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The Effects of Economic Sanctions on Russia

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Abstract

After invading Ukraine in February 2022, Russia faced sweeping economic sanctions that have constrained its financial and technological resources needed for warfare. While these measures have increased economic costs for Russia, there is still potential to intensify them. However, sanctions alone are not sufficient—continuous financial and material support remains vital for Ukraine's defence.

Keywords: Russia; Trade; Sanctions

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The Effects of Economic Sanctions on Russia

Sanctions are designed to restrict Russia's financial and technological capacities

Understanding the effect of sanctions starts with clarifying their goals. When Russia invaded Ukraine, countries had three main responses: remain passive (the approach of most emerging economies), engage militarily (which Western nations ruled out), or apply economic pressure through sanctions while supporting Ukraine economically and materially. The primary aim of these sanctions is to weaken Russia's ability to finance and sustain its military operations by imposing financial and trade restrictions. Financial restrictions and import bans target Russia's financial capabilities, while export controls limit its technological capacity. Sectoral sanctions are complemented by listing hundreds of individuals and entities prohibiting any economic dealings with them and seizing their assets. Violation of sanctions may result in penalties or secondary sanctions.

Initial sanctions pertaining to Russia's invasion of Ukraine were implemented swiftly at the end of February. These sanctions have been progressively expanded through additional measures and broader coverage. Steps to enhance enforcement and prevent circumvention have also been adopted incrementally. While most advanced economies have joined the coalition imposing sanctions, nearly all emerging markets have refrained from sanctioning Russia. Coordination among the EU, US, and UK is relatively strong, but some inconsistencies particularly with other members of the sanctioning coalition remain (Egorov et al., 2025a).

Assessing how sanctions impact Russia is complicated, mainly because it's challenging to separate the effect of sanctions from other influences. The ongoing war and global economic developments, particularly in commodity markets, also shape Russia's economy. Even if GDP is a simple overall indicator of economic development, it is very difficult to isolate the precise effect of sanctions on GDP. To better evaluate the effectiveness of sanctions, it is more useful to focus on the specific objectives they target.

Financial restrictions have greatly reduced Russia's access to foreign funds

Financial restrictions are designed to limit Russia's ability to obtain foreign financing and conduct international transactions. These measures include restrictions on lending to Russian entities, bans on new foreign direct investment, freezing approximately half of Russia's foreign exchange reserves, and removing major Russian banks from the global messaging system SWIFT.

Financial restrictions have sharply reduced Russia's access to foreign finance. By the end of 2024, Russian government foreign debt was 70% lower than at the end of 2021. Technical default was declared on Russia's foreign debt in summer 2022 due to sanctions preventing debt payments. Both Russian and international statistics show that other foreign financial flows into Russia have also collapsed. Most foreign lending and investment previously came from sanctioning countries, but these flows ended with the sanctions, and non-sanctioning countries have not replaced them.

Sanctions on Russia's international payments have made financial transactions much more difficult. Drott et al. (2024) report that these sanctions greatly reduce flows in and out of Russian bank accounts, making international transactions for sanctioned banks nearly impossible or very costly. Cocozza & Zangrandi (2025) note that complications in international payments have increased Russia's illiquid foreign assets, with much export revenue trapped as trade credit that cannot be used to pay external obligations.

Import restrictions have decreased Russia's export and budget revenues

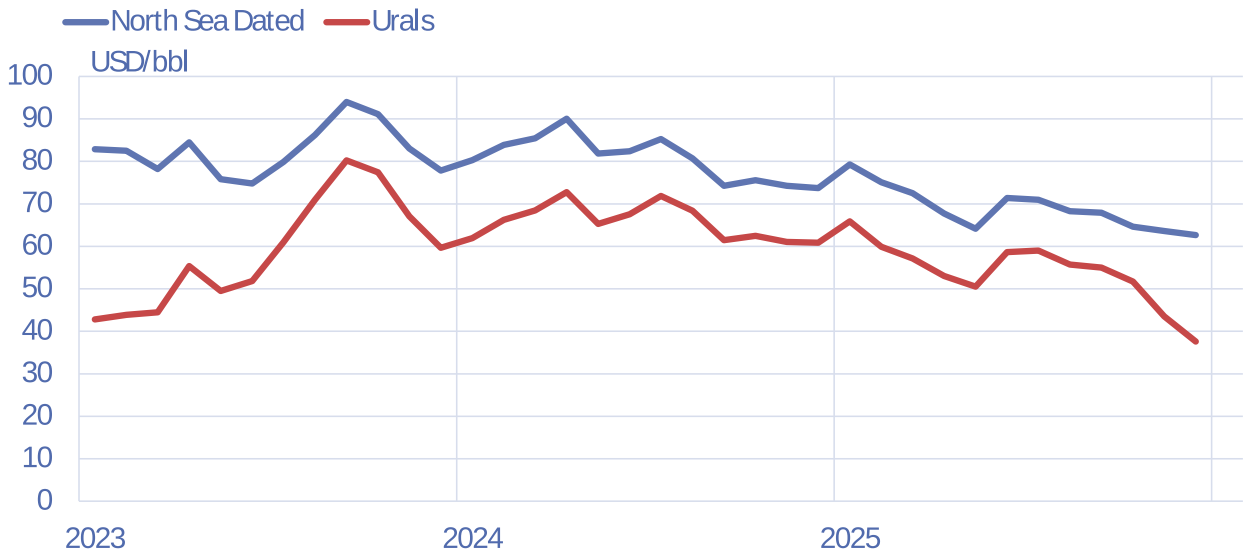
Restrictions on imports from Russia aim to reduce Russia's export revenues and indirectly also Russia's government revenues. They include bans on importing key Russian goods like oil, coal, gold, diamonds, timber and certain metal products. In addition to bans, higher tariffs are imposed on many Russian export goods in several sanctioning countries.

The most important restrictions on imports from Russia pertain to oil. Prior to the invasion, the European Union was Russia's principal export market for oil. The EU implemented a ban on imports of Russian crude oil to the EU in December 2022 (with certain exceptions for pipeline imports), followed by a prohibition on the importation of refined oil products in February 2023. Additionally, the EU planned to prohibit services related to the seaborne transport of Russian oil to target Russian crude exports to other countries than the EU. A significant portion of Russian oil shipments relied on vessels that utilized financial and insurance services provided by EU member states.

Fears that a complete ban would sharply reduce global oil supply and raise prices led the G7 and EU to implement a price cap instead. This cap lowers the export price of Russian oil while keeping export volumes steady, permitting provision of services only for shipments sold below the set price—initially $60 per barrel. In September 2025, the EU switched to a floating price cap (Solanko, 2025).

As pursued by the sanctions, Russia's oil export volumes have stayed fairly steady until recently, but the restrictions have caused Russian oil to sell at a discounted price compared to peer grades. According to the International Energy Agency (IEA), Russia's oil export price was $14 per barrel lower than North Sea Dated on average between 2023 and 2025. More detailed analyses attribute this price difference to longer shipping routes and greater bargaining power among buyers (Hilgenstock et al., 2024; Kilian et al., 2025). Since Russia now exports oil from its Baltic Sea and Black Sea ports primarily to India instead of Europe, transport distances have increased significantly. Furthermore, China and India collectively make up nearly 60% of Russia's crude oil and product exports, which gives them considerable leverage in negotiations.

Figure 1. Development of the North Sea Dated and Urals oil monthly average prices in 2023-2025.



Note. Urals refers to FOB price in Primorsk.
Source: IEA.

Oil price discounts reduce Russia's budget revenues. Oil and gas make up 25–30% of federal income, mainly from the mineral extraction tax, which is tied to both production volume and export prices. Lower oil prices therefore lead directly to reduced budget revenue.

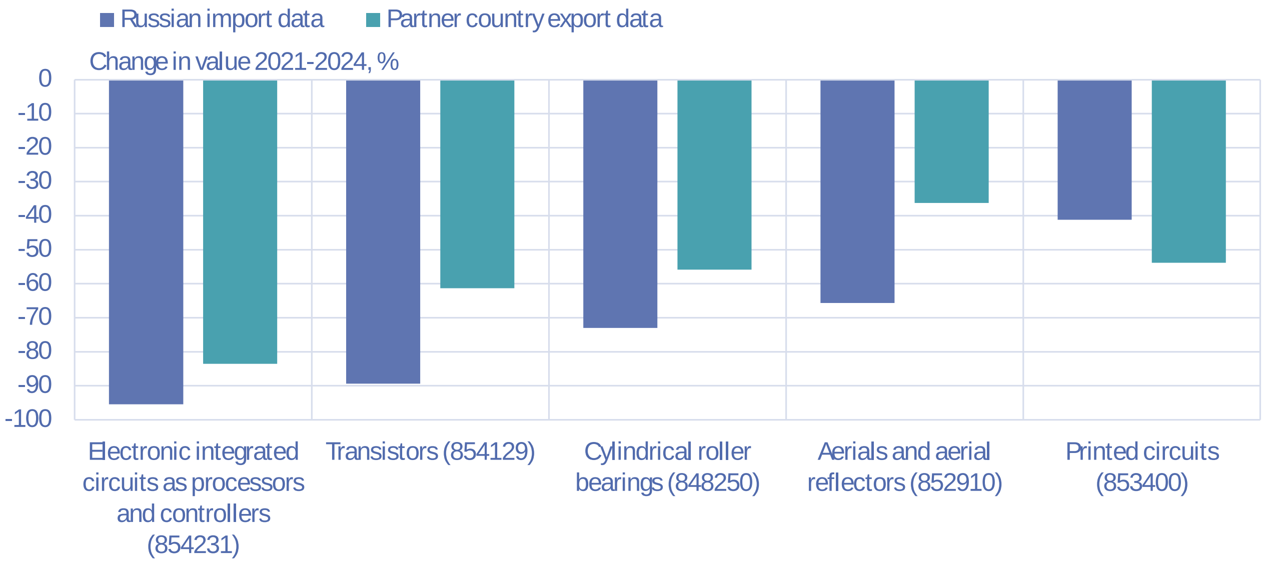
While oil sanctions are considered the most significant in terms of their overall impact on the Russian economy, other restrictions on Russian exports have also contributed to declining export revenues and adversely affected specific sectors. The proportion of exports in Russia's GDP decreased markedly from 30% in 2021 to 22% in 2024. Furthermore, Douch et al. (2025) report that following tariff measures implemented by the United States after Russia's invasion, there was a reduction of more than 60% in both the value and volume of Russian exports to the US. Analysis by Zubarevich (2025) indicates that output in the coal, forestry, and steel industries experienced significant declines subsequent to the introduction of import restrictions of these products by the sanctioning countries.

Export restrictions to Russia have reduced import availability and raised prices

Export restrictions to Russia aim to reduce the country's access to foreign technologies and resources. Russia relies heavily on imported final and intermediate goods, especially in high-tech sectors. These export controls mainly target items crucial for Russia's military industry, such as technological equipment and inputs and chemical products, but they also extend to other types of goods.

Research shows that while exports from sanctioning countries to Russia have dropped significantly, many non-sanctioning countries have increased their exports—especially of sanctioned goods. However, Russia has not fully replaced lost imports with alternatives for most products (Chupilkin et al., 2025; Egorov et al., 2025b; Korhonen & Simola, 2024; Mancini et al., 2024). Overall, sanctions have limited Russia's access to foreign inputs and technologies, though not completely. This is also illustrated in Figure 2 with selected examples from the common high priority list goods.

Figure 2. Change in the value of trade in selected sanctioned goods between Russia and other countries between 2021-2024.



Source: Global Trade Tracker.

The literature examining export restrictions to Russia indicates that sanctions have resulted in a marked increase in Russia's import prices for sanctioned goods (Chupilkin et al., 2025; Corsetti et al., 2025; Emlinger & Lefebvre, 2025; Korhonen & Simola, 2025). The extent of the price increase differs between products and countries, but remains significant. Prices for sanctioned goods from China have risen by 40–60% more than other products, while those from Central Asian countries have even doubled. This suggests that although Russia has managed to secure alternative sources for imports previously obtained from Western countries, these substitutes come at a higher cost.

Consequently, sanctions have increased the financial burden on Russia to sustain its military capabilities. Furthermore, Russian survey data reveals that, despite elevated prices, the quality of substitute goods sourced from non-sanctioning countries—particularly China—is frequently lower (Simola, 2024). This trend underscores China's significant bargaining power, as it constitutes approximately half of Russia's total goods imports. Notably, China's share is even greater with respect to technology products and specifically sanctioned items.

Evidence indicates that restricted access to, and increased prices of, imported inputs have adversely impacted Russian enterprises. A comprehensive study by Egorov et al. (2025) demonstrates that the revenues and profits of Russian firms reliant on imported inputs declined significantly following the implementation of sanctions. The findings further reveal that this effect was especially acute among businesses operating within the science and technology sector.

Russia has taken measures to alleviate the impact of sanctions

Sanctions have impacted Russia's economy through multiple channels, thereby complicating and constraining its ability to sustain military operations. However, Russia has implemented policy responses to alleviate the effects of these sanctions. Notably, substantial public expenditure related to wartime activities and a significant reorientation of Russia's foreign trade have been central to these mitigation efforts.

Russia’s war-time output growth is mainly due to significant government support particularly for war-related sectors. According to the Russian Ministry of Finance, fiscal and quasi-fiscal support measures have totalled approximately 12–13% of GDP for the period 2022 to 2025. Additionally, key strategic sectors have received substantial credit subsidies, resulting in significant growth in corporate lending over recent years. Russia has further introduced various restrictions on international capital flows. These policies, combined with heightened sanction risks, have effectively curtailed previously prevalent large-scale capital flight, thereby enhancing the availability of capital within domestic markets.

Beyond domestic policy actions, Russia has significantly restructured its trade and production networks. When trade with countries imposing sanctions declined, Russia acted quickly to find replacements. While exports to India saw the most dramatic increase, China remains Russia's dominant trading partner overall. Currently, China represents nearly a third of Russia's exports and about half of its imports. China's share is even greater in technology-related goods and products affected by sanctions.

Russia’s increase in trade with countries that have not imposed sanctions is partly a result of trade diversion and does not necessarily breach any sanctions. The price cap system permits Russia to keep exporting oil as long as price remains below the cap, while China can replace some of Russia’s lost imports with its own goods. However, there is considerable evidence suggesting that part of this increased trade comes from efforts to circumvent the sanctions.

For Russian exports, the main method of circumventing sanctions is through the shadow fleet—complex, opaque, and often quasi-legal maritime arrangements for transporting fossil fuels (Solanko, 2025). This allows Russia to bypass the price cap, although results in added costs, such as purchasing vessels or paying higher risk premiums (Kilian et al., 2024; Spiro et al., 2025). Most Russian crude oil exports now use the shadow fleet or sanctioned vessels to evade the price cap (CREA, 2025; KSE, 2025).

For Russian imports, the primary method of circumventing sanctions involves using intermediary countries. Several econometric analyses indicate that sanctioned goods originating from sanctioning countries are rerouted through regions such as Central Asia, the Caucasus, Türkiye, the Middle East, or China (Chupilkin et al., 2025; Egorov et al., 2025). Research examining Russia’s military industry demonstrates that it remains able to obtain sanctioned components manufactured in Western countries by employing various schemes (Bilousova et al., 2024; Shkurenko et al., 2025).

Sanctions may be strengthened, but are not enough on their own

Our analysis indicates that sanctions imposed after Russia’s invasion of Ukraine have curtailed the country’s financial resources and technological access in various ways. These measures have limited Russia’s ability to obtain foreign funding and technology, and have also decreased its export earnings and budget income. After sanctions were enacted, many

Russian industries and companies experienced sharp drops in exports, production, and profits.

Sanctions have imposed costs on Russia’s economy, but so far these costs haven’t been significant enough to halt the war. There is potential to increase the pressure by expanding sanctions and tightening enforcement. The recent US measures targeting Russia’s largest oil companies, Rosneft and Lukoil, mark a key advance because preliminary evidence suggests that they have cut only prices but also the actual volume of Russian oil exports.

Opportunities remain for further action; for instance, 40% of EU trade with Russia prior to the invasion remains unsanctioned. While the affected trade volumes are now relatively small, broadening the scope of sanctions could still make enforcement and monitoring easier. When many products remain unsanctioned, the sanctions can be evaded by reporting false customs codes. It can be very difficult for the customs officials to verify whether particular goods actually follow under a specific non-sanctioned code. Such evasion schemes would become more difficult with extending the scope of sanctions.

The potential impact of sanctions can also be understood by considering what might happen if they were lifted, especially given discussions about removing sanctions during ceasefire or peace talks. Ending sanctions could make it much easier for Russia to obtain foreign funding, since short-term foreign investments might flow back into the country looking for profit. Lifting restrictions on imports from Russia would further strengthen Russia’s financial situation. If export controls were also removed, Russia would have greater capacity to rebuild its military strength and replenish its supply of technology and components.

However, sanctions alone are insufficient to support Ukraine. Continued financial and military assistance is essential for Ukraine to keep defending itself against Russian aggression. As the United States reduces its support, the European Union's role grows increasingly significant. Economically, the EU is far stronger than Russia, with a GDP nine times larger. By November 2025, the EU had provided roughly 180 billion euros in total aid to Ukraine. This annual support amounts to only about 0.25% of the EU's GDP on average.

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