



**Congressional  
Research Service**

Informing the legislative debate since 1914

---

# U.S. Sanctions on Russia: Economic Implications

**Rebecca M. Nelson**

Specialist in International Trade and Finance

February 4, 2015

**Congressional Research Service**

7-5700

[www.crs.gov](http://www.crs.gov)

R43895

## Summary

In response to Russia's annexation of the Crimean region of Ukraine and ongoing military intervention in eastern Ukraine, the United States has imposed a number of economic sanctions on Russian individuals, entities, and sectors. The United States coordinated its sanctions with other countries, particularly the European Union (EU). Russia has retaliated against sanctions by banning imports of certain agricultural products from countries imposing sanctions, including the United States, for one year.

Many Members of Congress have been strong proponents of economic sanctions on Russia. In December 2014, Congress unanimously passed the Ukraine Freedom Support Act of 2014 (P.L. 113-272), which authorizes the President to impose sanctions on specific Russian individuals and entities. The President signed the bill but also stated that he would not impose additional sanctions on Russia at this time. As the conflict in Ukraine continues, some Members of Congress are calling for tighter economic sanctions on Russia, in addition to other measures.

Analysts have debated the potential effects of current U.S. sanctions on Russia and Russia's retaliatory measures. Russia is a major player in the international economy; it has the world's ninth-largest economy and it is a major producer and exporter of natural gas and oil. However, there is relatively little overall trade and investment between the United States and Russia, although ties at the firm-level are significant in some instances.

Economic conditions in Russia have deteriorated at a faster rate in recent months. Capital flight from Russia has accelerated, the ruble has depreciated by more than 50%, inflation has increased, and the Russian economy is projected to contract by 3.0% in 2015. It is difficult to assess whether, and if so how much, targeted U.S. sanctions on Russian individuals and entities have contributed to worsening economic conditions in Russia, since other factors are likely contributing to Russia's economic challenges. In particular, oil prices have fallen by 50% in the past six months, and oil is a major Russian export and source of revenue for the government. However, many analysts, including senior officials at the International Monetary Fund, have argued that sanctions are at least one factor contributing to the increasingly difficult economic situation in Russia.

U.S. business groups have raised concerns that sanctions will harm American manufacturers, jeopardize American jobs, and cede business opportunities to firms from other countries. However, there are questions about the extent to which the sanctions and retaliatory measures will affect U.S. economic interests. Russia is a relatively minor trading and investment partner for the United States overall. U.S. sanctions target a specific subset of Russian individuals and entities and, in some cases, restrict only specific types of economic transactions.

The full economic impact on U.S. firms and the U.S. economy remains to be seen. To date, news reports have cited a number of U.S. firms have been adversely affected by U.S. sanctions on Russia and Russia's retaliatory measures. Russia is taking steps to develop alternative economic partners, particularly in emerging markets. Some analysts argue that the impact on U.S. firms should not be overstated; some firms were able to prepare for the disruptions, and the impact could be minimized as alternative markets are located. More broadly, U.S. exports to Russia have remained relatively robust but a weaker ruble and a contraction of the Russian economy may provide additional challenges to U.S. exports to Russia.

## **Contents**

|   |    |
|---|----|
| Introduction.....                                     | 1  |
| U.S.-Russia Economic Ties .....                       | 1  |
| Overall U.S.-Russia Trade and Investment .....        | 1  |
| Firm- and Sector-Level Activity.....                  | 3  |
| U.S. Sanctions and Russia’s Retaliatory Measures..... | 5  |
| Economic Trends in Russia.....                        | 7  |
| Recent Economic Challenges .....                      | 8  |
| U.S. Economic Interests.....                          | 10 |
| Conclusion .....                                      | 13 |

## **Figures**

|   |   |
|---|---|
| Figure 1. U.S.-Russia Economic Relations..... | 2 |
| Figure 2. Economic Trends in Russia .....     | 9 |

## **Tables**

|   |   |
|---|---|
| Table 1. Major U.S. Exports to and Imports from Russia..... | 5 |
|---|---|

## **Contacts**

|                                 |    |
|---------------------------------|----|
| Author Contact Information..... | 14 |
| Acknowledgments .....           | 14 |

## Introduction

Economic sanctions on Russian individuals, entities, and sectors have been a key part of the U.S. response to Russia's annexation of the Crimean region of Ukraine and Russia's efforts to destabilize eastern Ukraine.<sup>1</sup> For example, the United States has frozen the assets of a number of Russian individuals and entities with close ties to Russia's political leadership; restricted financial transactions with firms operating in key sectors in the Russian economy (finance, energy, and defense); and restricted oil-related exports from the United States to Russia, among other measures.<sup>2</sup>

The United States has been a leader in advocating that other countries also take action against Russia. Currently the European Union (EU) and several other countries have also imposed economic sanctions on Russia. Russia has retaliated against Western sanctions, primarily by imposing a one-year ban on the import of certain agricultural goods and products from the United States and other countries imposing sanctions.<sup>3</sup>

Many Members of Congress have been strong proponents of economic sanctions against Russia. At the end of the 113<sup>th</sup> Congress, Congress unanimously passed the Ukraine Freedom Support Act of 2014 (P.L. 113-272), which authorizes the President to impose sanctions on specific Russian individuals and entities. The President signed the bill but also stated that he would not impose additional sanctions on Russia at this time. As the conflict in Ukraine continues, some Members of Congress are calling for tighter economic sanctions on Russia, in addition to other options.<sup>4</sup>

Economic sanctions on Russia raise a host of policy questions. One set of questions focuses on the economic impact of the sanctions. Specifically, are the economic sanctions increasing pressure on Russia's government? Additionally, how do the sanctions impact U.S. economic interests? The subsequent discussion of U.S.-Russia economic ties, recent economic trends in Russia, and U.S. economic interests in Russia may provide some insight into these questions.

## U.S.-Russia Economic Ties

### Overall U.S.-Russia Trade and Investment

Russia is a major player in the international economy: it has the world's ninth-largest economy, is home to a population of more than 140 million, and is a major producer and exporter of natural

---

<sup>1</sup> For more information about the crisis in Ukraine, see CRS Report RL33460, *Ukraine: Current Issues and U.S. Policy*, by Steven Woehrel.

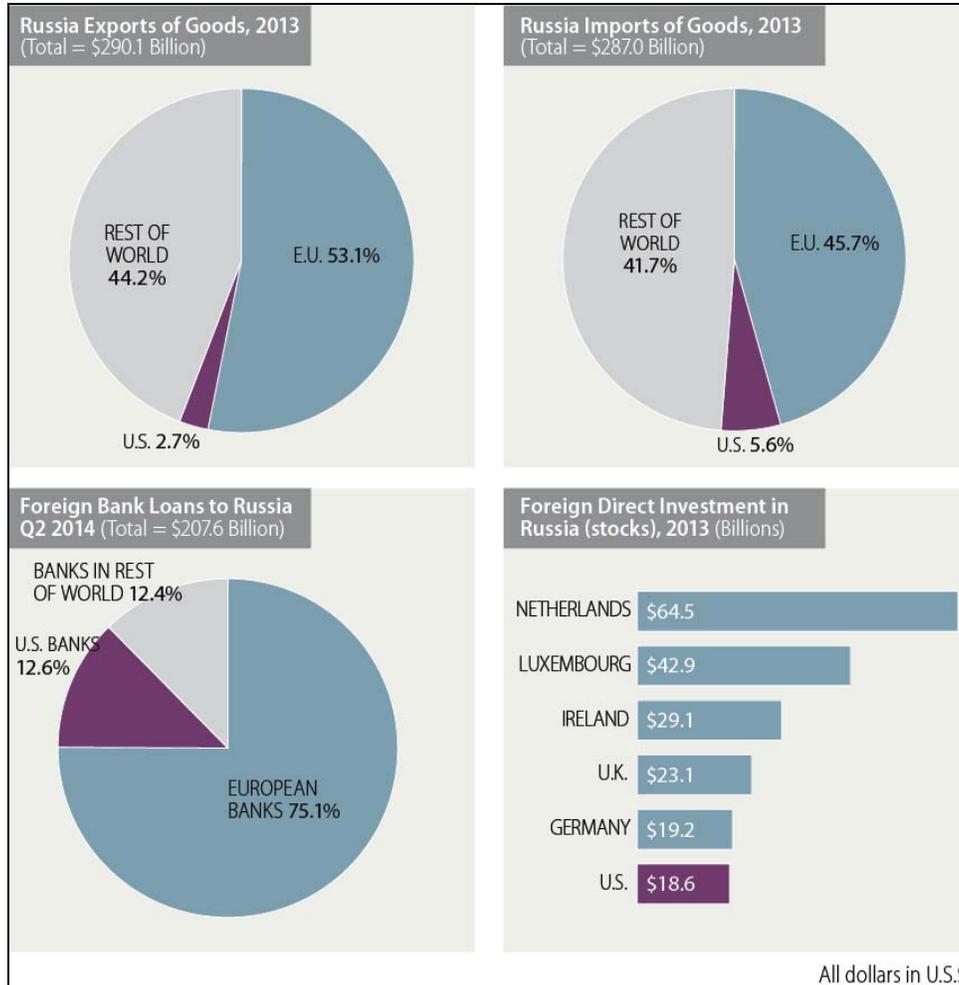
<sup>2</sup> For more information on U.S. sanctions on Russia, see CRS Insight IN10048, *U.S. Sanctions on Russia in Response to Events in Ukraine*, coordinated by Dianne E. Rennack. For information on economic sanctions as a foreign policy tool more broadly, see CRS Report 97-949, *Economic Sanctions to Achieve U.S. Foreign Policy Goals: Discussion and Guide to Current Law*, by Dianne E. Rennack and Robert D. Shuey.

<sup>3</sup> For more information on Russia's agricultural ban, see CRS Insight IN10133, *Russia's Ban on Certain Imported Food and Agricultural Goods*, by Joel L. Greene.

<sup>4</sup> For more on other legislative proposals for additional sanctions on Russia considered in the 113<sup>th</sup> Congress, see CRS Insight IN10117, *Russia Sanctions: Options*, by Dianne E. Rennack.

gas and oil.<sup>5</sup> Despite Russia’s size, however, there is relatively little overall direct trade and investment between the United States and Russia.

**Figure 1. U.S.-Russia Economic Relations**



**Source:** CRS analysis of data from the Global Trade Atlas, the Bank for International Settlements, and the Bank of Russia.

The United States accounts for a small share of Russia’s total trade and inflows of investment (**Figure 1**). In 2013, Russia imported 5.6% of its goods from the United States and exported 2.7% of its goods to the United States.<sup>6</sup> Of the more than \$550 billion in foreign direct investment in Russia at the end of 2013, less than 3% was from the United States.<sup>7</sup> Direct financial exposures

<sup>5</sup> The relative ranking of Russia’s economy is based on one conventional measure: nominal gross domestic product (GDP) measured in current prices. Alternative measures of GDP, such as adjusted for differences in price levels across countries, may produce different orderings.

<sup>6</sup> Unless otherwise noted, trade data from the U.S. Census Bureau, the Customs Committee of Russia, and Eurostat, as accessed from *Global Trade Atlas*.

<sup>7</sup> Bank of Russia, “Inward Foreign Direct Investment Positions by Instruments and Geographical Allocation in 2009- (continued...)”

are also relatively low; U.S. banks accounted for less than 13% of foreign bank loans to Russia in the second quarter of 2014.<sup>8</sup>

Likewise, Russia accounts for a small portion of U.S. international economic activity. In 2013, just 0.71% of U.S. exports of goods went to Russia and 1.19% of U.S. imports of goods came from Russia. In terms of investment, less than 0.4% of U.S. overseas investment was in Russia in 2013.<sup>9</sup> In the second quarter of 2014, Russia accounted for 0.8% of outstanding U.S. bank loans overseas.<sup>10</sup>

### EU-Russian Economic Ties

Russia has a much stronger economic relationship with Europe than with the United States (**Figure 1**). In 2013, more than 50% of Russia's exports of goods went to EU countries, and Russia purchased 46% of its imports of goods from EU countries. In the financial sector, European banks accounted for about 75% of Russia's total foreign bank loans in the second quarter of 2014. Similarly, Russia is important to Europe. Among other factors, Russia supplies the EU with about a third of its oil and natural gas imports. The close economic relationship between Russia and the EU is one reason why some analysts argued that U.S.-EU cooperation on sanctions with Russia would be critical for their success. At the same time, Europe's imports of oil and natural gas from Russia are one reason why it was initially difficult for European leaders to reach a consensus on Russia sanctions.

## Firm- and Sector-Level Activity

Even though overall trade and investment flows between the United States and Russia are relatively small, economic ties at the firm- and sector-level are in some cases substantial. Several large U.S. companies have been actively engaged with Russia: exporting to Russia, entering joint ventures with Russian partners, and relying on Russian suppliers for inputs. A notable example is ExxonMobil, which in 2011 signed a strategic cooperation agreement with Rosneft to drill in the Russian Arctic, among other activities; initial investments were expected to be worth tens of billions of dollars.<sup>11</sup> Other examples include PepsiCo, the largest food and beverage company in Russia; Ford Motor Co., which recently announced a partnership with Sollers, a Russian car company; General Electric, which has joint ventures with Russian firms to manufacture gas turbines; Boeing, among the top U.S. exporters to Russia; Visa and MasterCard, which provide payment services to 90% of the Russian market; and United Launch Alliance, a Lockheed Martin and Boeing joint venture, which imports Russian rocket engines.<sup>12</sup> Russia is also an important market for Philip Morris and Avon Products.<sup>13</sup> The U.S.-Russia Business Council, a Washington-

(...continued)

2013," [http://www.cbr.ru/eng/statistics/print.aspx?file=credit\\_statistics/dir-inv\\_in\\_country\\_e.htm&pid=svs&sid=ITM\\_14544](http://www.cbr.ru/eng/statistics/print.aspx?file=credit_statistics/dir-inv_in_country_e.htm&pid=svs&sid=ITM_14544).

<sup>8</sup> Bank for International Settlements. Data is for consolidated international bank claims on an ultimate risk basis.

<sup>9</sup> U.S. Bureau of Economic Analysis. Data is U.S. direct investment position abroad on a historical-cost basis.

<sup>10</sup> Bank for International Settlements. Data is for consolidated international bank claims on an ultimate risk basis.

<sup>11</sup> Andrew E. Kramer, "Exxon Reaches Arctic Oil Deal with Russians," *New York Times*, August 30, 2011; Rosneft, "Rosneft and ExxonMobil to Join Forces in the Arctic and Black Sea Offshore, Enhance Co-operation through Technology Sharing and Joint International Projects," Press Release, August 30, 2011, <http://www.rosneft.com/news/pressrelease/30082011.html>.

<sup>12</sup> Howard Schneider and Holly Yeager, "As Talk of Russia Sanctions Heats Up, Business Draws a Cautionary Line," *Washington Post*, March 7, 2014; "Visa, MasterCard Will Continue to Work in Russia," *Wall Street Journal*, May 20, 2014; Robert Wright, "Satellite Pinpoints US's Russian Space Dependence," *Financial Times*, May 16, 2014.

<sup>13</sup> Myles Udland, "Here's a List of Stocks with Lots of Exposure to Russia," *Business Insider*, July 17, 2014.

based trade association that provides services to U.S. and Russian member companies, has a membership of 230 U.S. companies conducting business in Russia.<sup>14</sup>

The U.S. Commercial Service identifies a number of key sectors for U.S. exports and investment in Russia.<sup>15</sup> In its 2013 *Country Commercial Guide*, the key sectors it identifies include: agricultural equipment; apparel; auto parts and service equipment/accessories; aviation; chemicals/plastics; construction; consumer electronics; electrical power generation and transmission equipment; energy efficiency; medical equipment; refinery equipment; safety and security equipment; and travel and tourism services. For example, in recent years Russia has focused on developing and modernizing Russian oil and gas refining operations, including upgrading domestic refining capacities, which are generally below European standards. In this initiative, the United States has been a major supplier of refinery equipment to Russia. The U.S. Commercial Service estimates that 30% (about \$900 million) of Russia's imports of refinery equipment in 2013 were from the United States.

Russia is also a major supplier of some specific U.S. imports. For example, the United States has relied on a Russian rocket engine in key civilian and military space launch programs.<sup>16</sup> Russia is also a major supplier of certain types of metals. For example, Boeing buys about 35% of the titanium it uses for commercial jetliners from VSMPO, a Russian titanium producer.<sup>17</sup> Russia is also a top global producer of palladium, which is used in catalytic converters in cars, and accounted for a third of U.S. imports of palladium in 2013.<sup>18</sup> Other U.S. imports from Russia include non-crude oil products; iron and steel, particularly semi-finished steel products; enriched uranium; fertilizers; fish and crustaceans; and certain synthetic rubbers, among other products. **Table 1** shows the top U.S. exports to and imports from Russia.

Russia may be particularly reliant on access to the U.S. financial system, which, together with access to the U.S. dollar, has been important for Russia's cross-border trade and investment.<sup>19</sup> Russia has relied on other countries, including the United States, for financing and access to the international payments system. Russia's reliance on the U.S. dollar ties into the importance of the energy sector to Russia's economy. The dollar has traditionally been used to settle oil transactions, and oil is a key export for Russia.

---

<sup>14</sup> U.S.-Russia Business Council, <https://www.usrbc.org/membership/>.

<sup>15</sup> The U.S. Commercial Service is the trade promotion arm of the Department of Commerce's International Trade Administration. U.S. Commercial Service, "Doing Business in Russia: Country Commercial Guide for U.S. Companies," 2013, [http://www.buyusainfo.net/docs/x\\_5396902.pdf](http://www.buyusainfo.net/docs/x_5396902.pdf).

<sup>16</sup> Stuart Clark, "Russia Halts Rocket Exports to US, Hitting Space and Military Programmes," *The Guardian*, May 15, 2014. For more information, see CRS Insight IN10069, *Russian Sanctions Reprisal Against the RD-180 Rocket Engine: Paths Ahead for U.S. National Security Space Launch*, by Steven A. Hildreth.

<sup>17</sup> Jon Ostrower and Andy Pasztor, "Boeing, United Technologies Stockpile Titanium Parts," *Wall Street Journal*, August 7, 2014.

<sup>18</sup> U.S. Geological Survey, "Mineral Commodity Summaries 2014," <http://minerals.usgs.gov/minerals/pubs/mcs/2014/mcs2014.pdf>.

<sup>19</sup> Robert Kahn, "Putin's Lehman Moment: Why Sanctions Will Work in Russia," *Foreign Affairs*, April 10, 2014.

**Table I. Major U.S. Exports to and Imports from Russia**  
2013 data

| Commodity<br>(HS Code)  | Amount<br>(Million US\$) |
|---|--------------------------|
| <b>Top 5 U.S. Exports to Russia</b>   |                          |
| Nuclear Reactors, Boilers, Machinery Etc.; Parts (84)                       | 2,313                    |
| Vehicles, Except Railway Or Tramway, And Parts Etc. (87)                    | 1,999                    |
| Aircraft, Spacecraft, And Parts Thereof (88)                                | 1,961                    |
| Electric Machinery Etc.; Sound Equip; TV Equipment; Parts (85)              | 675                      |
| Optic, Photo Etc., Medic Or Surgical Instruments Etc. (90)                  | 659                      |
| <b>Top 5 U.S. Imports from Russia</b>                                       |                          |
| Mineral Fuel, Oil, Etc. (27)  | 19,458                   |
| Iron And Steel (72)   | 1,640                    |
| Inorganic Chemicals; Precious & Rare-Earth Met & Radioactive Compounds (28) | 1,354                    |
| Precious Metals, Etc. (71)  | 813                      |
| Fertilizers (31)  | 796                      |

**Source:** Data from the U.S. Census Bureau, as accessed from *Global Trade Atlas*.

## U.S. Sanctions and Russia's Retaliatory Measures

The Obama Administration first imposed U.S. sanctions relating to the events in Ukraine in March 2014, and announced additional measures in subsequent months. The Obama Administration has targeted the sanctions on specific individuals, firms, and sectors, and explained that the sanctions “aim to increase Russia’s political isolation as well as the economic costs to Russia, especially in areas of importance to President Putin and those close to him.”<sup>20</sup>

In December 2014, Congress passed and the President signed into law the Ukraine Freedom Support Act of 2014 (P.L. 113-272; 22 U.S.C. 8921 *et seq.*), which, among other measures, authorizes the President to impose sanctions on specific Russian individuals and entities. The President stated that he did not intend at this time to impose sanctions under this law, but could at a later date if circumstances warrant.<sup>21</sup>

Examples of current U.S. sanctions on Russia include:

<sup>20</sup> White House, “Statement by the President on New Sanctions Related to Russia,” Office of the Press Secretary, September 11, 2014, <http://www.whitehouse.gov/the-press-office/2014/09/11/statement-president-new-sanctions-related-russia>.

<sup>21</sup> White House, “Statement by the President on the Ukraine Freedom Support Act,” Office of the Press Secretary, December 18, 2014, <http://www.whitehouse.gov/the-press-office/2014/12/18/statement-president-ukraine-freedom-support-act>.

- **Asset freezes for specific individuals.** The U.S. government has frozen assets of a number of individuals in Russian President Vladimir Putin’s “inner circle,” including presidential aides, key figures in Russia’s legislature, and businesspersons with close ties to the Kremlin. U.S. individuals and entities are prohibited from conducting economic transactions with them.
- **Asset freezes for specific entities.** Some Russian companies are also subject to U.S. asset freezes and are prohibited from engaging in economic transactions with U.S. individuals and entities. Examples include Bank Rossiya, which has been called the “personal bank of Putin,” and the Volga Group, a holding company owned by a close ally of Putin.<sup>22</sup>
- **Restrictions on financial transactions with Russian firms operating in key sectors.** Sanctions also target key sectors in the Russian economy, including finance, energy, and defense. As a result, U.S. individuals and entities face restrictions on dealings in some types of new debt, and in some cases new equity, with several major Russian companies. Examples include Rosneft, a state-owned oil company and the world’s largest publicly-traded oil producer; Rostec, a major Russian defense conglomerate; and Sberbank, the largest bank in Russia.
- **Restrictions on oil-related exports.** The United States restricts U.S. individuals and entities from exporting goods, services, or technology in support of projects that have the potential to produce oil in Russia.
- **Restrictions on dual-use exports.** The United States has tightened restrictions on U.S. exports of dual-use and military items to Russia.

Economists generally agree that sanctions are more likely to be effective foreign policy tools when they are applied multilaterally, rather than unilaterally.<sup>23</sup> The United States has taken a lead in urging other countries to impose sanctions on Russia. Currently the European Union (EU), Australia, Canada, Japan, Norway, and Switzerland, among others, have also imposed sanctions on Russia.<sup>24</sup>

The United States and other countries have also taken cooperative actions to increase economic pressure on Russia. For example, several countries, including the United States, are opposing new World Bank and European Bank for Reconstruction and Development (EBRD) projects in Russia.<sup>25</sup> Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States have suspended participation in the G-8 and instead have convened as the G-7, of which Russia is not a member, for the first time since the late 1990s.

---

<sup>22</sup> Steven Lee Myers, “Private Bank Fuels Fortunes of Putin’s Inner Circle,” *New York Times*, September 27, 2014; Carol Matlack, “Why the U.S. is Targeting the Business Empire of a Putin Ally,” *Bloomberg Businessweek*, April 28, 2014.

<sup>23</sup> For example, see “Economic Sanctions: Effectiveness as Tools of Foreign Policy,” Government Accountability Office (GAO), February 19, 1992, <http://www.gao.gov/products/NSIAD-92-106>.

<sup>24</sup> For more on EU sanctions, see CRS Insight IN10129, U.S.-EU Cooperation on Ukraine and Russia, by Kristin Archick and Derek E. Mix.

<sup>25</sup> Sandrine Rastello and Helene Fouquet, “G-7 Nations Said to Oppose New World Bank Russia Projects,” *Bloomberg*, August 1, 2014; EBRD, “EBRD Statement on Operation Approach in Russia,” EBRD Press Release, July 23, 2014, <http://www.ebrd.com/english/pages/news/press/2014/140723b.shtml>.

In response to sanctions, Russia has pursued retaliatory measures. Most notably, in August 2014, Russia announced a one-year ban on the import of certain foods from the United States, the EU, Australia, Canada, and Norway.<sup>26</sup> The Russian government also cracked down on McDonald's restaurants operating in Russia, although restrictions may be loosening.<sup>27</sup> Additionally, in May 2014, Russia's Deputy Prime Minister, Dmitry Rogozin, threatened to ban exports of rocket engines to the United States.<sup>28</sup> The Russian government did not ultimately impose the ban, but in December 2014, Congress passed and the President signed legislation that could restrict the military's use of rocket engines designed or manufactured in Russia (Section 1608 of P.L. 113-291).

### **Sanctions, Retaliatory Measures, and the World Trade Organization (WTO)**

Some Russian officials have argued that Western sanctions are a breach of the rules and principles of the World Trade Organization (WTO).<sup>29</sup> Similarly, some U.S. and European officials have questioned whether Russia's ban on agricultural imports from the United States, the EU, and other countries are a violation of WTO rules. To date, neither side has initiated any formal proceedings under the WTO dispute settlement process with regards to the sanctions or retaliatory measures. Some argue that the U.S. measures are permitted under the WTO's national security exemption.<sup>30</sup>

## **Economic Trends in Russia**

Economic sanctions on Russia come at a time when Russia's economy is still struggling to recover from the global financial crisis of 2008-2009. In the 2000s, Russia's economy benefited from rising oil prices. Its economy was hit hard by the global financial crisis and ensuing global economic downturn, as demand for its exports fell, particularly in Europe. Russia's economy sharply contracted by 7.8% in 2009.<sup>31</sup> The economy rebounded the following year, growing by 4.5%. Since 2010, however, the rate of economic growth has slowed in Russia every year. Economists argue that the financial crisis and weak economic performance in recent years have highlighted fundamental problems in Russia's economy. These problems include the economy's dependence on the production and export of oil and gas, as well as the need for reform in a

<sup>26</sup> For more information, see CRS Insight IN10133, *Russia's Ban on Certain Imported Food and Agricultural Goods*, by Joel L. Greene.

<sup>27</sup> In August 2014, Russia closed 12 McDonald's restaurants. Although officials cite health reasons for the closures, critics argue that the closures were a response to the sanctions. In October 2014, more than 200 McDonald's restaurants, out of 440 in Russia, were under investigation by the Russian government. In December 2014, the closed McDonald's were allowed to re-open. See Justin Worland, "McDonald's Objects to Russia Restaurant Closures," *Time*, August 29, 2014; Carol Matlack, "Putin's Latest Target: More than 200 Russian McDonald's," *Bloomberg Businessweek*, October 20, 2014; Jessica Wohl, "Most McDonald's in Russia Reopen," *Chicago Tribune*, December 9, 2014.

<sup>28</sup> Stuart Clark, "Russia Halts Rocket Exports to US, Hitting Space and Military Programmes," *The Guardian*, May 15, 2014.

<sup>29</sup> For example, see Alexander Kolyandr, "Russia's Putin Slams Sanctions as Breach of WTO Rules," *Wall Street Journal*, September 18, 2014.

<sup>30</sup> For example, see Kathrin Hille and Shawn Donnan, "Russia Threatens US with WTO Action over Crimea Sanctions," *Financial Times*, April 16, 2014; "USTR Signals Russia Ag Ban Violates WTO Rules; Faults Procurement Policies," *Inside U.S. Trade*, January 8, 2015.

<sup>31</sup> Unless otherwise noted, macroeconomic data (for example, on growth, inflation, and debt levels) is from the IMF, *World Economic Outlook*, October 2014.

number of areas, including governance, corruption, administrative barriers, regulation, privatization, competition, the banking sector, and utility pricing.<sup>32</sup>

In recent months, economic conditions in Russia have started deteriorating at a faster rate. As discussed in greater detail below, capital flight from Russia has accelerated, the ruble has depreciated, inflation has increased, the economy is contracting, and public finances are strained. It is difficult to assess the extent to which, if at all, U.S. sanctions on Russian individuals and entities directly or indirectly contributed to worsening economic conditions in Russia, since other factors are likely contributing to Russia's economic challenges. In particular, oil prices have fallen by 50% in six months. Russia is a major oil producer and exporter, and oil and gas account for about half of the government's revenues.<sup>33</sup> Additionally, domestic economic policy decisions, the general political crisis in Ukraine, corruption, and an economic slowdown in Europe could be among the contributing factors. However, many policy makers and analysts, including senior officials at the IMF, have argued that sanctions are at least one factor contributing to the increasingly difficult economic situation in Russia.<sup>34</sup>

## Recent Economic Challenges

The economic challenges facing Russia have intensified in recent months. Some of these challenges are discussed in greater detail below and depicted in **Figure 2**.

**Capital flight.** Investors have become more uncertain about doing business in Russia and have started pulling capital out of Russia. In 2014, net private capital outflows from Russia totaled \$152 billion, compared to net outflows of \$54 billion in 2012 and \$61 billion in 2013.<sup>35</sup> U.S., European, and other countries' financial institutions have reportedly cut off many major borrowers in Russia, even those not subject to sanctions.<sup>36</sup> In July 2014, no Russian companies received loans in U.S. dollars, Swiss francs, or euros, for the first time since the global financial crisis.<sup>37</sup> Some analysts have suggested that the Russian central bank could impose capital controls to stop money from leaving the country, but there are questions about the effectiveness and long-term consequences of capital controls. Russian officials have denied any plans to use capital controls.

---

<sup>32</sup> "Geopolitical Risks Cloud Future of Russian Economy," *IMF Survey*, June 30, 2014.

<sup>33</sup> "Russia: Analysis," U.S. Energy Information Administration, March 12, 2014, <http://www.eia.gov/countries/cab.cfm?fips=rs>.

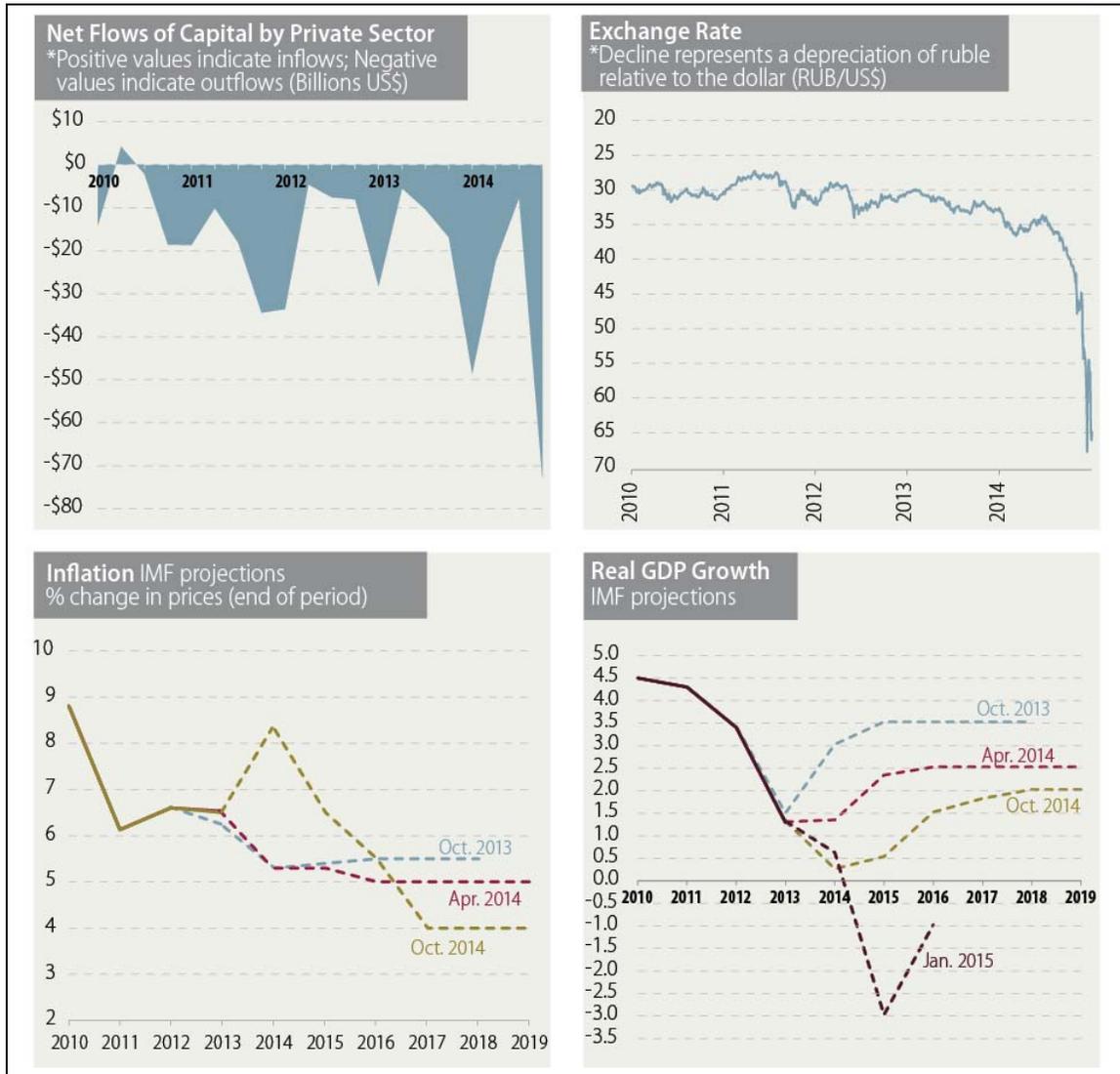
<sup>34</sup> This includes the top two officials at the IMF: Managing Director Christine Lagarde and First Managing Director David Lipton. See Justin Scuietti, "IMF Head Lagarde: Russia Feeling the Effects of U.S., European Sanctions," *PBS*, April 2, 2014; William Mauldin, "U.S. Increases Pressure on Russia over Ukraine as Europe Holds Back," *Wall Street Journal*, April 13, 2014. For other examples of policymakers and analysts attributing sanctions to contributing to Russia's economic challenges, see Paul Feinberg, "Head of U.S. Treasury Tells Students Sanctions against Russia are Having Impact," *UCLA Newsroom*, September 18, 2014; Robert Khan, "October Monthly: Breaking the Sanctions Code," *Council on Foreign Relations Macro and Markets*, October 17, 2014; Menzie Chinn, "Russia Under Pressure," *Econbrowser*, October 9, 2014.

<sup>35</sup> Bank of Russia, "Net Inflows/Outflows of Capital by Private Sector for 2005-2014," [http://www.cbr.ru/eng/statistics/print.aspx?file=credit\\_statistics/capital\\_new\\_e.htm](http://www.cbr.ru/eng/statistics/print.aspx?file=credit_statistics/capital_new_e.htm).

<sup>36</sup> Alexander Kolyandr and Andrey Ostroukh, "Russia Plans Emergency Fund for Companies Hurt by Ukraine Sanctions," *Wall Street Journal*, September 15, 2014.

<sup>37</sup> Sally Bakewell and Stephen Morris, "Putin Sanctions Drive Away Banks as Loans Dry Up: Russia Credit," *Bloomberg*, August 4, 2014.

**Figure 2. Economic Trends in Russia**



**Source:** CRS compilation of data from the IMF *World Economic Outlook* and the Bank of Russia.

**Depreciation of the ruble.** Capital flight from Russia contributed to downward pressure on the ruble, which depreciated against the dollar by more than 50% between July 2014 and early December 2014. On December 15, 2014, investors started a massive sell-off of the ruble. In order to stem its further depreciation, the Bank of Russia (Russia’s central bank) announced its biggest interest rate hike since 1998, raising a key interest rate from 10.5% to 17%, at an emergency meeting on December 16. Despite this measure, the ruble continued to sharply depreciate. In early January 2015, the ruble was trading at 63 rubles per dollar, compared to 33 rubles per dollar a year earlier. The central bank is periodically intervening in foreign exchange markets (meaning

it is selling foreign currencies and purchasing rubles) to support the value of the ruble. It sold \$11.9 billion U.S. dollars in December 2014.<sup>38</sup>

**Inflation.** In November 2014, inflation in Russia increased to 9.1%, the fastest acceleration since 2011 and well above the central bank's target rate of 5% to 6%. One factor driving higher rates of inflation has been the depreciation of the ruble, which makes imports in Russia more expensive. In addition, Russia's ban on certain agricultural imports has caused food prices in Russia to rise. For example, in November 2014, the price of buckwheat increased more than 50% and the cost of fresh tomatoes jumped nearly 35%.<sup>39</sup> The ban has also resulted in limited shortages and/or decline in quality of certain kinds of food products.<sup>40</sup>

**Economic contraction.** The IMF has steadily lowered its forecasts for economic growth in Russia over the past several months. In its most recent forecast, released in January 2015, the IMF downgraded its forecast for Russia's economic growth in 2015, from growing by 0.5% to contracting by 3.0%. The IMF projects that, in 2016, Russia's economy will also contract by 1.0%.<sup>41</sup>

**Strain on public finances.** Russia entered the current period of economic challenges with a relatively strong fiscal position: it had large foreign currency reserves (\$339 billion at the end of 2014) and relatively little debt (projected to be only 16% of gross domestic product (GDP) in 2014, compared to 120% of GDP for the G-7 countries).<sup>42</sup> Russia's financial resources have given it some leverage to provide direct financial assistance to selected Russian firms under stress. For example, in December 2014, Putin announced that one of Russia's sovereign wealth funds, the National Welfare Fund, would be used to recapitalize Russian banks.<sup>43</sup> However, some analysts question how liquid Russia's foreign exchange reserves actually are, and how long they will last in the current economic environment.<sup>44</sup> The Russian government, reliant on oil and natural gas sales for its revenue, is planning a 10% budget cut for 2015 and to use reserves to cover some of the expected budget shortfall.<sup>45</sup>

## U.S. Economic Interests

U.S. business groups, including the Chamber of Commerce, the National Association of Manufacturers, and USA\*Engage, have raised concerns that U.S. sanctions on Russia could

---

<sup>38</sup> Bank of Russia, "Data on the Bank of Russia Currency Interventions (Monthly)," [http://www.cbr.ru/eng/hd\\_base/?PrftId=valint](http://www.cbr.ru/eng/hd_base/?PrftId=valint).

<sup>39</sup> "Ruble's Fall and Food Import Bands Send Inflation Even Higher," *Moscow Times*, October 6, 2014; Rob Wile, "Food Prices Have Begun Skyrocketing in Parts of Russia," *Business Insider*, September 1, 2014.

<sup>40</sup> Mark Adomanis, "Russian Inflation is Increasing and That Could Be A Huge Problem for the Kremlin," *Forbes*, September 16, 2014.

<sup>41</sup> IMF, *World Economic Outlook Update*, January 2015, <http://www.imf.org/external/pubs/ft/weo/2015/update/01/pdf/01115.pdf>.

<sup>42</sup> Bank of Russia, "International Reserves of the Russian Federation," [http://cbr.ru/eng/hd\\_base/default.aspx?Prftid=mrrf\\_m](http://cbr.ru/eng/hd_base/default.aspx?Prftid=mrrf_m); IMF, *World Economic Outlook*, October 2014.

<sup>43</sup> Frances Coppola, "The Great Russian Bank Bailout," *Forbes*, December 26, 2014.

<sup>44</sup> For example, see "Not Quite All there?," *Economist*, November 22, 2014.

<sup>45</sup> Matthew Cowley, "Russia to Cut 2015 Budget by Around 10% Following Decline in Oil Price," *Wall Street Journal*, January 21, 2015.

disrupt the operations of U.S. firms in Russia, thereby harming American manufacturers, jeopardizing American jobs, and ceding business opportunities to firms from other countries.<sup>46</sup> However, there may be questions about the extent to which the sanctions and retaliatory measures are affecting, or will affect, U.S. firms and the U.S. economy. As discussed above, Russia is a relatively minor trading and investment partner for the United States as a whole. Additionally, U.S. sanctions do not prohibit all economic transactions between the United States and Russia. They target specific Russian individuals and entities and, in some cases, only restrict specific types of economic transactions.

In many ways, it is still too early to gauge the full economic effect of the sanctions. Some initial trends and indicators are discussed below:

**Some U.S. firms and industries have been adversely impacted by the sanctions.** News reports have cited a number of examples of U.S. firms whose operations have been, or are starting to be, disrupted by the sanctions. For example, sanctions forced ExxonMobil to suspend its \$700 million exploration in Russia's Kara Sea (a joint venture with Rosneft).<sup>47</sup> Oilfield service companies, including Halliburton and National Oilwell Varco, have reported that sanctions are restricting their operations in Russia and expressed concern that sanctions will limit their profits in the second half of 2014.<sup>48</sup> Likewise, John Deere, which makes heavy farm equipment and has two factories in Russia, has attributed weaker sales to the sanctions.<sup>49</sup> U.S. gun dealers also face restrictions on imports of specific Russian-made rifles, of which they have reportedly sold tens of thousands in previous years.<sup>50</sup>

It is difficult to extrapolate the full impact of sanctions on U.S. firms from these examples. One reason is that Russia may not be a critical economic partner for some U.S. firms and industries affected by the sanctions. This may be the case, for example, with Visa and MasterCard. In response to the sanctions, Russia announced plans to accelerate the development of its own national payments system, which would undermine MasterCard and Visa's dominance in the Russian market.<sup>51</sup> However, Russia only accounts for a small portion (2%) of their profits.<sup>52</sup>

Another factor is that the implementation of sanctions in phases or "rounds" has given U.S. companies some time to prepare for disruptions in economic transactions with Russia. According

---

<sup>46</sup> For example, the U.S. Chamber of Commerce and the National Association of Manufacturers ran ads in the *New York Times*, the *Wall Street Journal*, and the *Washington Post*, warning about the potential implications of sanctions on Russia for the United States. See Mike Dorning, "Business at Odds with Obama Over Russia Sanctions Threat," *Bloomberg News*, June 24, 2014. In September 2014, USA\*Engage, a coalition of manufacturing, agricultural, and services producers sponsored by the National Foreign Trade Council, cautioned that "U.S. sanctions are exacting substantial collateral damage to U.S. investments and operations in Russia across sectors." See "USA\*Engage Opposes S. 2828, 'Ukraine Freedom Support Act of 2014,'" *USA\*Engage*, September 18, 2014.

<sup>47</sup> Clifford Krauss, "Exxon Halts Oil Drilling in Waters of Russia," *New York Times*, September 16, 2014.

<sup>48</sup> Ryan Holeywell, "Russia Sanctions May Squeeze Oil Services Profits," *Houston Chronicle*, August 12, 2014.

<sup>49</sup> Adam Shell, "U.S. Companies Get Hurt by Sanctions Targeting Russia," *USA Today*, May 14, 2014.

<sup>50</sup> However, the restriction resulted in a run these types of rifles already in the United States (and thus not subject to the restriction), providing a short-term boost to U.S. gun dealers. Joshua Green, "Banned by U.S. Sanctions, AK-47s are Going, Going, Gone," *Bloomberg Businessweek*, September 4, 2014.

<sup>51</sup> Natalia Kaurova and Anastasia Nesvetailova, "Making a Non-Western Payment Card System, in Russia," *FT Alphaville*, April 25, 2014.

<sup>52</sup> Elizabeth Dexheimer, "MasterCard CEO Sees Russia Having Small Impact on Profit," *Bloomberg*, May 1, 2014; Elizabeth Dexheimer, "Visa Profit Beats Estimates as Card Spending Climbs," *Bloomberg*, July 25, 2014.

to news reports, many multinational companies have developed contingency plans that would allow them to adjust to suppliers and banks outside of Russia and minimize the impact of sanctions on their operations.<sup>53</sup> There is likely less press coverage of U.S. firms that have been able to minimize the impact of the sanctions on Russia or the effects of Russian retaliation.

**Some U.S. agricultural producers have been affected by Russia's retaliatory ban on agricultural imports.** The overall economic impact of Russia's ban on certain U.S. agricultural exports is expected to be relatively small; Russia accounts for about 1% of the United States' total food and agricultural exports.<sup>54</sup> However, specific producers within the United States have been or could be adversely affected. For example, the congressional delegation from Alaska has expressed concerns about the impact on Alaska's seafood industry.<sup>55</sup> Another example is Washington state apple and pear producers, who sold \$23 million worth of pears and apples to Russia last year and had to locate new purchasers at the start of the new harvest season.<sup>56</sup> According to one private sector estimate, the ban could result in 12,000 job losses in the United States.<sup>57</sup> Over the longer-term, however, the impact of the sanctions could be mitigated in part as alternative markets for U.S. agricultural exports are located.

**U.S. exports of goods to Russia are up slightly.** To date, U.S. exports to Russia have remained relatively robust since sanctions on Russia were announced. U.S. exports of goods to Russia were 1.3% higher in the first three quarters of 2014 than in the first three quarters of 2013. However, U.S. imports of goods from Russia were 10% lower over the same time period.<sup>58</sup> It is not clear how U.S.-Russian trade flows will evolve in coming months. A weaker ruble relative to the U.S. dollar may make U.S. exports to Russia less competitive and may increase the competitiveness of U.S. imports from Russia. Additionally, if Russia's economy contracts, as many economists are projecting, Russian demand for U.S. exports could decline.

**The U.S. economy overall has strengthened in recent months.** To date, U.S. economic growth has remained relatively strong since sanctions on Russia were announced. In January 2015, the IMF estimated that U.S. growth will be 3.6% in 2015 and 3.3% in 2016, up from its forecast for the United States in October 2014.<sup>59</sup> IMF projections for U.S. economic growth are also higher than the average growth rate for other advanced economies (2.4% in 2015 and 2.4% in 2016). Additionally, the U.S. unemployment rate fell to 5.6% in December 2014, its lowest rate since June 2008.<sup>60</sup> However, it is difficult to know whether these macroeconomic indicators would have been even stronger in the absence of sanctions. It is also difficult to predict the impact of sanctions on U.S. growth and employment going forward. For example, an economic crisis in Russia could cause growth in the EU to slow. Slower growth in Europe could have spillover effects for the United States, given their strong economic links.

---

<sup>53</sup> "Too Smart by Half?: Effective Sanctions Have Always Been Hard to Craft," *Economist*, September 6, 2014.

<sup>54</sup> CRS Insight IN10133, *Russia's Ban on Certain Imported Food and Agricultural Goods*, by Joel L. Greene.

<sup>55</sup> For example, see Lisa Murkowski, "Alaska Delegation: U.S. Should Push Back Against Russian Seafood Boycott," press release, August 26, 2014, <http://www.murkowski.senate.gov/public/index.cfm/pressreleases?ID=532b03cb-182a-46b2-b3e0-4e41f1e12199>.

<sup>56</sup> Ross Courtney, "Russia Sanctions Affect Washington Apples, Pears," *Yakima Herald*, August 8, 2014.

<sup>57</sup> ING, "Russian Sanctions: 130,000 European Jobs at Stake," ING International Trade Special Report, August 2014.

<sup>58</sup> U.S. Census Bureau, as accessed from *Global Trade Atlas*.

<sup>59</sup> IMF, *World Economic Outlook Update*, January 2015, <http://www.imf.org/external/pubs/ft/weo/2015/update/01/pdf/0115.pdf>.

<sup>60</sup> U.S. Department of Labor, Bureau of Labor Statistics.

**Russia is seeking alternative economic partners.** Some analysts are concerned that sanctions will cause Russia to turn away from U.S. companies and seek out alternative economic partners, particularly in emerging markets (which have not imposed sanctions on Russia).<sup>61</sup> There is some evidence to support this concern. For example, in October 2014, Russia and China completed approximately 40 agreements related to finance and technology.<sup>62</sup> Russia is also reportedly turning to Brazil and other Latin American countries for food imports to compensate for losses resulting from its ban on agricultural imports from other countries.<sup>63</sup> However, it is not clear whether and to what extent these relationships would continue in the absence of U.S. sanctions on Russia.

## Conclusion

The United States has imposed sanctions on a number of Russian individuals and entities in response to Russia's government's annexation of Crimea and involvement in the Ukraine crisis. U.S. sanctions include, for example, targeting officials in Putin's inner circle, placing restrictions on new debt to key sectors in Russia's economy, and opposing new multilateral development projects in Russia. The United States has worked to coordinate its sanctions with a number of other countries, particularly those in the EU. As Congress considers additional economic sanctions on Russia, it may consider the impact of current economic sanctions on Russia's economy and foreign policy, in addition to their impact on U.S. economic interests.

Russia's economy has deteriorated rapidly in recent months, marked by capital flight, depreciation of the ruble, rising inflation, weaker growth prospects, and budgetary pressures. Many experts believe that sanctions are contributing to Russia's economic challenges. However, it is difficult to assess the impact of sanctions separate from other domestic and international factors, particularly low oil prices. Longer-term, the economic impact of the sanctions will depend on a number of factors, including whether any new sanctions on Russia are imposed. The effectiveness of the sanctions in inducing a change in the behavior of the Russian government remains to be seen.

Some U.S. business groups have raised concerns about the economic costs of sanctions on Russia to the United States. Economic growth in the United States has remained strong since the sanctions were imposed. However, news reports indicate that some U.S. firms and industries have been adversely affected. Longer-term, the impact of the sanctions may depend on a number of factors, such as the ability of U.S. firms to find alternative markets, potential spillover effects from a slowdown in Russia, and whether Russia implements additional retaliatory measures against the United States.

---

<sup>61</sup> "International Producers Risk Losing Russian Market over Sanctions," *RT*, November 13, 2014.

<sup>62</sup> Olga Razumovskaya, "An Isolated Russia Signs Business, Finance Pacts with China," *Wall Street Journal*, October 13, 2014.

<sup>63</sup> "Russia's Import Ban Means Big Business for Latin America," *RT*, August 7, 2014.

## **Author Contact Information**

Rebecca M. Nelson  
Specialist in International Trade and Finance  
rnelson@crs.loc.gov, 7-6819

## **Acknowledgments**

Gabriel Nelson, Research Assistant, provided research assistance for this report. Jamie Hutchinson, Visual Information Specialist, helped prepare the figures.