

## Cost-benefit analysis of sanctions against Russia

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### Keywords

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### Abstract

*The main objective of the work is the analysis of the consequences for Russian economy from the imposition of sanctions by Western countries. The paper discusses issues related to the effectiveness of the sanctions on South Africa, Iraq, and Haiti; the work presents the consequences of imposition of sanctions for Russian economy as a whole, as well as highlight the impact of the introduction of anti-Russian and Russian sanctions on two sectors: banking and food industry. The first was chosen because it is an indicator of what is happening in the economy since a funding stream from the west has been blocked. As for the food industry - it is expected that the introduction of the embargo of the product will allow Russian companies to realize their potential and lead to the development of this sector. The imposition of sanctions, the fall of the ruble, as well as the decline in oil prices had a negative impact on Russian economy and the continuation of the current situation can greatly slow down its development in the future. According to our analysis we can draw the following conclusions: the banking sector came under several attacks at once (the prohibition of monetary financing from the west, the growth of past due accounts, the policy of the Central Bank). The food sector has potential for growth, but there is a lack of clear boundaries for the period of sanctions (which does not allow companies to invest in the development of food industry considerable sums), and declining purchasing power due to a significant increase in inflation for the past 2 years. The imposition of sanctions, the fall of the ruble, as well as the decline in oil prices had a negative impact on the Russian economy and the preservation of the current situation in the international arena can greatly slow down its development in the future.*

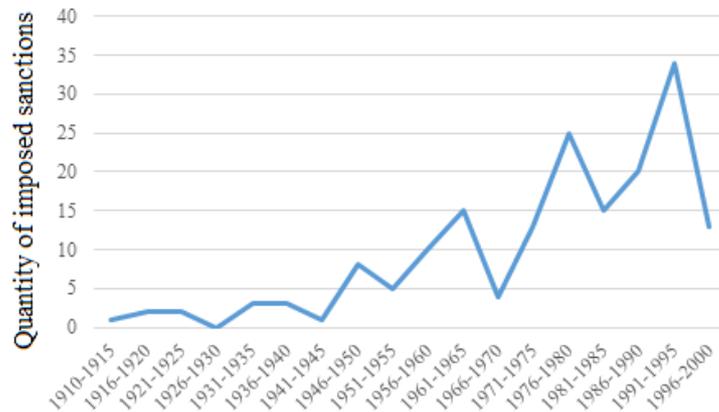
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### Economic sanctions as an instrument of regulation inter-country relations

#### 1.1. Brief historical review

In XX century, countries start to actively utilize such an instrument as sanctions to reach their political and economic goals. After World War II, in the second half of the XX century, the introduction of sanctions becomes a widespread instrument of regulating the external political and economic relations between countries. Picture 1 presents the quantity of imposed sanctions from 1910 till 2000, and the total costs of the countries, against which the sanction policy was introduced. Picture 1 clearly demonstrates the growth in the volume of sanctions, which was observed in the period of 1910 till 2000.

The majority of sanctions were introduced by the United States against other countries, including the USSR, and their main aim was to worsen the military potential of the countries under sanctions, and destabilization of national regimes of some states like USSR, North Korea, Cuba, Iran and others. [11]. We have identified that after World War II, on average in the five-year period, almost 14 cases of sanctions were initiated, while before 1945, the average number of cases was approximately 2. In the work "Trade-economic sanctions: effectiveness, price, problems of usage", Braterskiy mentions that the usage of sanctions became widespread because they allow to "solve international conflicts and disputes with lesser costs and human losses". [2]



Pic. 1. Quantity of imposed sanctions in the period from years 1910 – 2000

Created by the authors based on Gary Hufbauer, Jeffry Schott, Kimberly Elliot, Barbara Oegg *Economic sanctions reconsidered. US: Peterson Institute for International Economics, 2007. – P. 18.*

According to Robin Renwick, the main goal of sanctions is to change a certain political decision in a country, against which they are directed. [3] The last statement complements the one before and from our point of view, it is exactly the attempt to evade military conflicts which is the main reason for a sharp jump in the quantity of imposed sanctions in the second half of XX century. Eric Hoskins accents the following consequences as a result of sanctions (Table 1). According to the table, which shows general consequences of target countries from sanctions, one can make the following conclusions: the effects of imposing sanctions influence various spheres of societal functioning, and these are not only economics and politics, but also healthcare and problems, connected with food. Also, according to the table, one can notice that sanctions can influence political regime in the target country only in the long run, which is a key moment in the analysis of sanction policy consequences.

Regarding the effectiveness of sanctions, the most effective are considered to be collective sanctions against the RSA, Haiti and Iraq. [14] Despite the effectiveness of economic sanctions that were introduced against Iraq and Haiti, it must be mentioned that the goals, pursued by implementing these sanctions, were reached with the help of forceful intervention. This means that the examples of observed countries are not absolutely exceptional; if we talk about the effectiveness of sanctions, because it is difficult to forecast whether there would be have a change of the regime in Iraq, for instance, if military forces did not enter its territory in 2003.

Regarding sanctions that were imposed by USA in relation to other countries in a unilateral order, K. Elliot's research states the following: "for the period from 1970-1996 the sanctions imposed by Washington did not reach the officially stated goals in 87% of cases". [14] Based on the abovementioned research, the following can be concluded: as a result of globalization processes, which developed intensely in financial sphere, world trade and other areas, the imposed sanctions do not deal significant harm to the target country, because the latter finds ways which allow easing the negative effects of sanctions on the economy. This raises a question as to whether the policy of sanctions is an efficient tool for reaching the underlying goals of such a policy. This question is a topic for a separate research.

Table1. Consequences of imposed sanctions for the target country

Short term effect	Middle term effect	Long term effect
Reduction of imports Medical supplies; Agricultural products; Cars and machinery, etc.	Healthcare Decrease in quality of life; Mortality rate increase; Lack of access to medical equipment	Healthcare Outburst of diseases, connected with poverty; lowering of national potential for delivering quality medical services; reduction of overall population's health
Reduction of exports and access to foreign finance	Food problem Increase in food prices; Decrease in main types of food; Development of black markets for food	Economy Loss of trading partners and international investors; Negative consequences for government and private infrastructure
Reduction in diplomatic role on the world arena	Economy Decrease in wages and purchasing power; Increase of inflation; increase in unemployment; Lowering of economic activity	Social problems Psychological effect; Growth of social inequality; Growth in poverty rates; Decrease of social cohesion
		Politics Shift of balance of power in the regions; Decrease in support of current political powers

*Created with the data, given in the art cleanup Shah Effects of Iraq Sanctions, article – electronic source <http://www.globalissues.org/article/105/effects-of-sanctions>*

## 1.2. Types of economic sanctions

Economic sanctions and limitations are applied to inter country relations in general or on concrete types of these relations. Under attack can be the following types of economic relations [34]: Foreign trade; Investment flows; Financial operations; Scientific and technological partnerships; Transport communications.

Despite a large number of sanctions which can be applied in course of a non-military pressure from the side of one or numerous countries in relation to another, one must account for factors which assist with the success of carrying out this policy. In their work Per Olsson and Susanna Oxenstierna tried to establish what factors are the most significant in making the sanction policy most successful. [19]

According to analysis, presented in the economic sanctions against Russia by Susanna Oxenstierna and Per Olsson, it can be concluded that one of the key factors upon which the success of sanctions is dependent is the sum of costs which both sides incur, and are related to trade dependency. On one hand, the higher the costs, the greater the possibility of achieving the goals of other states, but on the other hand, high costs can become a reason for rejection in implementing sanctions or their design will be shallow. In scientific circles, the opinions differ as well – in his work “Determinants of Sanctions Effectiveness: Sensitivity Analysis Using New Data” Bapat, with his co-authors showed that trade dependency, which in the end is reflected in costs from imposed sanctions, has a positive effect on the success of sanction policy, while Drezner, Kaemfer and Lowenberg assume that the dependency can hold back the country which is about to impose sanctions, because this measure will affect its economy as well.

The duration of sanctions, on one hand, should positively influence the success of their implementation – the longer they are enacted, the greater the costs. Still, Hafbauer in his book “Economic sanctions reconsidered” showed that the duration of sanctions negatively influences their final success, since the country eventually adjusts to new reality. Another interesting but debatable moment is that the quantity of countries, partaking in imposing sanctions negatively influences on their success. Bapat showed that in case of large quantity of countries imposing sanctions, conditions appear that negate the overall effect (countries that imposed sanctions but are least interested in it, will find ways of lifting the sanctions or continuing the cooperation with target country). Additionally, disputes can arise between the countries which imposed sanctions, which can eventually lead to failure of this policy.

Third countries are countries, the cooperation with which can reach a new level as the result of sanctions. They can become an alternative in market area, and also financial resources for the country enduring sanctions, which can negatively impact the sanction policy. Similar effect is created by an authoritarian regime in target country: pro-State media, lack of strong opposition – all of this leads to reduction in effects from imposition of sanctions. Also there is a need to evaluate the importance of reasons for conflict for the target country: it is possible that from economic and political perspective it is more beneficial for it to remain under sanctions than to change the decisions, made earlier.

All the above mentioned factors play an important role both for the target country and for the country imposing sanctions. This is why it is necessary to account for them during the development of strategy, otherwise sanctions not only provide no results, but can also negatively influence the economic conditions of different countries.

Economic sanctions against Russia

### **2.1. Imposition of economic sanctions**

In regards with the events in Ukraine, as well as the annexation of Crimea to Russia, on 17<sup>th</sup> of March 2014 the United States introduced a series of sanctions against “high-ranking Russian politicians”. [28] This, in turn, led to a chain reaction and many other countries (EU countries, Japan, Australia and others) began to eventually join in with introducing sanctions against Russia. Later on, economic sanctions were introduced, which affected [7]:

Oil industry (sanctions in relation to oil companies and their subsidiaries; limitation of exports of technology in oil extraction and refinement to Russia);

Gas industry (sanctions against gas extracting companies and their subsidiaries; “rejection of partnership projects in gas industry and investments in perspective projects”);

Banking industry (freezing of “financial assets of physical and legal entities” from Russia, “limitation of access to foreign loans”).

It also needs to be pointed out in retaliation to Western sanctions, Russia introduced a prohibition of food imports from USA, EU, Norway and other countries [28]. This measure not only negatively affected foreign agricultural sectors, but also had a negative impact on the Russia consumer.

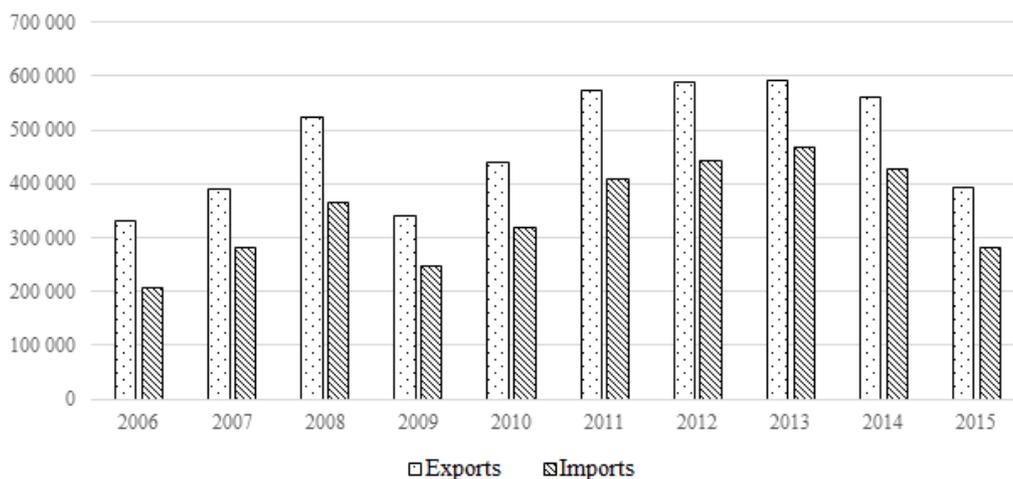
### **2.2. The overall state of Russian economy after imposed sanctions**

Before analyzing the data, it should be noted that it is extremely difficult to consider all aspects of sanctions upon the economy. It is related firstly, to additional negative factors which reflected upon the economy of Russian Federation – a strong decline in oil prices, an appreciation of dollar, euro and other currencies in relation to the ruble. Secondly, not all official statistics reflect the reality. An example can be the indicator of unemployment, which according to official data in 2015 was 5.6%, which does not substantially differ from the indicator of 2013, when the unemployment was 5.5%. [31] There is doubt that the level of unemployment at the end of 2015 reflects the real level of unemployment. When statistics are compiled, an analysis is used which is based upon a selected part of population, and how this selection was performed is not known; also the country has many

unemployed citizens, regarding whom there is no official data or it is imprecise. [31] As a result, the real indicator of unemployment may be significantly higher than the one shown in official data. This moment, connected with discrepancies between statistical and real data should have been pointed out at the start of the analysis, because our analytical work is based upon the research of official data, without investigating how it is computed. The data of Russian Central Bank, government statistics, media and electronic sources will be used in the analysis.

According to the data of Federal service of government statistics continuous reduction of GDP by quarters can be clearly seen, starting from 2015, as compared to 2014 [10]. Russian GDP (in prices of 2011) in the first quarter of 2016 decreased by 1.16% compared to the same period in 2015 and compared to 2014 it decreased by almost 4%. GDP in the second quarter of 2016 is lower than its previous values by 0.57% (compared to 2015) and 5% (compared to 2014).

The next indicator we would like to analyze is the international foreign reserves of Russian Federation. From 2014 the gold and currency reserves of the country are depleting. The sharpest decreases occurred since August of 2014. By the start of 2015, the international reserves contracted by 24.6% compared to the start of 2014, and the decrease by 19.1% occurred from the period of August 2014 till January 2015. As a result, if at 01.02.2014 the international reserves of Russian amounted to 498926 million dollars, then by 01.09.2016 this indicator was at the level of 395198 million dollars.



Pic. 2. Exports and imports of goods and services by Russia from 2006 to 2015 (\$ mln). Created by the authors based on the data of Central Bank (<http://www.cbr.ru/statistics/?PrId=svs>)

Exports and imports of goods and services by Russia (in \$ mln) significantly contracted in 2015 as compared with 2014: the fall in exports amounted to 30%, the fall in imports – 34% (picture 2). This data is only slightly bigger than the values of imports and exports that were registered during the crisis of 2009.

Regarding direct investments in Russia, in 2015 they decreased by 70% compared to 2014 – from \$22 bln. to approximately \$6.5 bln. [26] Another important moment which reflects the state of the economy is the yield curve for government bonds. It can be clearly seen that bond rates were higher a year ago as compared to current rates which symbolizes the fact that the uncertainty of investors was higher a year ago than now. Still, the yield curve is declining both in short-term bonds (6 months maturity), where the rate of return is 10%, while for long-term bonds of 10 year maturity the return is around 8%. This shows that short-term risks are estimated to be higher than the long-term ones by the investors.

The fall in oil prices also contributed to the worsening of economic situation in Russia (as it fell from \$112 at 01.06.2014 to \$49 at 01.09.2016) [6], and also the depreciation of the Russian ruble. The value of bi-currency basket as of 28.09.2016 is almost 67% higher than the value, fixed on

29.01.2014 and amounts to 67.27 rubles [29]. In spite of the fact that the economy of Russia entered the state of stagnation, it is quite hard to separate the degree of sanctions' influence on the worsening of economic conditions in Russia from the abovementioned factors.

Overall, the consequences from implementation of sanctions were supposed to result in significant harm toward the Russian economy and led to a shift in policy towards Ukraine and Crimea. But despite significant decreases in economic indicators, this goal, strived for by Western politicians, is not yet reached. Still, it is obvious that economic sanctions played a great role in destroying the confidence of investors towards Russian economy which is reflected in reductions of direct investments; also due to sanctions, an array of joint projects were frozen, which also contributed to economic slowdown and GDP decrease (if in 2014 the rate of GDP growth amounted to 0.6% in comparison to 1.3% a year earlier, in 2015 there was a negative rate of growth of -3.9% [32]).

### 2.3. Influence of sanctions on Russian business environment

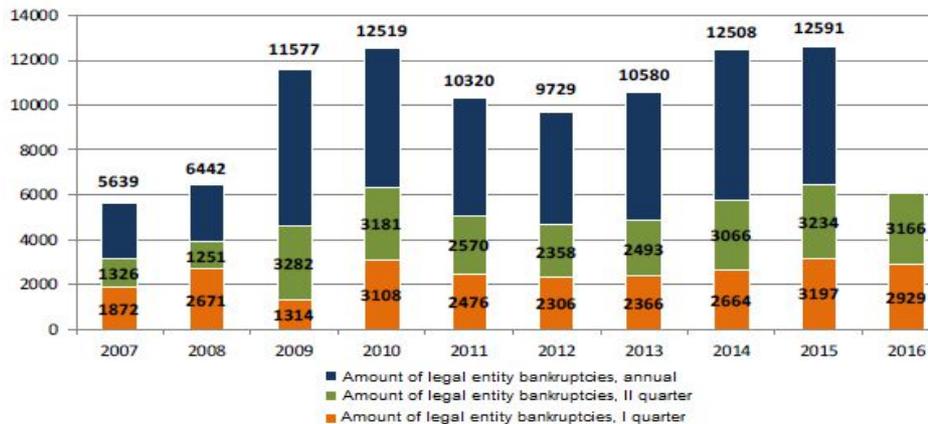
The implementation of sanctions, as well as the drop in oil prices led to unfavorable consequences for business in general. According to the data on picture 3, the amount of bankruptcies in 2014 sharply increased (by 18.2% compared to 2013). In 2015, the amount of bankrupted enterprises was left unchanged and affected 12,591 companies.

Authors of the report "Bankruptcies of legal entities in Russia: main tendencies" Ribalka and Salnikov connect the sharp increase in bankruptcies with a number of key factors, which, to some degree were the consequences of anti-Russian sanctions [22]:

Worsening of lending conditions on foreign markets (despite the fact that only some Russian enterprises got under sanctions (Bank Russia, CMP Bank, Rosneft and others), foreign banks will account for risks, connected with crediting for all Russian companies);

Increases in interest rates in banks, connected with the increase in key rate of Central Bank (at the start of 2014 the key rate was 5.5%, by the end of 2014 it was 17%, currently (as of 19.09.2016) the interest rate is 10%) [1];

Decrease of profitability of Russian companies associated with the economic stagnation.



Pic. 3. Dynamics of bankruptcies in Russian Federation from 2007 to 2016

Source: (Rybalka A. Salnikov V. Bankruptcies of legal entities in Russia: main tendencies – presentation materials)

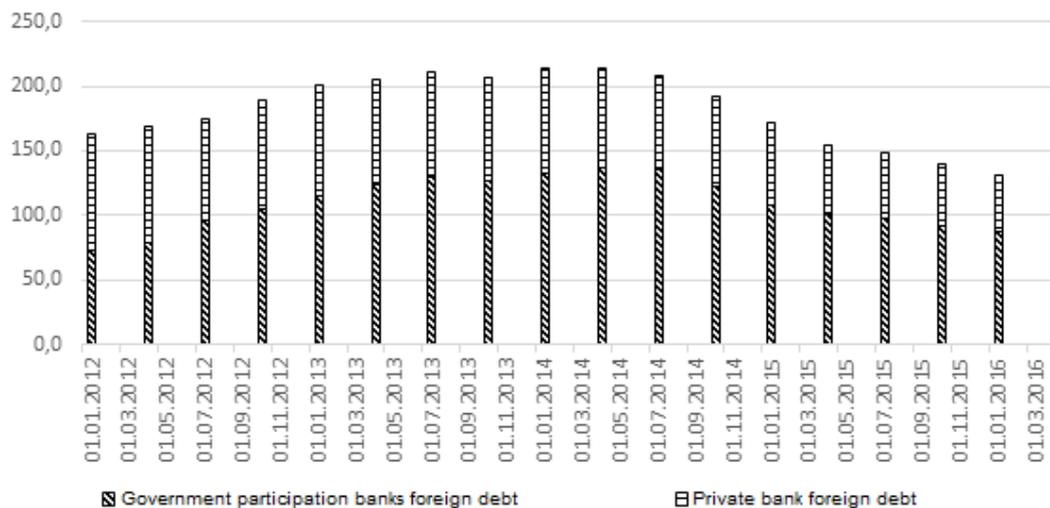
## 3. Influence of Russian and anti-Russian sanctions on separate sectors

### 3.1. Situation in banking sector

Banking sector is under significant pressure as the result of worsening economic environment in the country, which was partially provoked by the sanctions. Among significant reasons, which influenced the banking sector, there are the following [4]:

Due to implementation of sanctions, Russian banks encountered a problem, connected with attracting loans from the West; The depreciation of Russian ruble in relation to the world currencies (including dollar and euro); "Stagnation in the real sector of Russian economy", as a result of which the foreign investors stopped to fund Russian banks.

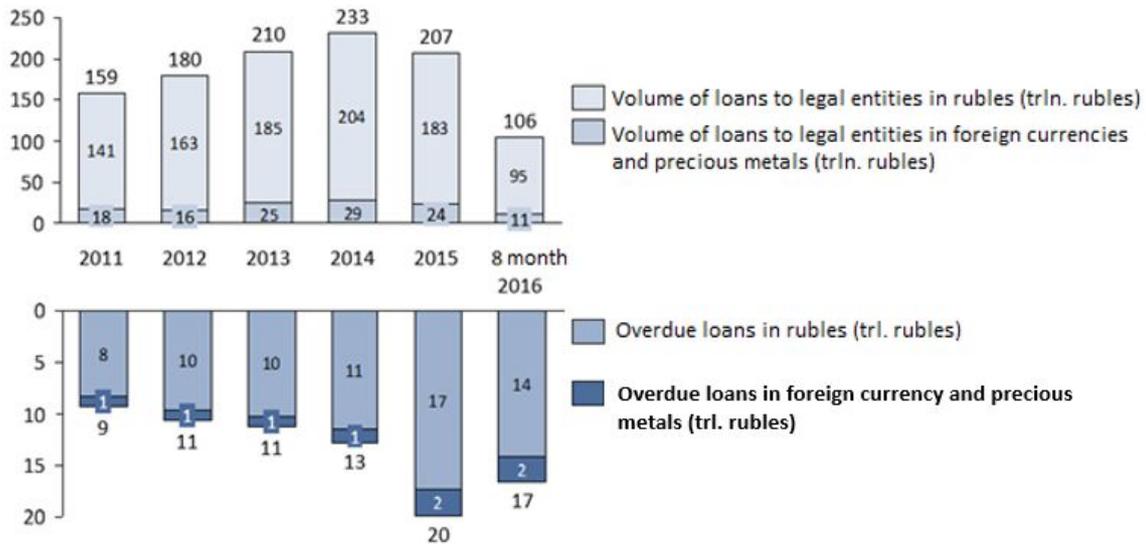
It also needs to be pointed out that a massive recall of licenses by the Central Bank, which began at the end of 2013, also negatively impacted the banking system.



Pic. 4. Foreign debt of Russian banking sector by quarters, from 2012 to 2 quarter of 2016 (In \$ bln)  
Created by the authors based on Central Bank data: (<http://www.cbr.ru/statistics/?PrId=svs>)

According to the data for foreign debt of Russian banking sector (picture 4), starting from the second quarter of 2014, one can notice the lowering of debt to Western participants. The difference in foreign debt data for the second quarter of 2016 as compared to the first quarter of 2014 is in decrease of 48% for private banks and 34% for banks with government participation. This means that banks lower their current obligations but at the same time, not having an opportunity to borrow abroad, do not attract additional resources from the West.

Picture 5 shows the volume of credits, given out by Russian banks to legal entities – enterprises and individual entrepreneurs. The picture clearly illustrates the 2015 decline of the previously increasing trend of giving out loans. The combined average growth rate (CAGR) on loans amounted to 10% from 2011 to the end of 2014. In 2015 there was a sharp decline in the volume of loans both in rubles and in foreign currencies, which amounted to 11.1% as compared to 2014. It is also possible that based on the results of 2016, this indicator will also decrease. Moreover, in 2015 the amount of overdue loans will increase by 53.8%, which presents a problem not only for the banking sector, but also for the real sector of the economy. As the result of loans not being repaid, there is a possibility for a new wave of bankruptcies, which will have an overall negative effect on Russian economy.

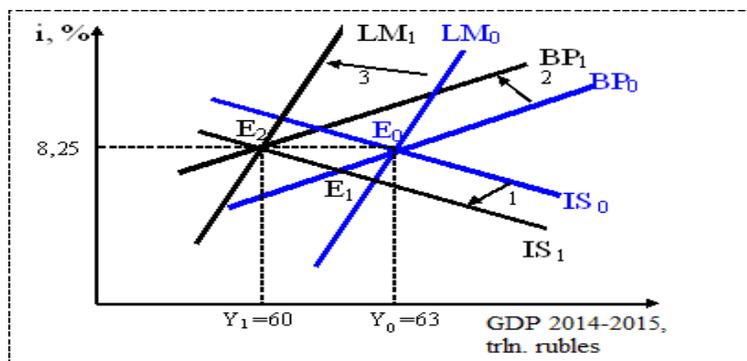


Pic. 5. Volume of loans (in rubles and foreign currencies) given out by Russian banks, and overdue loans from 2011 to 8<sup>th</sup> month of 2016 (in trln. rubles)

Created by the authors based on Central Bank data: (<https://www.cbr.ru/statistics/?PrId=sors>)

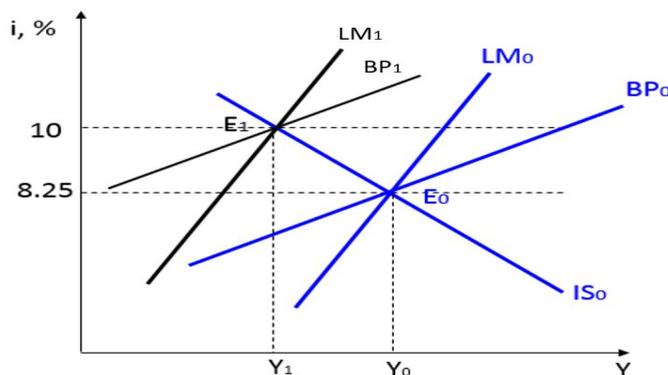
Regarding the activity of the Central Bank, we would like to demonstrate the results of the paper "Bank of Russia's Policy in the face of economic sanctions: a step forward or two steps back?" by Nureev R.M. and Chusovlyanov D.S. The paper considers the consequences of the actions of Russian government, represented by Central Bank, utilizing the model of Mandell-Fleming (or IS-LM-BP). According to picture 6, it can be evidently seen in what way the government tried to cover the budget deficit which was caused by the lowering of GDP under a fixed refinancing rate (GDP decreased by 2.5 trln. rubles – from 63 trln rubles to 60.6 trln. rubles in 2015). As a result of significant drop in exports, the IS curve shifted to the left (from position IS<sub>0</sub> to position IS<sub>1</sub>); same happened with the BP curve as a result of lowering net exports (in 2015 – 146 \$bln., in 2014 – 189.7 \$bln) and outflow of capital from Russia, which happened as the result of imposition of sanctions and lowering in the price of oil; the increase in key rate (while the refinancing rate remained the same) leads to a shift in LM curve to the left. As the result of free-floating exchange rate of ruble since 2014, it fell sharply and this helped handle the budget deficit (using the data of Ministry of Finance for 2015, the budget deficit of Russia amounted to 1.96 trln rubles [23]). In this way, E<sub>2</sub> becomes the equilibrium point of the model, but the government policy had a negative effect on both companies and consumers.

Another moment, which needs to be demonstrated by using the IS-LM-BP model is a new approach to determining the refinancing rate. As the result of acceptance of such document as edict of Bank of Russia from 11.12.2015 № 3894-Y "About Bank of Russia refinancing rate and the key rate of Bank of Russia", the value of refinancing rate matches the value of the key rate. The refinancing rate currently is equal to 10% [5]. Picture 7 shows a situation, under which the refinancing rate increases from 8.25% to 10%, which leads in reduction of income from Y<sub>0</sub> to Y<sub>1</sub>, as a result of increase in refinancing rate the supply of money will decrease which will led to a shift in LM<sub>0</sub> curve to LM<sub>1</sub>, and the decrease of national income will be reflected upon net exports, which leads to a shift of BP<sub>0</sub> curve to position BP<sub>1</sub>. As such, during the increase of key rate we obtain a reduction of government budget and lowering of entrepreneurial activity, which negatively affects the Russian society in general.



Pic. 6. Influence of sanctions of IS-LM-BP curves in 2014-2015

Created by authors on the basis of the paper: Nureev R.M., Chusovlyanov D.S. Bank of Russia's Policy in the face of economic sanctions: a step forward or two steps back?; Business and Management Review, Vol.8, No 1, P. 25



Pic. 7. Influence of increase in refinancing rate

Created by the authors

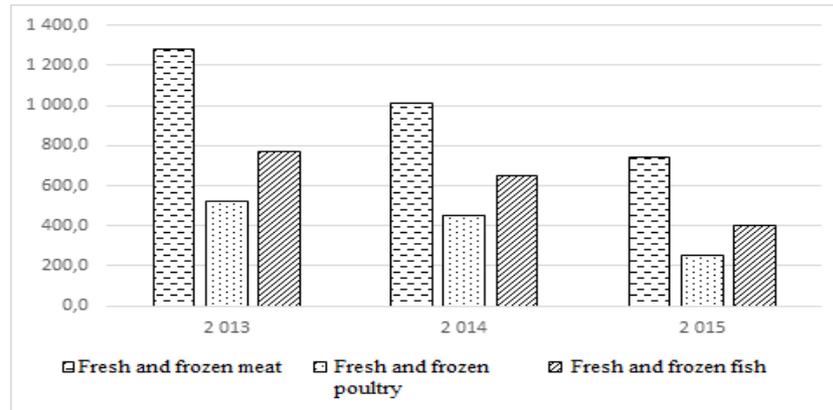
Based on the results of modeling that the authors made in their paper "Bank of Russia's Policy in the face of economic sanctions: a step forward or two steps back?", they concluded that investments in Russian Federation decreased more significantly under the current policy of the Central Bank (the result of which was the refusal of supporting national currency), that it would have under former policy. Besides, "inflationary shocks and currency rate shocks contributed to acceleration of inflation rates" and this, in turn, reflected negatively upon Russian rates of economic growth. We agree with the conclusions that the authors reached in the course of their research, but we also want to point out that through few months of supporting ruble rates, the gold and currency reserves significantly decreased, and as the result - would it have been enough to maintain former policy when ruble was fluctuating within a certain corridor or not, is a serious question that demands closer investigation.

#### Situation in food industry

In response to Western sanctions, on 7<sup>th</sup> of August 2014 Russian government set limitations on imports of certain agricultural productions, which affected beef, pork, poultry, cheese, dairy products and other goods from USA, EU, Canada and other countries. [24] Based on the government policy, this step should have given stimulus to the development of national food industry. In our work, we will try to picture out whether these expectations were met.

Imports of food and agricultural materials dropped significantly since 2013, when import volumes amounted to 43.4. \$bln., while in 2014 and 2015 these indicators amounted to 39.9 and 26.5. \$bln. respectively. The fall in imports of food and agricultural materials by the end of 2015 amounted to 38.7%. [9] Import shipments of meat and fish in real terms decreased substantially (almost by two

times) by the end of 2015 as compared to 2013 (picture 8). The amount of bankruptcies in food industry decreased by 9.3% by the end of 2015, compared to 2013. [22]



Pic. 8. Imports of goods into Russia from 2013 to 2015 (thousands of tons)

Created by the authors on the basis of Federal Customs Service

data:[http://customs.ru/index.php?option=com\\_content&view=article&id=22570:-----2015-&catid=53:2011-01-24-16-29-43](http://customs.ru/index.php?option=com_content&view=article&id=22570:-----2015-&catid=53:2011-01-24-16-29-43);[http://www.customs.ru/index2.php?option=com\\_content&view=article&id=20495](http://www.customs.ru/index2.php?option=com_content&view=article&id=20495);  
[http://www.customs.ru/index.php?id=18884:-2014-&option=com\\_content&view=article](http://www.customs.ru/index.php?id=18884:-2014-&option=com_content&view=article))

According to the data of shipped national products, performed works and services by national workforce, it can be concluded that the volume of shipped food products surged by record 21.4% by the end of 2015 as compared to 2014 and in absolute values amounted to 5,880 and 4,840 bln rubles respectively. [33] In real terms, the production of meat and sub products grew from 1,342 thousand tons in 2013 to 1,710 thousand tons in 2014 (with a record growth of 27%), the production of cheese and cheese products increased from 434 thousand in 2013 to 499 thousand in 2014 (the growth of 14.8), and in regards to dairy industry – its output volumes slightly decreased – 11,534 thousands of tons in 2013, to 11,486 thousand tons in 2014 [20]. In spite of positive moments, the level of overdue loans for large and medium enterprises grew in the period from January to June of 2016 almost by 38% in comparison to the same period in 2015. [22] There is a plethora of reasons which did not allow Russian enterprises, who led their activities in food sector, to fully realize the potential of import substitution [8]:

As the result of growth in interest rates, the companies are having a more difficult time attracting loans not only for investment but also their working capital;  
 Some investment projects require a long time to pay off, such as production of meat;  
 Growth of costs for buying foreign materials, for instance to purchase incubational eggs for poultry production, cattle and food additives in dairy production.

The policy of import substitution which was chosen as the result of implementation of sanctions by Western countries was by a large degree a forced measure, dictated from above. According to the research in “The Global Competitiveness Report 2016-2017”, conducted by the World Economic Forum, Russia was ranked 91th in such indicators as competition in domestic markets (which includes the evaluation of competitiveness intensity, dominance degree of market participants, effectiveness of antitrust laws and etc). [30] Regarding the indicator of international competitiveness (which includes the analysis of tariff policy, the amount of foreign property in Russia, imports and etc.), Russia was ranked 120th. According to this data it can be concluded that the current situation, which is the direct result of sanctions, can lead to worsening of competitiveness of Russian enterprises both in foreign and domestic markets. This is especially relevant for food industry, where competition decreased due to product embargo, which in turn can lead not only to drop in quality of the products, but also to a decrease of investment into new technologies. The introduction of product embargo and the lowering of competition led to a growth in prices of some

types of products like apples and dairy. [8] The growth in production of meat is conditioned by those investments that were made earlier; it is not yet clear whether Russian companies can keep up increasing the rates of production in the current economic conditions.

As such it is hard to make conclusions regarding how much the companies of food industry won from sanctions and import substitution policy. But did the society win from the current policy?

### Influence of sanctions upon the consumers

The economy of any country is dependent not only upon flourishing and development of companies and commercial sector in general, but also on the ordinary consumers. After sanctions were imposed, the prices of many goods sharply increase: both durable goods and daily demand goods. Picture 9 demonstrates the increase in prices, both for food and non-food products, and also inflation. On the graph it can be seen that the higher difference between growth in prices for vegetables and fruits and inflation was in January 2015 (it amounted to 18.2%) in comparison the same difference was approximately 4.8% in January 2014. Overall, in January 2015 the prices for food products grew more than inflation, and their increase amounted to 5.7% by December 2014.

Inflation (according to Central Bank data) in 2014 amounted to 11.4%, and in 2015 grew to 12.9%, and prices of food products grew even more. [13] At the same time, the average nominal wage of workers in Russian Federation for 2014 equaled 32495 rubles and for 2015 – 34029 rubles, reflecting a growth of only 4.7%. [27]

Due to decreases in demand for non-basic consumer goods, which can partially be explained by weaker growth of wages as compared to prices, the “imports of furniture in January-June 2015 compared to January-June 2014 contracted by 1.9 times, import of cotton fabrics – by 1.8 times, clothes – by 1.5 times, medicine – by 1.5 times, footwear – by 1.6 times, automobiles – by 2.1 times”. [16] Overall, if prices keep on growing quicker than the incomes of population, this can lead to a serious problem for Russian economy and lowering of demand for different products of companies, which eventually will reflect upon the financial indicators of the firms themselves (including Russian ones).

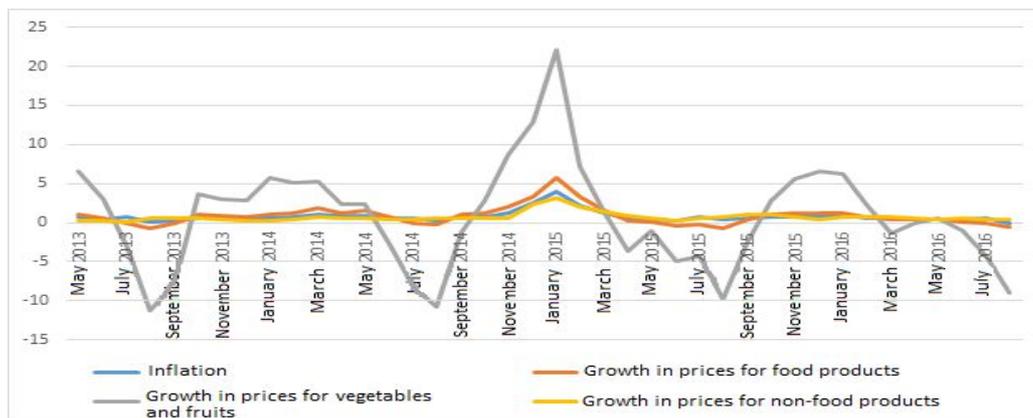


Fig. 9. Rates of price growth and inflation from May 2013 to July 2016 (% to previous month)

Created by authors using the data of Central Bank: ([https://www.cbr.ru/statistics/infl/Infl\\_01082016.pdf](https://www.cbr.ru/statistics/infl/Infl_01082016.pdf); [https://www.cbr.ru/statistics/infl/Infl\\_01032014.pdf](https://www.cbr.ru/statistics/infl/Infl_01032014.pdf))

In 2015 there was a rapid decline in the physical volume of retail trade: the physical volume of trade in food products decreased by 9% in 2015 compared to 2014, and physical volume of non-food products decreased by 11%. Index of physical volume of paid services to the population also decreased by 1.1% in 2015 compared to 2014. The greatest decrease is noted in legal services (-8.1%), tourism services (-4%), transport services (-3.5%).

It should be noted that sanctions had a negative impact upon all of society, and still it influenced some groups to a greater extent, and some to a lesser. For example, people who had a

mortgage loan in foreign currency were affected more by the fall in ruble, than others. At the start of the year, there were 17.5 thousand mortgage loans in foreign currencies; total indebtedness amounted to 126.2 bln. rubles (approximately 3% of all mortgage market in Russia). [15] Determining how the introduction of sanctions affected different groups in society requires a more detailed research.

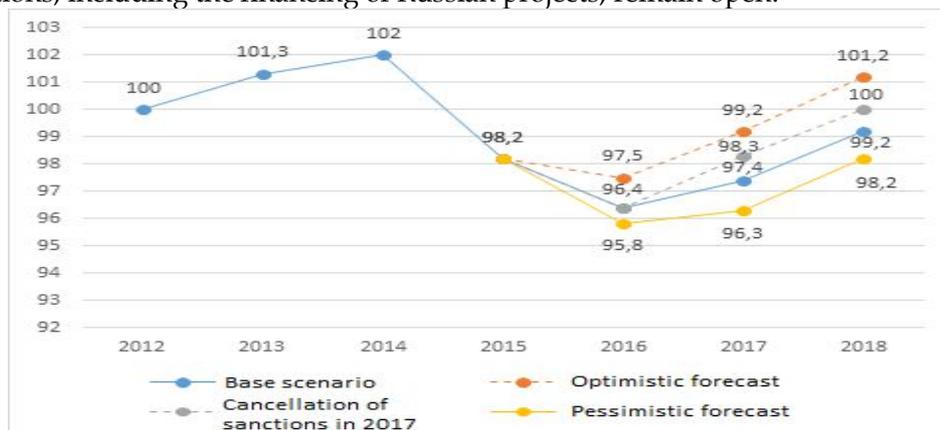
#### 4. Conclusion

The imposing of anti-Russian sanctions by the Western countries, the countermeasures on behalf of Russian, the fall in oil prices and ruble devaluation led to a worsening of economic conditions in the country. The inflow of investments in Russian projects contracted, which was the result of loss of confidence in Russia by foreign investors, and termination of programs for financing from EBRD and EIB. Many Russian companies encountered the problem of lacking finances and decreasing profitability which eventually resulted in a significant increase in bankruptcies both in 2014 and 2015.

The banking sector of Russia is in a state of crisis, despite the measures attempted by the Central Bank. In 2014, the Central Bank introduced regulatory easements (for instance, easements in regards to rates for loans and deposits). [21] Additionally, there was an additional capitalization of banks by the government amounting to 830 bln. rubles. [21] Despite this, the problems with bad debts and growth in overdue loans remains unsolved and a high volatility of Central Bank interest rate, which was observed for the past 2 years, does not help to improve the situation.

Food sector has certain improvements – the growth in volume of production along with lowering of bankruptcies. But it remains to be seen if the expectations of the government regarding the import substitution program will be met. Russian companies, lacking competition, can stop investing in their development, which may lead to negative consequences – ultimately, to lack of competitiveness for the Russian food industry.

Despite the fact that Russia did not change its stance towards Crimea, it can be assumed that the expectations of the Western countries in regards to the influence of sanctions upon Russian economy were largely met. Decrease in foreign reserves, growth of inflation from 6.5% in 2013 [12] to 12.9% in 2015 [13], decrease of industrial production growth rates – all of this symbolizes negative consequences from imposed sanctions. In these conditions, the improvement of economic situation is not likely, except for a significant growth in oil prices, which will aid in a larger inflow of currency to the country, strengthening of ruble exchange rate and lowering of inflation, but on the other hand, many questions, including the financing of Russian projects, remain open.



Pic. 10. Dynamics of real GDP – current and forecasted values 2012-2018 (2012=100)

Source: (The Long Journey to Recovery, Russia Economic Report №35 April 2016, World Bank Group)

Picture 10 presents the dynamics of real GDP (current and forecasted values). Forecasted values were formed by World Bank Group. The base scenario assumes the average price of oil to be around \$50 per barrel, optimistic and pessimistic forecasts assume the increase and decrease in

prices of oil in relation to the base scenario. Also a scenario is viewed, under which sanctions will be cancelled not in 2018, as was calculated for the previous scenarios, but in 2017. Thus we see that (according to the estimates of World Bank) even under optimistic forecast, the real GDP of Russia by 2018 will be only higher by 1.2% than that of 2012.

A more optimistic forecast that is considered by professor Nureev and Petrakov in the article "Economic sanctions against Russia: expectations and reality" presupposes not only the growth of oil prices, but also the easement of economic sanctions, which in turn will allow to increase imports (as a result of ruble strengthening), and also will allow to move along the way of restoring the relations between Russia and Europe. [17] The possibility of realization for this scenario increases if some Western countries reconsider their opinions regarding the sanctions in recent future, and the factor of country multitudes will come into play.

The continuation of sanction policy in relation to Russia also needs to be viewed taking into account what position is held by Donald Trump, the new USA president. If his presidency eases sanctions, this can serve as a push towards the realization of World Bank scenario, under which sanctions can be lifted in 2017. Still, even in spite of such possible development, the real GDP (according to World Bank forecast) in 2018 will only even with its value of 2012. Judging from it the following conclusion can be reached: there is a need for fundamental changes in the economy and industry in Russia, which will allow to deal with an innovational way of development, and which will eventually lead to increase in rates of economic growth. For this it is necessary to solve one of the most ambiguous questions in the Russian economy, connected with changing the export-oriented model of economy, which currently exists.

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