

[Why is Russia so resilient to sanctions?

Astrov, Vasily*

wiiw, Vienna

Abstract

Following Russia's full-fledged invasion of Ukraine in February 2022, Western countries imposed unprecedented economic sanctions. Yet there is limited evidence that these measures have inflicted substantial economic pain on Russia, as the recent slowdown has largely reflected factors unrelated to sanctions. Russia's resilience stems not only from its economic size but also from key structural factors: loopholes in the sanctions regime that preserve residual ties with the West, a military-driven fiscal stimulus boosting domestic demand, and the refusal of China and much of the Global South to join Western sanctions. These countries have become major trade intermediaries and benefited from the exit of Western firms. The modest effectiveness of sanctions raises questions about their continuation. As sanctions multiply and economic ties with the EU weaken, Europe's political leverage over Russia diminishes further—exacerbated by ambivalent U.S. policies under Donald Trump and the prospect of renewed U.S.–Russia economic cooperation. Together, these developments point to the need for a reassessment of EU sanctions policy, with greater reliance on incentives rather than punitive measures.).

Keywords: Economic sanctions; War in Ukraine; Military fiscal stimulus; Sanctions circumvention; Sanctions effectiveness

* Economist at wiiw and country expert for Russia and other CIS countries.

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Why is Russia so resilient to sanctions?

The Russian economy has performed better than generally expected

With Russia's full-fledged invasion of Ukraine in February 2022, Western countries responded by imposing unprecedented economic sanctions on Russia. There are now more than 27,000 different sanctions in place (of which nearly 24,000 have been introduced since the war started),¹ making Russia far and away the most sanctioned country globally, having 'overtaken' Iran in this respect. The EU alone has adopted 19 sanctions packages to date, while other Western-oriented countries, including the US, the UK, Canada, Australia, Norway, Switzerland and Japan, have imposed sanctions as well. Hofbauer (2024) argues that the current Western sanctions on Russia represent the greatest sanction effort since Napoleon, who in 1806 imposed a total economic blockade (known as the 'Continental System') on Great Britain, France's main rival at the time, including all its colonies.²

In the following, we aim at analysing the economic effects of Western sanctions on Russia, leaving aside the question whether their political goals have been achieved. Although it may be too early to pass a final judgement, as the full economic impact of sanctions may fully unfold only in the long run (see e.g. Baqaee and Malmberg, 2025), taking stock nearly four years after the first sanctions were imposed, the emerging picture is one of general resilience. After a shallow recession of 1.4% in 2022, Russia's economy embarked on a recovery path, growing by around 4% in both 2023 and 2024, with both private consumption and investments expanding rapidly. Economic output is thus significantly higher now than before the start of the war. The number of Russian dollar billionaires has risen since the start of the war (Djankov and Golovchenko, 2025), and – despite persistent budget deficits (a novelty for Russia) – the government still has enough money to continue its war effort and to ramp up defence production.

It is true that in 2025 Russia's economic growth slowed sharply, probably to below 1%, which has been interpreted by some observers as evidence of the sanctions' success. However, a closer look at the data shows that the slowdown has entirely been driven by the cooling domestic demand, mostly due to the very tight monetary policy. In the face of rising inflation, between June 2023 and October 2024 the central bank hiked the policy rate by a combined 13.5 percentage points, to 21%, and kept it at that level until June 2025 (**Figure 1**, left panel). Although since then, the policy rate has been cautiously cut to 16%, in real terms it has remained very high, close to 10%, providing a strong incentive to save rather than spend and curbing credit expansion. The annual dynamics of corporate credit has slowed markedly, while that of retail credit has turned negative (**Figure 1**, right panel), affecting the demand

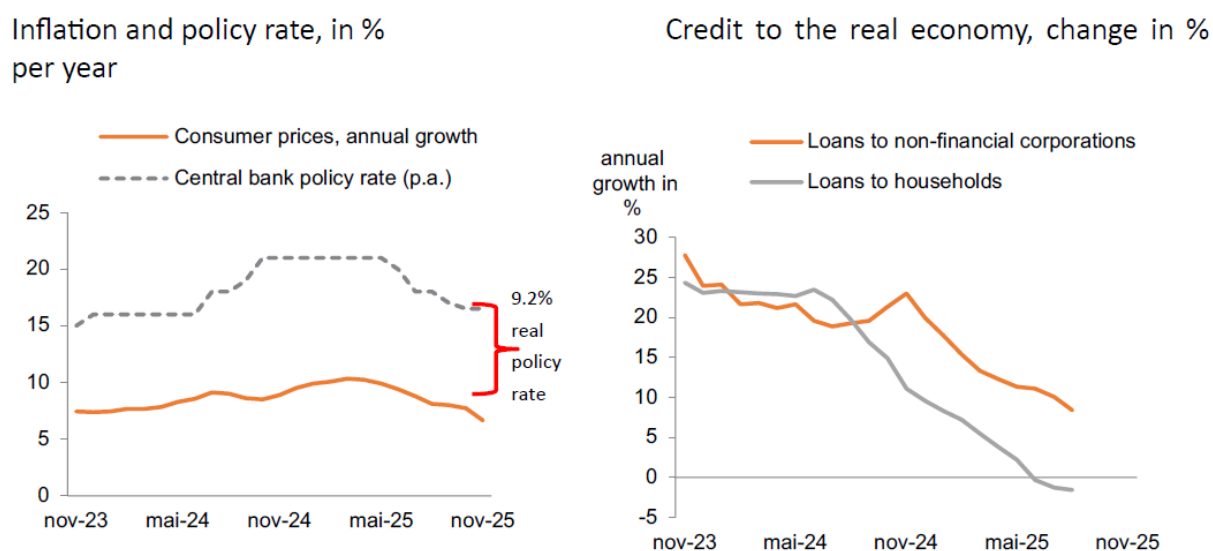
¹ As of 15 August 2025, <https://www.castellum.ai/russia-sanctions-dashboard>.

² The Continental System included inter alia secondary sanctions against all ships docking in British harbours, and was supported by almost all European countries, except Portugal and the Ottoman Empire. Ultimately, the blockade failed due to the refusal of the Russian Empire to uphold it; this provoked Napoleon's invasion of Russia, which was to prove suicidal.

for durable consumer goods and housing. These developments can hardly be attributed to Western sanctions *per se*, at least not directly.³

This is not to say that sanctions have not had any impact whatsoever. In several sectors of the economy, their effects are strongly felt. For instance, although Russia has successfully diverted its oil exports to Asia in response to the EU import embargo, this has only been possible at the expense of a widening price discount, depriving the government of some of its revenues (Astrov et al., 2024). With the 19th EU sanctions package adopted in October 2025 and imposing import embargo on Russian gas starting from 2027, Russia will face the challenge of finding new markets also for gas. This will probably be more difficult than for oil. Diverting shipments of LNG to Asia will require the use of the Arctic sea route, a logistical challenge during the winter months that will require the use of ice-breakers (Partsvania, 2025), while the final decision on constructing a new gas pipeline to China (Power of Siberia-2) is still pending and this would in any case take many years.

Figure 1 / Recent slowdown due to tight monetary policies, not sanctions



Source: wiiw

On the import side, Western export bans targeted more than one-third of Russia's pre-war imports, including a wide range of machinery and equipment, dual-use, high-tech and luxury goods (Egorov et al., 2025). Even if many of these goods still reach Russia via third countries, their overall import volumes have dropped by around one third (Egorov et al., 2025; Astrov et al., 2024). Production inputs and equipment, which are inherently more difficult to transport and easier to monitor, have been generally worst affected, while consumer goods have fared notably better. And those goods that still make their way into Russia have become on average 20% more expensive – partly because of the additional costs

³ It can be argued though that sanctions had been at least partly responsible for the increase in inflation (via imported goods and services becoming more expensive), necessitating monetary policy tightening in the first place.

of re-routing, but above all reflecting the increased market power of new suppliers (Emlinger and Lefebvre, 2025).

These examples demonstrate that Western sanctions have had at least some economic success. However, this does not change the overall picture of the resilience of the Russian economy. Why is it proving so resilient?

One answer to this question is almost lying on the surface. Of course, historically Russia is by no means the first country to have been targeted by foreign sanctions. Felbermayr et al. (2025) demonstrate that the number of sanctions imposed globally has risen steadily since the mid-twentieth century. Hofbauer (2024) has counted that only since 1989 a total of 28 countries have been subject to *new* US sanctions, while e.g. Cuba has been under US sanctions since 1960 – the longest sanctions regime in history. In many cases, such as Iraq, Syria or Venezuela, sanctions have been crucial in devastating the target economies, resulting in sharply falling living standards (Hanania, 2020).⁴ However, most of those were small and rather backward economies on the periphery of global economic activity. Russia, in contrast, is a large and globally integrated economy,⁵ and economic theory tells us that sanctions are much less powerful in such cases (Itskhoki and Ribakova, 2024).

Apart from that, there have been specific factors at work. In the following, I will concentrate on three such factors: (i) deficiencies in the sanctions' design; (ii) military fiscal stimulus as the new driver of demand; and (iii) the role of China and other third countries to make up for the lost economic links with the West.

Deficiencies in the sanctions' design

Examples of this are legion. Many of the existing loopholes derive from a desire on the part of sanctioning countries to minimise the adverse consequences for their own economies. For instance, while some of the biggest Russian banks were disconnected from the SWIFT payment system almost immediately following the start of the war, Western banks operating in Russia were not. The case in point is Austria's Raiffeisenbank, up to this day the biggest foreign bank in Russia, which has become an important vehicle for cross-border payments between Russia and Europe since the war started.⁶ To give another example, although the Biden US administration signed legislation in May 2024 banning the import of Russian uranium,⁷ the law envisaged a waiver of the prohibition, which can be granted up until 2028 if there is 'no alternative viable source of uranium or ... such imports are in the national interest'. Around a quarter of all enriched uranium used in US nuclear power stations is of Russian origin.⁸ Nor is Russian uranium sanctioned by the EU, as it is a major input for the European (notably French) nuclear power stations. The same applies to the imports of Russian titanium, which is used in the production of Boeing and Airbus airplanes.

⁴ For instance, Neuenkirch and Neumeier (2015) who studied 67 sanctioned countries between 1976 and 2012 found that over a long-term horizon, UN sanctions reduced the targeted economies' GDP on average by 2.2% and US sanctions by 1% per year.

⁵ In PPP terms, Russia is the fourth biggest economy globally, according to the World Bank data.

⁶ <https://www.reuters.com/markets/deals/washington-pressures-austrias-raiffeisen-drop-russian-tycoon-deal-sources-say-2024-03-20/>

⁷ <https://www.energy.gov/articles/biden-harris-administration-enacts-law-banning-importation-russian-uranium>

⁸ <https://www.reuters.com/world/biden-signs-ban-imports-russian-nuclear-reactor-fuel-into-law-2024-05-14/>

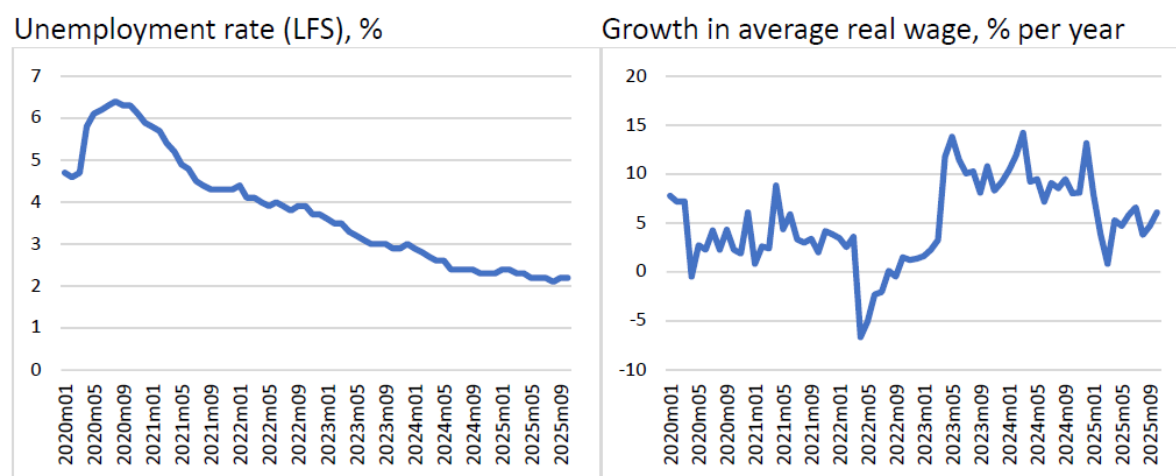
In other instances, the focus of sanctions has arguably been entirely misplaced. For example, many wealthy Russians were put on sanction lists and their assets in Western jurisdictions frozen, usually on the grounds that they facilitate the Russian war machine and/or are allegedly close to President Putin. However, in economic terms, these sanctions have backfired. The long-standing reputation of the West as a 'safe haven' for Russian capital has been shattered, and more of it has become available for investment in Russia, which arguably partly explains the high investment growth in 2023-2024.

Military fiscal stimulus as a new driver of aggregate demand

After many years of fiscal restraint, with the start of the war government spending was stepped up significantly. A large part of this has been military spending, which has doubled as a share of GDP, to 7.3% in 2025 – on top of credit expansion to the defence sector on highly preferential terms (Kennedy, 2025). Even by very conservative estimation (Korhonen et al., 2025), the output of war-related industries has soared by more than half, benefiting via production linkages many other sectors of the economy. But arguably even more important has been the indirect channel – via the labour market, whereby hefty payments in the army and military plants led to a competition for scarce labour with the rest of the economy. In a situation of nearly full employment (**Erreur ! Source du renvoi introuvable.**, left panel), many businesses have been complaining about acute labour shortages, aggravated by the steady natural population decline and unfavourable migration trends. The bargaining power of employees has improved, translating into a strong growth of wages and incomes (**Erreur ! Source du renvoi introuvable.**, right panel), which has benefited consumer-oriented sectors such as retail trade, hospitality and catering. Even the recent economic stagnation has changed little with respect to the tightness of the Russian labour market, at least so far.

In this way, increased government spending has fuelled domestic demand, thereby offsetting the negative effects of sanctions on export-oriented sectors. This would hardly have been possible if Russia had not been preparing its economic fundamentals for many years prior to the war. Although this starved the economy of badly needed demand stimulus, it did provide fiscal space that can be tapped now.

Figure 2 / Effects of military fiscal stimulus: tight labour market and solid wage growth



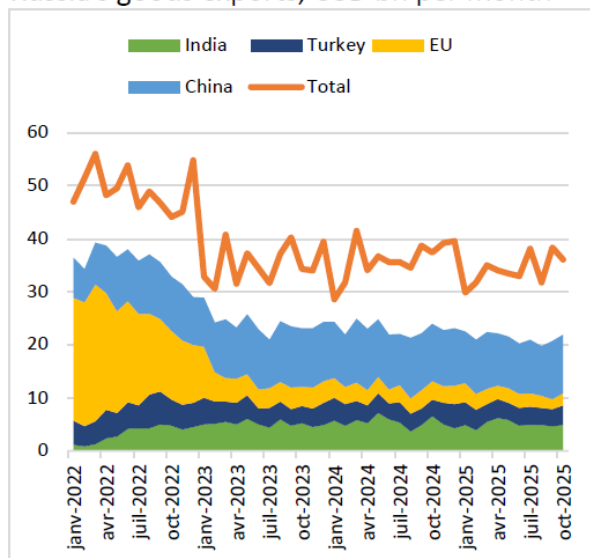
Source: wiiw

The role of China and other third countries

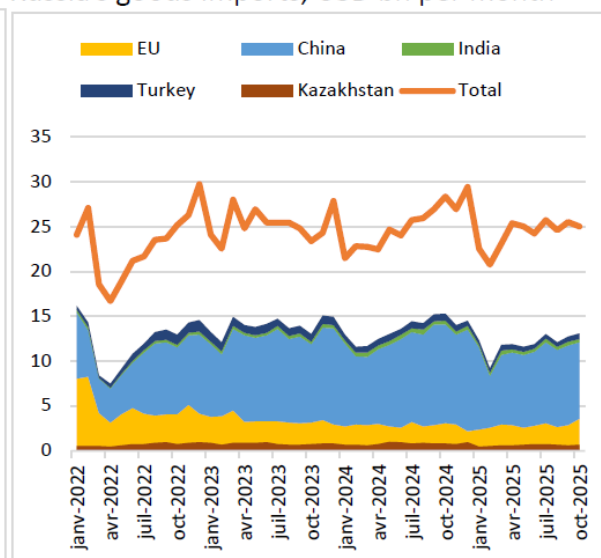
All this would not have been possible, if Russia had not been able to import critical equipment and inputs to sustain domestic (including military) production. In that sense, the role of third countries has been extremely important. This role is greatly amplified by the fact that countries of the global South – none of which has joined Western sanctions– are now playing a much greater role in the world economy than has been the case in the recent past. Unlike during the times of the Cold War, when the West controlled 75% of global GDP, now the share of the West is less than 60%, making unilateral Western sanctions less effective (Itskhoki and Ribakova, 2024).

Figure 3 / Profound re-orientation of foreign trade from Europe to Asia

Russia's goods exports, USD bn per month



Russia's goods imports, USD bn per month



Note: only the biggest trading partners are presented.

Sources: Total: Russian Central Bank; individual countries: Bruegel (mirror statistics).

Third countries, such as China, India, Turkey, the United Arab Emirates and the CIS countries, are important hubs for re-exports of Western (including sanctioned) products to Russia and of some Russian products to the West. China and India have become the biggest buyers of Russian oil, and China has also been increasingly exporting own products to Russia, taking advantage of the market opportunities left behind by the withdrawal of many Western brands (**Figure 3**). Critical parts and components for the military industry, such as semiconductor chips and electronic circuits, are largely imported via China and Hong Kong (Kot, 2023), while many developing countries headquarter vessels from the so-called Russian 'shadow fleet' which transports Russian oil in violation of the Western-imposed price cap.⁹

In these developments, the crucial role has been played by China. However, China-Russia economic relations are not without their problems. The inflows of Chinese FDI into Russia have been meagre, as China typically prefers to export own products rather than invest. Nor

⁹ As of mid-2025, 293 of 462 sanctioned (but operating) 'shadow fleet' vessels were registered in countries other than Russia, most notably in Panama, Africa and the Caribbean (Nekrasov, 2025).

has it been a perfect replacement for the EU as a trading partner: it could not replace all sanctioned products, at least so far, and is reportedly not prepared to pay European prices for Russian gas. Last but not least, Russia's economic dependence on China is utterly one-sided (Kluge, 2024). In 2024, China accounted for as much as 35% of Russian total foreign trade, while Russia's share of Chinese foreign trade stood at a mere 4%, making Russia only 8th biggest trading partner globally. This stark asymmetry in trade relations arguably gives China important leverage over Russia, which could be potentially deployed for geopolitical purposes one day if bilateral relations sour.

Policy conclusions

Summarising, there is little evidence that Western sanctions have inflicted large economic pain to Russia, at least so far. Although sanctions are clearly felt at the sectoral level, the country's overall economic performance has been generally robust, and the recent growth slowdown largely driven by factors other than sanctions. This can partly be explained by the large size of the Russian economy, but also by more specific factors, such as the deficiencies in the sanctions design, expansionary fiscal policy related to the military stimulus and the crucial role of China and other third countries that did not join Western sanctions.

The limited success of the sanction policy puts the wisdom of its continuation into question. No matter how morally justified, a geopolitical strategy cannot be good if it does not deliver – and is arguably counter-productive in terms of fuelling anti-Western sentiment in Russia.¹⁰ This appears to have been at least partly recognized by the new US administration of Donald Trump, prompting a considerable shift in the previous US course towards Russia, with now more emphasis on negotiations and less on coercion (although the Trump administration has imposed new sanctions on several occasions, notably on Russia's two largest oil companies Rosneft and Lukoil).¹¹

No such shift has taken place in Europe. EU leaders have invested a lot of political capital in the successive tightening of Russia sanctions and broadening their scope. However, the greater the number of sanctions imposed and the less intertwined the Russian economy becomes with that of the EU, the smaller the EU's political leverage on Russia will be. The ambivalent policies of Donald Trump are reducing the EU's leverage still further. Besides, should the US resume economic cooperation with Russia,¹² there is a risk for EU companies being left behind, as the new business opportunities will be taken up by US competitors. Taken together, all these factors would suggest the need for an overhaul of the current EU policy. A new approach could, for instance, focus on more 'carrots' and less 'sticks' when dealing with Russia, which – in return for Russia's concessions on Ukraine – would essentially

¹⁰ According to the opinion poll conducted by the independent (and critical of President Putin) Levada Centre, 'the prevailing opinion in society is that with the help of sanctions, Western countries seek primarily to weaken Russia. At the same time, more than half of the respondents are of the opinion that Western sanctions will strengthen our country and become an incentive for its development. The majority of respondents believe that Russia should continue its policy despite the sanctions', <https://www.levada.ru/en/2025/03/19/mass-perceptions-of-western-sanctions-february-2025/>.

¹¹ <https://home.treasury.gov/news/press-releases/sb0290>

¹² Such cooperation is part of the draft peace plan pushed forward by President Trump, and negotiations on the potential return of key US investors such as Exxon to Russia have reportedly been going on for months.

involve lifting some of the sanctions and offering prospects of increased economic cooperation in areas of mutual interest.

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Note on the author

Vasily Astrov is Economist at wiiw and country expert for Russia and other CIS countries. His research focuses primarily on macroeconomic analysis and energy issues. He is also editor of the wiiw Monthly Report. In his recent research, he has analysed the economic effects of Russia sanctions, EU Eastern Partnership and European energy security issues. He is also regularly consulting the European Commission on the Russian economy. He assembled comprehensive academic and international experience in the United Kingdom (University of Warwick), Germany (Westfälische Wilhelms Universität), Norway (University of Oslo) and Russia (St. Petersburg State University) and graduated in economics (M.Sc., Dipl.-Vw) and geography (B.A.).