoff at the idea that Russia will be significantly harmed by these new sanctions.

One major thing that Western Allies have done is kicking Russia out of SWIFT. SWIFT is The Society for Worldwide Interbank Financial Telecommunication and is used by financial institutions to send and secure payment orders. Since Russia was removed from SWIFT, it has made it significantly more difficult for their institutions to send money in or out of the country. Germany has not been the biggest fan of this sanction as their banks frequently use SWIFT in order to communicate with Russian banks. That is why many countries viewed this as a last resort because it has potential to damage other economies beyond just Russia's. Russia has attempted to soften the blow to their economy by creating their own payment system after sanctions were placed against them in 2014. Germany is the largest economy in Europe, and it has potential to be a major blow to their economy as Russia was kicked out since they also pay for their imported Russian gas through this process.

Major US companies such as McDonald's, PepsiCo, Coca-Cola, and Starbucks have stopped trading in Russia this week. McDonald's has even shut down 850 of their restaurants in Russia temporarily and Starbucks has followed suit by suspending some of their operations in the country as well. This has the potential to be a major economic blow because it puts many people out of work and it also causes a disruption to the daily lives of the citizens living there. Rio Tinto is the world's second largest metals and mining corporation and it in the process of ending all relationships it has with Russian businesses. This puts Russian business and workers in a situation where they are being alienated from the international community and in some cases, they are even losing their jobs.

Airline traffic has been essentially outright banned as the European Union and the United States have banned Russian Aircraft from entering their respective airspaces. This is a major blow to Russian airlines as they now must take significantly longer flights in order to not violate any airspace restrictions. The Moscow Stock Exchange has seen such a horrific crash that it has been referred to as uninventable. Since they have been kicked out of the SWIFT banking system, Russia has turned to crypto currencies as a way to possibly turn their foreign reserves into money that might be accepted. As the Russian invasion continues the heavy sanctions that the international community has placed on Russia will remain in place and will likely worsen if things remain in their current state.



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