Impact of sanctions on Russia

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Ministry of Foreign Affairs
Republic of Poland

Putin's economic rhetoric has shifted…

"We have no limits whatsoever on financing. The country and the government will provide everything the army asks for, everything."
—Vladimir Putin addressing the Ministry of Defense, December 21, 2022

"We cannot keep pumping up [defense] expenditures to infinity, increasing them without limit."
—Vladimir Putin addressing the Ministry of Defense, December 16, 2024

Russia’s economy is under pressure and faltering

Western sanctions have deprived Russia of at least $450bn since February 2022.

Russia’s military-driven boom is reaching its limit

Russia’s economy shrunk in 25Q1 for the first time since 22Q2—by 1.7% y-o-y.

Sectors linked to the war perform well, while the civilian economy is increasingly stalling.

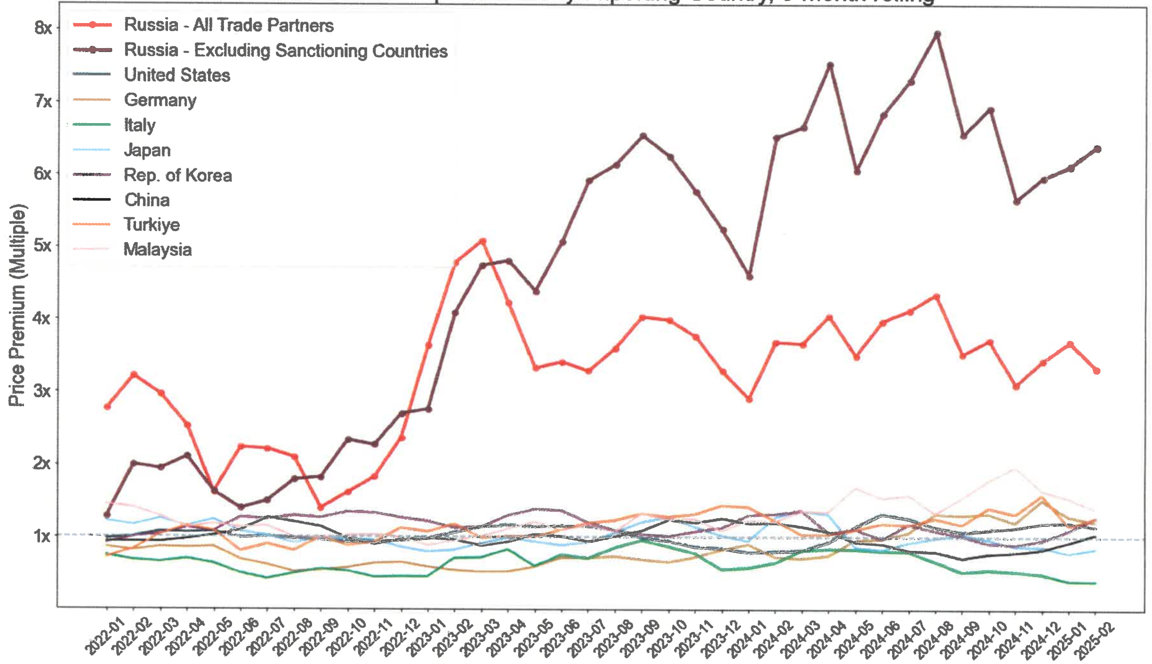
Real GDP growth in 2025 is expected to slow down sharply (to 1.3-1.6% vs. 4.3% in 2024).

Russia faces high import costs and high prices

Russia pays up to **6x the price** for dual-use items (goods on the Common High Priority List) compared to the global price.

Similarly, retail **prices in Russia are up by at least 30%** in three years.

World CHPL Export Prices by Importing Country, 3-month rolling



Russia’s energy revenues are falling

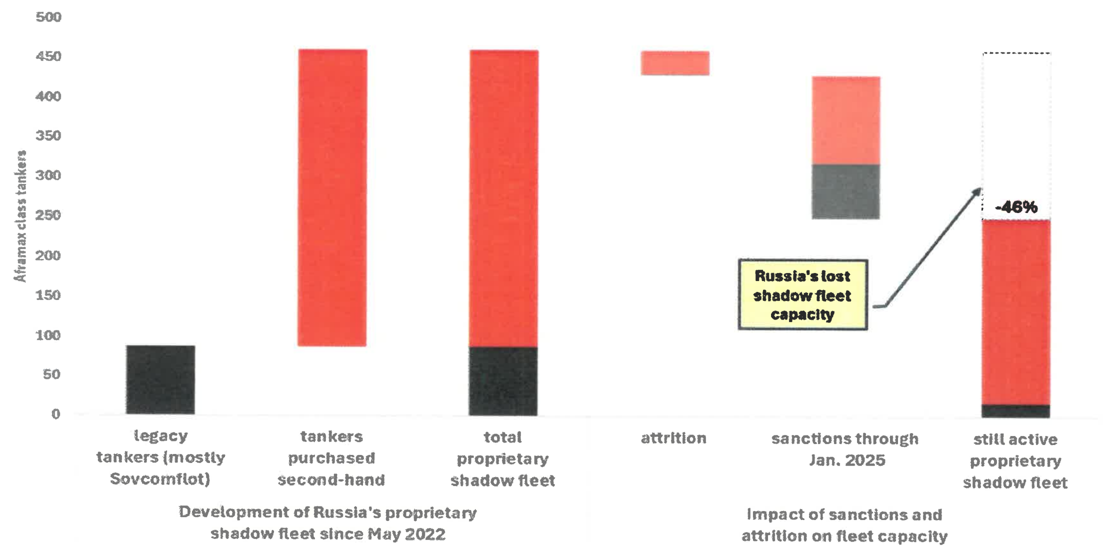
15-20% of Russia’s GDP and around 30% of government revenue comes from oil exports.

Dropping oil prices mean Russia’s 2025 oil and gas revenues are projected to be **25% lower** than initially planned.

Tackling Russia's shadow fleet

To circumvent the Oil Price Cap, Russia built up a shadow fleet of oil tankers to trade oil illicitly, above the cap.

Sanctions on the 'shadow fleet' have cut its capacity almost in half, so far, with more sanctions to come.



Expansion and partial rollback of capacity in Russia's dedicated shadow fleet
(fleet capacity expressed in Aframax equivalent units)

Russia faces persistently high inflation

The Russian economy is operating near full capacity and battling high inflation currently at 10.3% as of March 2025, far exceeding its target of 4%. (By contrast, UK, Euro area, and US inflation has fallen to 3.1%, 2.1% and 3% respectively.)

Higher interest rates of 21% (as of April 2025) and economic isolation have made government and corporate borrowing extremely costly.

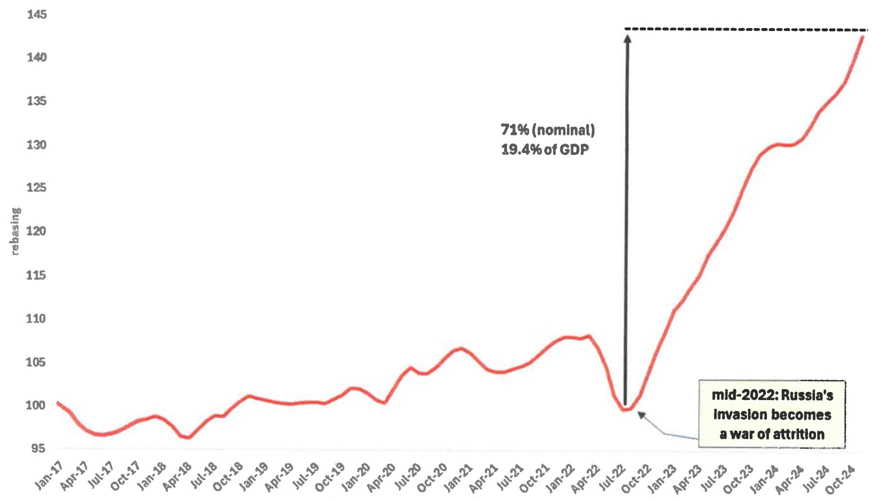
Russia's economy is carrying significant hidden corporate debt

Recent analysis shows Russia has financed military spending through a dual-track system.

Outside of the heavily scrutinised defence budget, the Kremlin has mandated banks to provide preferential loans to defence companies since 2022. Corporate borrowing has surged.

Russia faces the 'ticking time bomb' of an **impending credit crisis.**

The corporate credit surge. After years of low growth, corporate borrowing soars by $415 billion after Russia shifts to a war footing*



Russian corporate debt outstanding
(Inflation-adjusted 90-day moving average, rebased to 100)

* USD value calculated at historical exchange rates based on nominal ruble values for July 2022-October 2024. Figures exclude borrowing by financial-sector companies.
Source: Central Bank of Russia, author analysis (*Navigating Russia*)

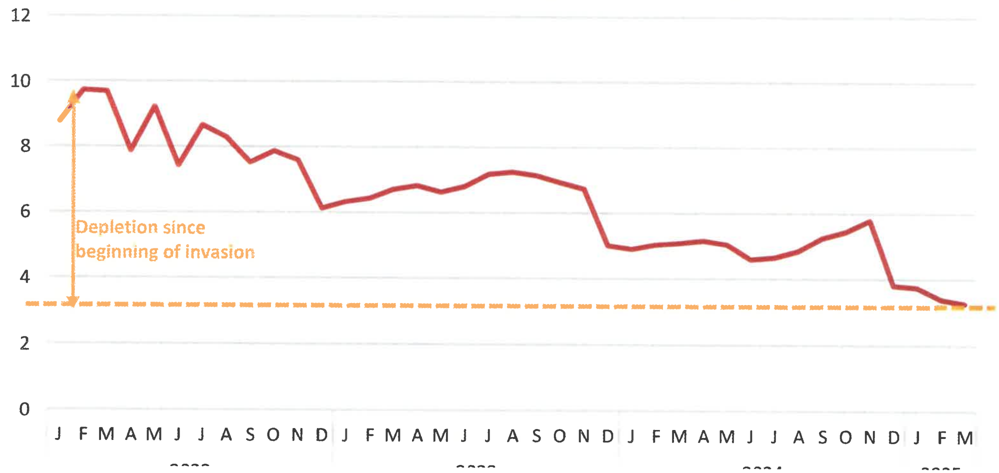
Russia's macroeconomic buffers are depleting

Since the start of the invasion, the liquid portion of **Russia's National Wealth Fund** has been depleted by over 65%, by ₽6.5Tn ($79bn USD).

Since early-2024, all hard-currency assets are gone and only yuan and gold remain.

~$350 billion in Russian sovereign assets (i.e., CBR reserves) abroad remain immobilized.

Liquid Portion of Russian National Wealth Fund, ₽ trillion



Depressed investment

Since 2022, outflows of foreign direct investment from Russia amount to $58 billion.

Total investment stocks fell by $506 billion (-57%) to the lowest level since the 2008 global financial crisis.

Lack of foreign investment has consequences for Russia’s medium-term growth prospects.

Labour market constraints

There were 1 million vacancies in Russia in October 2020 (3.7% of all positions),compared to 2.2 million in October 2024 (7.6%).

Companies in Russia struggle to find workers due to mobilisation, competition from the military, and emigration.

Sanctions under PL's Presidency

During Poland's EU Presidency, significant progress has been made through introduction of the **16th and 17th** sanctions packages, plus the EU **RePower Roadmap** which aims to end reliance on Russian energy.

Preparation for an urgent **18th package** is underway.

Poland's priority was to list as many **shadow fleet vessels** as possible, which has been achieved, with approx. **350** vessels now under EU sanctions and more listings to come.

Maintaining the pressure and going further

Now is the time to double-down pressure on Russia, to force it to the negotiating table. The sanctioning coalition must:

Cut Russian energy revenues by:
- Sanctioning oil majors
- Lowering the oil price cap
- Collectively designating all shadow fleet tankers
- Targeting whole ecosystem of Russia's shadow oil trade

End circumvention and Russia's access to goods needed for its **military industrial complex** by:
- Increasing oversight of exports to countries neighbouring Russia
- Increasing the list of goods subject to export controls
- Resourcing enforcement investigation and prosecution

Reduce Russia's financial access by:
- De-SWIFTING remaining Russian banks
- Increasing cryptocurrency oversight
- Seizing and using frozen Russian sovereign assets to support Ukraine