

# The implications of sanctions on the Russian economy and financial system

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# Pre-war economic outlook: micro vs. macro

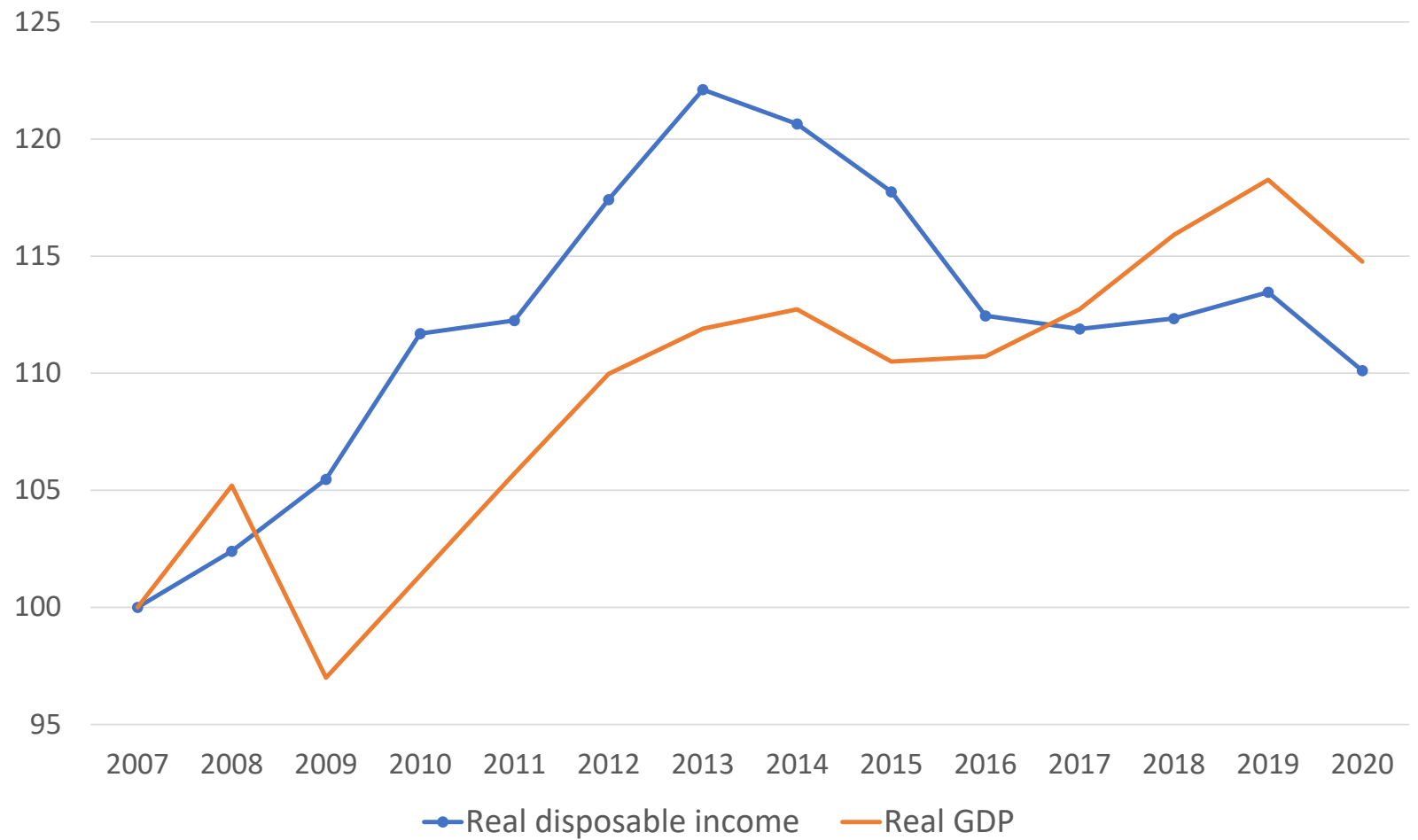
## Slow economic growth

- Stagnation: average GDP growth rate in 2013-19: 0.9 % per year
  - Projected to continue stagnating after Covid
- Falling household incomes
- Capital outflow: about 4% GDP per year
- Investment/GDP stagnating at 20-22%

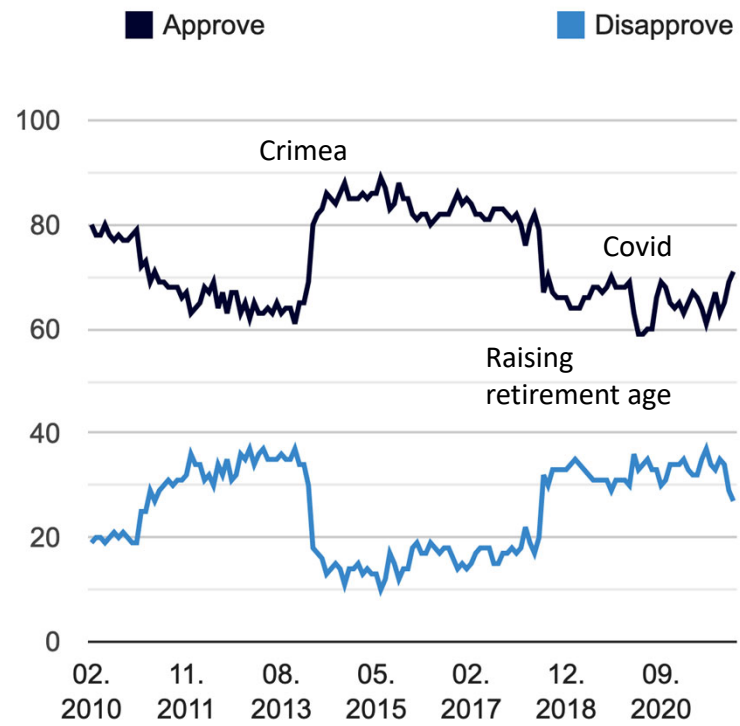
## Robust macro

- Balanced budget (based on \$44/barrel),
- Low debt: 20%GDP sovereign debt (including 5%GDP external), 30%GDP total external debt
- Large currency reserves (40% GDP)
- Large sovereign wealth fund: 12% GDP
- Inflation targeting
- Recapitalized banking system

Real GDP and real disposable incomes, 2007=100



## PUTIN'S APPROVAL RATING



Source: Levada Center

23/3/22

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# Pre-war sanctions: very minor impact

## Survey by Korhonen (2019)

| Paper                            | Period  | Effect on GDP |
|----------------------------------|---------|---------------|
| IMF (2019)                       | 2014-18 | 1%            |
| Pestova and Mamonov (2019)       | 2014-15 | 1.2%          |
| Kholodilin and Netšunajev (2019) | 2014-16 | No effect     |
| Barsegyan (2019)                 | 2014-17 | 1.5% in total |

## Impact on trade

- Crozet and Hinz (2020): 7% reduction in exports for Russia, 0.3% reduction in exports for the West

## Micro studies

- Ahn and Ludema (2020) “The sword and the shield”: targeted firms suffer but state’s protection of strategic firms helps

## Countersanctions

- Volchkova and Kuznetsova (2019): 0.5% GDP annual loss of consumer surplus, 0.05%GDP deadweight loss

# Sanctions 2022

## Certain sanctions were priced in before the war

- Despite substantial increase in oil prices ...
  - Ruble lost about 10% relative to “pre-tension” times
  - Ruble-denominated stock price index lost about 20%
- The worst-case sanctions scenario expected: switching off SWIFT

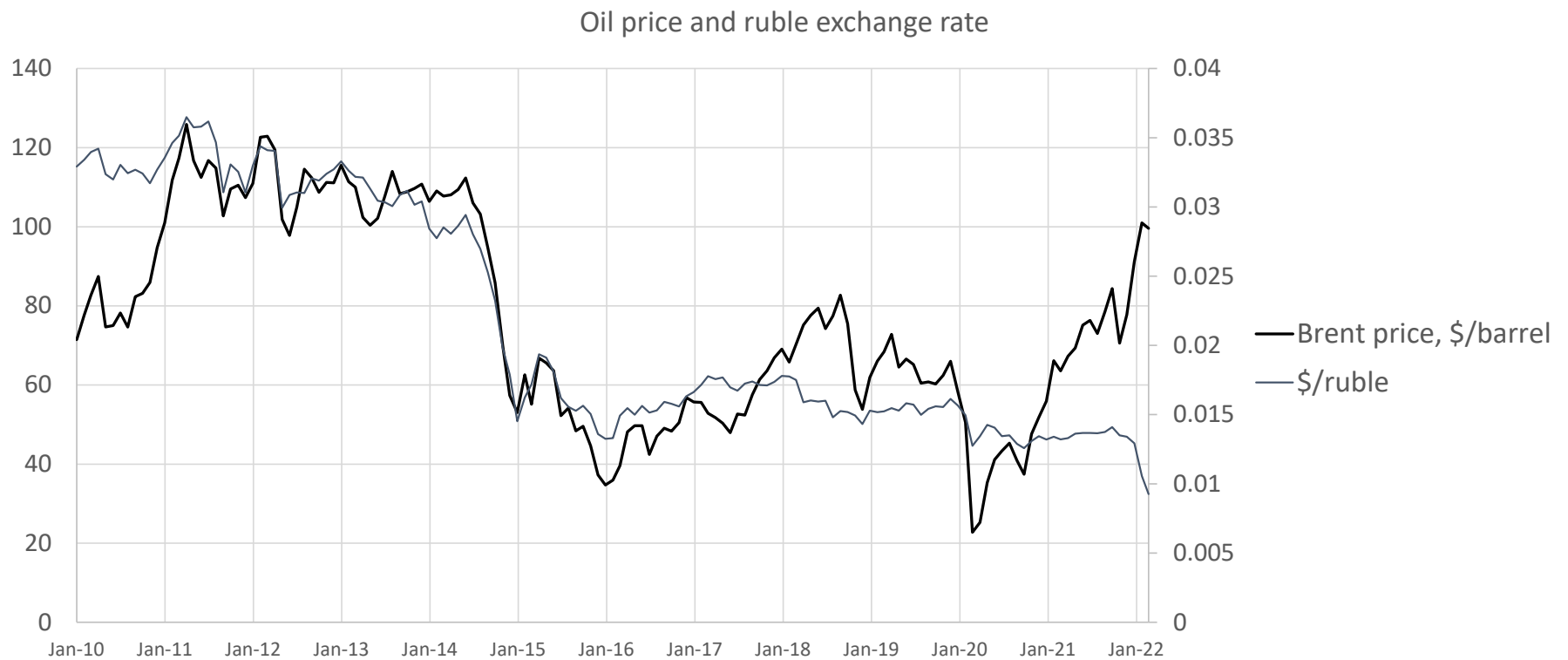
## Actual sanctions went much farther

- Total blocking sanctions against major players including VTB (but not Sberbank yet)
- Comprehensive export controls including chips, aircraft, software
- Most importantly, sanctions against Russian Central Bank
  - Including freezing its currency reserves
  - Formally, do not cover gold (22%) and yuan (13%) – but de facto these cannot be used as well

# Short-term impact on the financial system

- Ruble lost 30%
- Central Bank increased the key rate from 9.5% to 20%
  - And introduced various currency controls
- Inflation: 2% per *week*
- Currency exchange and stock market have been closed since Feb 28
  - Reopening now but in a constrained mode

The fall in ruble is especially striking given the high oil price



# Economic impact of the sanctions

## Major disruptions in getting paid for oil exports

- Informal estimates suggest that more than half of oil exports is not sold
  - Mostly due to boycott by the private sector
- Russian oil trades at \$30/bbl discount to Brent
- IEA estimates halving the volume of oil exports in April

## Mass exodus of foreign companies

- Yale SOM (Sonnenfeld and Tian): 450 companies
- Major disruptions Russian businesses as well:
  - e.g. the largest carmaker AvtoVAZ suspended production

# GDP forecasts for 2022

- Pre-war forecast: +3%
- Consensus forecast: -8%
- Central Bank of Russia: -8%
- JPMorgan: -11%
  - And -35% in 2Q22
- Institute for Int'l Finance: -15%
  - This would be the worst recession since early 1990s

# Long-term impact

- Isolation from Western capital markets, technology and intermediate inputs
  - Great uncertainty: will China substitute?
- Accelerated European transition away from Russian fossil fuel
- Major outflow of human capital
  - Preliminary estimates: 200 thousand since the start of the war

# What next?

## Economy

- Assuming no oil & gas embargo (with or without sanctions on Sberbank):
  - Imports will collapse
  - If exports are restored, oil revenues will suffice to pay for whatever imports remain ... and pay for the war, repression and propaganda
- Oil embargo joined by China:
  - Unchartered territory
  - Humanitarian crisis, oil for medicines program

## Politics

- Dramatic economic shock may not be enough to stop Putin right away
  - Instead, he will complete the shift from spin dictatorship to fear dictatorship
  - Closing down independent media (already) and social networks (soon)
  - And cleansing Russia of “national traitors”

SERGEI GURIEV & DANIEL TREISMAN



# SPIN DICTATORS

THE CHANGING FACE  
OF TYRANNY IN  
THE 21ST CENTURY