EU sanctions

putting a price on Russia's war of aggression

February 2024

#StandWithUkraine

The prospects for the Russian economy for the medium to long term are bleak. Russia is now a war economy, internationally isolated, over-reliant on state support, and more dependent than ever on energy resources and on the import of technology from China.

THE RUSSIAN ECONOMY

While the Russian economy continues to grow on paper [1], a closer look reveals that this is due to its significantly increased military spending - 6% of GDP in 2024 - 10.8 trillion roubles (109 billion euro) [2]. Russia has become a war economy. Inflation remains above target at 7.4% in January 2024, due to high government spending, high wage growth in a contracting labour market, and a declining currency -by more than 20% against the dollar in 2023 [3]. The Central Bank has been forced to raise interest rates to 16%.

Very limited access to Western technologies under the international sanctions, eroded human capital due to mobilisation and emigration, and massive military investments with little spillover to the civilian sectors will damage Russia's economic potential over time. According to the IMF, **Russia's economy remains 4.9% smaller in 2023 than the pre-war counter-factual and GDP growth is expected to slow to 1.1% in 2025.**

War and sanctions have reduced Russia's growth prospects according to the IMF

Source: own calculations based on IMF WEO (October 2021, October 2023)

Public finances remain in deficit amid war financing, and their quality deteriorates. The federal budget deficit reached RUB 3.4 billion or 1.9% of GDP in 2023. The Russian government has shrinking fiscal room. It has so far been able to finance the war thanks to low public debt, the National Wealth Fund (NWF) and special one-off taxes (e.g., a levy on Gazprom super

1 IMF growth forecast at 2.6% for 2024 - World Economic Outlook Update, January 2024
2 Official military spending rose by 79% between 2021 to 2023 and exceeds social spending for the very first time.
3 Source: Central Bank of Russia via ECFIN.

profits stemming from volatile energy prices). The NWF's level declined by over 7% between February 2022 and January 2024 alone, to RUB 11,9 trillion (USD 131 billion) or 6.6% of projected GDP in 2024. This was despite a partial replenishing of the fund and positive effects of the depreciating rouble.

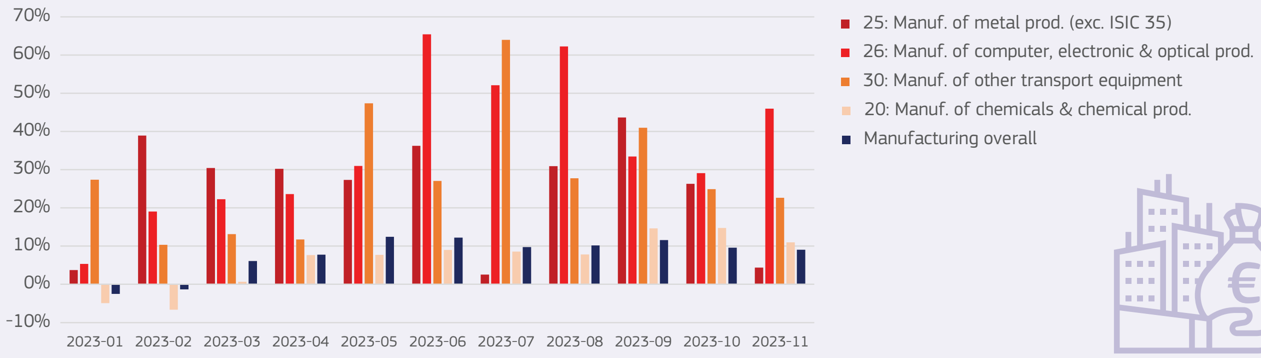
PERFORMANCE OF RUSSIA'S MANUFACTURING AND OTHER SPECIFIC SECTORS

Rapid growth observed in 2023 was recorded mainly in sectors associated with the military industry complex (metals, transport equipment, computers/electronics/optical devices). The output of these three branches in the 2023 was around 30-40% higher than in 2021.

Russia budget balance statistics and projections in trillions of roubles

Source: based on the Russian Ministry of Finances and Economic Ministry 2024 draft budget

War effort boosts Russian manufacturing production: annualised growth of manufacturing linked with the war vs. overall growth of manufacturing in Russia



GOODS, SERVICES WITH MILITARY AND CIVIL PURPOSE ("DUAL-USE GOODS AND ADVANCED TECHNOLOGIES")

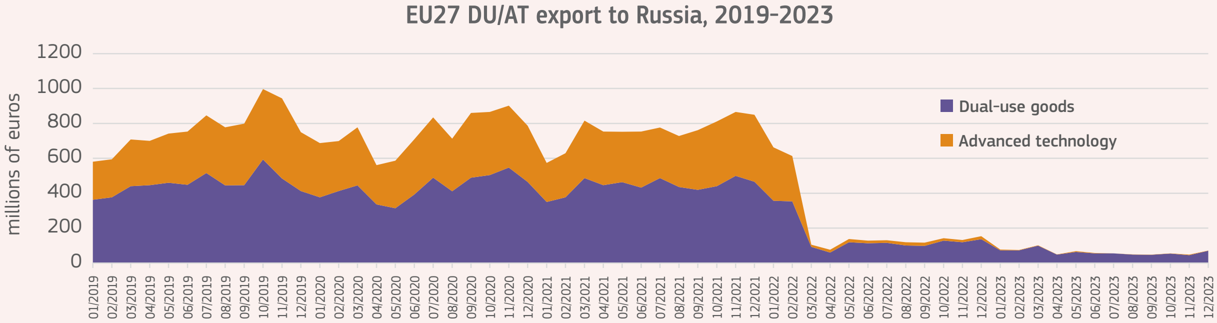
EU restrictions on the export of dual-use and advanced technologies are designed to prevent Russia from obtaining the goods and technologies it needs to develop and produce weapons. By mid2023, trade in these technologies had fallen by more than 80% compared with pre-war levels (2019-2021).

The remaining few exports of dual-use and advanced tech to Russia are allowed strictly and exclusively under exemptions and derogations e.g., for medical purposes, or (mostly) "grandfathered" existing projects in Russia. They are subject to assessment and authorisation by Member State authorities. The number and value of such these has steadily decreased over time, with only 9 recorded for the last quarter of 2023, worth less than EUR 1 million.

The most sensitive dual use and advanced tech items used in Russian military systems are so-called "battlefield items" or Common High-Priority (CHP) [1] items. Thanks to the sanctions, their direct export practically stopped in 2023 **(-97% compared to pre-war figures).**

However, as Russia keeps building illegal indirect conduits for these crucial items via third jurisdictions, sanctions enforcement and anti-circumvention efforts by the EU and Member States become ever more important.

1 https://finance.ec.europa.eu/publications/list-common-high-priority-items_en



TRADE RESTRICTIVE MEASURES: IMPORT AND EXPORT BANS

The EU has imposed far-reaching import and export bans on trade with Russia, to deny Moscow's war machine vital revenue, goods and technology [1]. **So far, 61 % of pre-war EU imports from Russia and 58 % of pre-war EU exports to Russia (both in 2021 terms) have been placed under EU restrictive measures.**

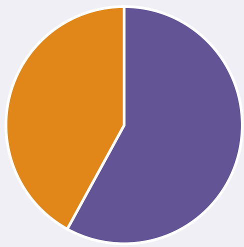
On the import side, the sanctions cover many high-revenue areas (coal, crude oil and refined oil products, wood, steel, processed metals and most recently diamonds).

On the **export side**, they target goods and technologies across a range of **key sectors of Russia's military-industrial complex** (e.g. aviation, space, energy and maritime) and other **goods which enhance Russian industrial capacities**.

Total EU imports from Russia are down by 69 %, from a value of EUR 164 billion in 2021 to EUR 51 billion in 2023. Total EU exports to Russia in 2023 clocked in at EUR 38 billion (down 57 % from 2021, EUR 89 billion).

Proportion of EU imports from Russia covered by restrictive measures

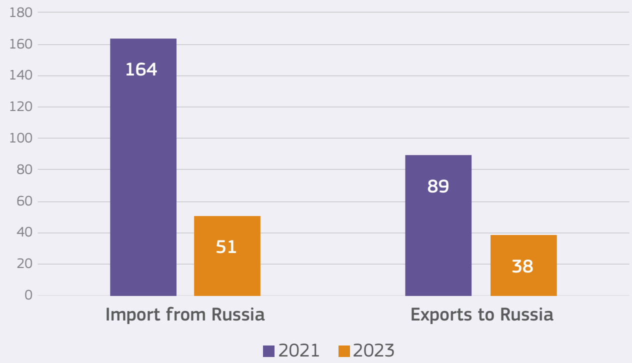
Proportion of EU exports to Russia covered by restrictive measures



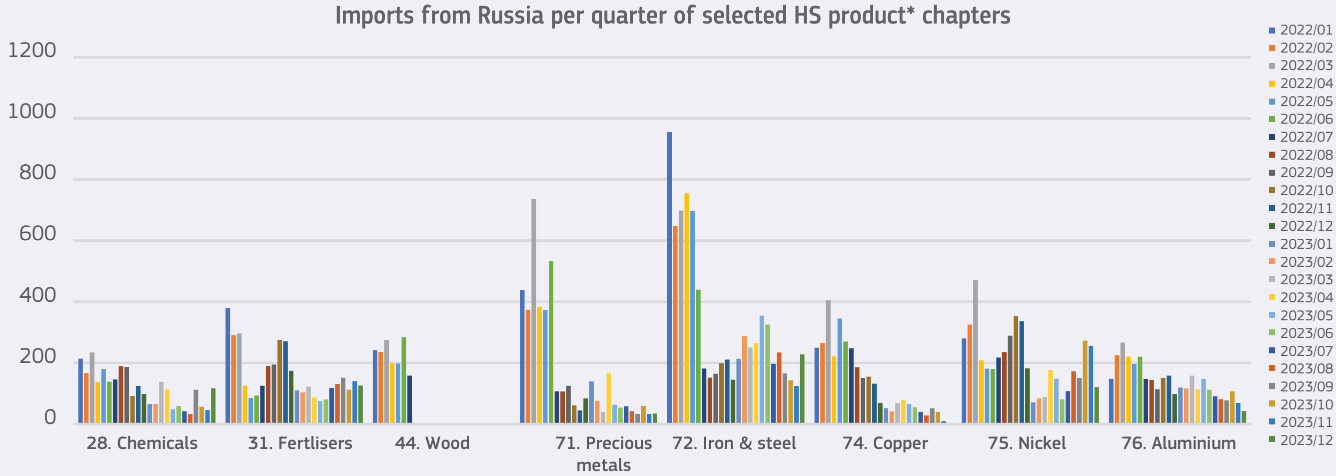
Under sanctions ■ Not sanctioned

1 EU sanctions explicitly exclude food supplies and fertilisers: there are no sanctions on Russian exports on such products to global markets. Anyone can operate, buy, transport and insure food and fertilisers coming out of Russia (EU sanctions against Russia explained - Consilium (europa.eu))

EU imports and exports to Russia, 2023 vs 2021



Imports from Russia per quarter of selected HS product* chapters



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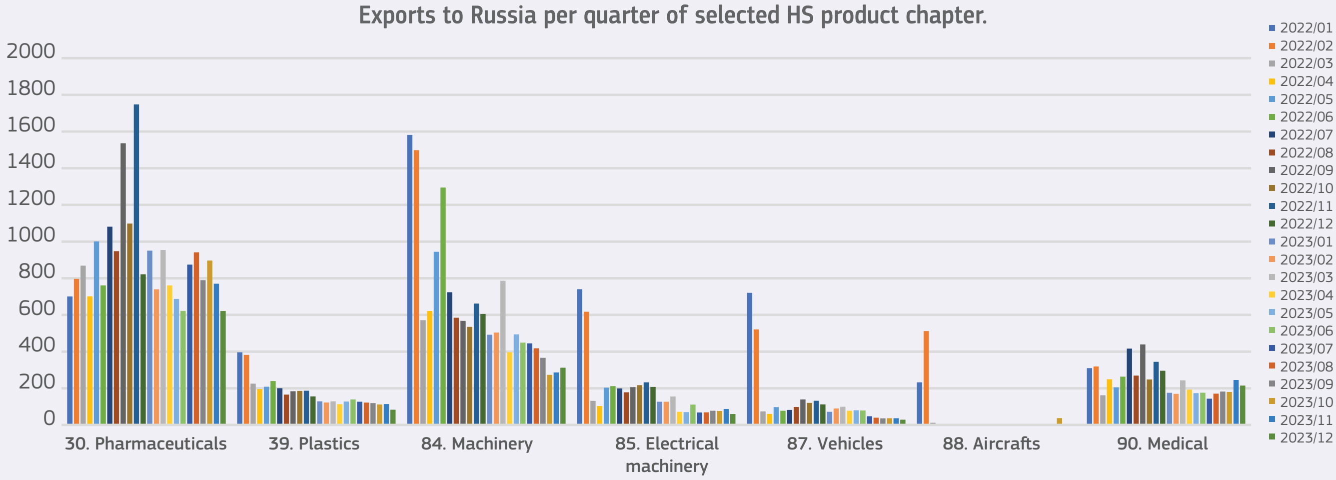


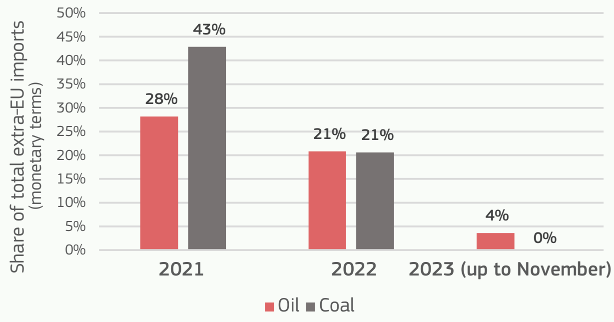
* The Harmonised Commodity Description and Coding System or Harmonised System (HS).

ENERGY SECTOR

Energy revenues are at the core of Russia's federal budget and business model.

With its sanctions, the EU has not only successfully diversified away from Russian fossil fuels, but curtailed Russia's ability to weaponise its energy supplies globally, cut major revenue streams of the Kremlin and supported lower energy prices in Europe. According to one estimate, the sanctions on Russian oil alone have already cost the country $113 billion in export earnings since the start of the full-scale invasion [1].

EU dependency on Russian fossil fuel imports



Source: ENER Chief Economist (based on Eurostat Comext)

FACT:

Russian tax revenue from oil and petroleum product exports – Russia's key source of revenue – was **32 %** lower between January-November 2023 compared to the same period in 2022 leading to tangible distributional issues in Russia's federal budget [2].

1 https://sanctions.kse.ua/en/new-sanctions-group-paper-four-key-steps-to-constrain-russia-in-2024-and-beyond/
2 (Russia sanctions: G7+ Price Cap Coalition members announce revisions to the price cap compliance regime - European Commission (europa.eu))

AVIATION

The EU has imposed massive sanctions on the Russian aviation sector. All Russian registered aircraft are banned from EU airspace, with very limited exceptions for humanitarian purposes. The EU tracked down and **blocked over 900 non-Russian registered aircraft controlled by Russians**. Much of the wealthy elites' private planes are grounded. EU and US sanctions also limit Russia's ability to procure spare parts for its aircraft. Russia attempts to procure parts through third countries and increasingly by using counterfeit parts or by cannibalising the existing fleet. This poses major risks for aviation safety in Russia.

The vast majority of Russian carriers are thus operating aircraft with no valid certificates of airworthiness, no effective safety supervision or access to essential information and spare parts from original Manufacturers.

- Russia had to hand out more than $12 billion in subsidies and loans to keep its aviation sector afloat
- Despite major efforts, it reamains unable to restart its own civilian airlines production, due to its dependency on non-Russian technology.
- Several individuals linked to the transport sector – including the Russian Transport Minister – have also been sanctioned.

FACT:

Three quarters of Russia's commercial air fleet were built in the EU, the US and Canada. This means that Russia will not be able to maintain its fleet to international standards which poses major risks for aviation safety in Russia.

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SANCTIONS ON INDIVIDUALS, COMPANIES AND ORGANISATIONS

An unprecedented number of listings under any EU sanctions regime.

More than **2100 individuals and entities** have been cut off from their financial resources in the EU (**EUR 28 billion of private assets in the EU frozen**) and banned from travelling anywhere in Europe. More than **EUR 200 billion of Russian state assets** were immobilised in the EU, thereby depriving Putin's regime of key financial resources.

On 12 February 2024, the Council adopted legislation aimed at supporting Ukraine with the extraordinary revenues generated by the investment of the Russian assets immobilised in the Union. Preliminary estimations suggest that this model, based on the windfall revenues, could potentially generate up to EUR 15 billion by 2027.

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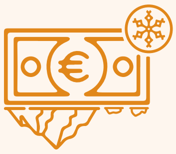

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Luxembourg: Publications Office of the European Union, 2024

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