Box 1.1
ECONOMIC AND FINANCIAL SANCTIONS AGAINST RUSSIA

The United States, the EU, the United Kingdom and the other G7 members have imposed significant economic sanctions on Russia in response to its invasion of Ukraine. The sanctions date back to 2014, following Russia's annexation of Crimea and its support for the separatists in the Ukrainian regions of Donetsk and Luhansk. However, they have been expanded to a much broader scope since the current armed conflict broke out. The sanctions have been progressively imposed and can be grouped into four categories: finance, trade and industry, individuals and other (diplomats, media and economic cooperation).[1]

The financial sanctions directly target certain financial institutions (70% of the Russian banking market) and the Bank of Russia and the Central Bank of Belarus. The main measures include freezing the assets of these two central banks and preventing them from accessing their foreign currency reserves, as well as a ban on transactions with them. Moreover, seven Russian banks and three Belarusian banks were decoupled from the SWIFT financial messaging system on 12 March, and their transactions on the international financial markets were banned in April.[2] The measures also significantly limit the financial inflows from Russia to the EU, by prohibiting the acceptance of new deposits exceeding certain values from Russian nationals or residents, as well as the selling of euro-denominated securities to Russian clients. Lastly, the EU is also taking measures to prevent crypto-assets from being used to circumvent the sanctions imposed.

Measures have also been applied to restrict access to cutting-edge technology and trade in key sectors such as energy and transport, with bans on exports of high-tech goods (semiconductors and aviation parts) and of the components needed to upgrade Russian refineries, and on investments in the country's energy sector. Furthermore, the United States has banned Russian gas and oil imports, and the EU has banned imports of coal and key goods in the iron and steel sectors. The EU has also imposed a series of sanctions including asset freezes, travel restrictions and a prohibition on making funds available to a wide range of individuals and entities that are responsible for Russia's actions in Ukraine or that provide material or financial support for such actions.

The restrictive measures adopted by the EU are binding for all persons or entities subject to its jurisdiction, i.e. the nationals, legal persons, entities and bodies of EU Member States. In any event, adopting the sanctions globally is key to preventing financial flows from being diverted, which could happen if the sanctions were concentrated in European countries. This is because, unlike those imposed by the United States, the EU sanctions do not create obligations for third-country nationals or entities, unless the activity subject to sanction is performed, at least partially, in the EU (as is the case of SWIFT, for example).[3] Member States are responsible for the proper application of the measures adopted at the EU level within their territory and, in particular, for detecting and issuing penalties for infringements of the restrictive measures. In Spain, the competent national authority for international financial sanctions is the Treasury, through the Deputy-Directorate General of Inspection and Control of Capital Movements.

To quantify the possible medium-term impact of the sanctions adopted against Russia through the trade channel, the effect of previous trade and other sanctions on international trade is analysed. Since 1950, a total of 700 international sanctions have been adopted,[4] most of which have had no major impact on international trade flows. Based on historical experience, the most recent sanctions (i.e. from 1995 onwards) reduced the bilateral trade flows of the countries targeted by an average of 4.5% (see Chart 1). There is, however, much heterogeneity in the effect of the sanctions. In the case of extreme sanctions (such as those imposed on Cuba and North Korea), bilateral trade fell by close to 80%. The sanctions

1 The EU has so far adopted five packages of measures: the first package was adopted on 23 February 2022, the second on 25 February and the third on 28 February and 2 March. On 9 March, the EU adopted additional measures. Lastly, a fourth package was adopted on 15 March, followed by a fifth on 8 April.

2 SWIFT stands for the Society for Worldwide Interbank Financial Telecommunication, the main international financing messaging system, which is headquartered in Belgium. While this measure hampers transactions, it does not prevent them from being conducted, as they can be carried out manually or by using alternative messaging systems, such as Russia's so-called SPFS (Romanised acronym of the Russian name, which may be translated as System for Transfer of Financial Messages). However, very few institutions participate in this Russian system.

3 The EU's sanctions and those of the United States are not perfectly aligned. This, along with the extraterritorial effects of the US measures, poses a risk for EU economic operators of being issued penalties by the US authorities.

4 The sanctions are included in a database of sanctions, published in G. Felbermayr, C. Syropoulous, E. Yalcin, and Y. V. Yotov (2020), "On the Heterogeneous Effects of Sanctions on Trade and Welfare: Evidence from the Sanctions on Iran and a New Database", School of Economics *Working Paper Series* 2020-4, LeBow College of Business, Drexel University.

that most closely resemble those imposed on Russia were those taken against Iran between 2006 and 2014, which also entailed the exclusion of some banks from SWIFT. While not extreme, the sanctions against Iran prompted a significant fall (55%) in its bilateral trade flows with the sanctioning countries.

Taking Iran as a precedent, the impact of the sanctions imposed on Russia by the EU, the United States and other countries is simulated, assuming that bilateral trade responds similarly to how it did in the case of Iran. To this end, a standard general equilibrium model for world trade is used.[5] This model, which only considers the trade channel, does not distinguish between sectors of activity and their possible interconnections, nor does it take into account any dynamic effects (e.g. the impact on investment) that might exacerbate the effects of the sanctions. With this in mind, the findings (see Chart 2) should be interpreted as the minimum effects of sanctions. Similarly, the analogy with the sanctions imposed on Iran is merely an approximation, and there is considerable uncertainty as to the consequences of the current conflict for financial and trade flows, not only for Russia, but also on a global scale.

In any event, according to this model, the euro area's total imports and exports would fall by 1%. However, there is significant disparity across the area, with trade dropping more sharply in eastern European countries. Globally, some countries will benefit from this trade shock, by refraining from imposing sanctions and being able to increase their trade flows with Russia. Examples include Kazakhstan, Israel, Turkey and China. Nonetheless, as a general rule, the increase in trade flows in such cases is small, with Kazakhstan being the only country where an increase of just over 1% is expected. Such increases in trade flows cannot offset the significant trade losses that Russia is facing as a result of the measures set in place, with exports and imports projected to fall by 28% and 40%, respectively. Russia and Ukraine account for a sizeable share of global exports of some products. These include natural gas, oil and certain metals, such as nickel, aluminium and palladium, in the case of Russia, and certain foods, such as sunflower oil, wheat and maize, in the case of Ukraine. Given the current circumstances, these products may soon start running short. For its part, Russian GDP is expected to drop by more than 1% in the medium term.[6]

Chart 1
EFFECT OF PREVIOUS SANCTIONS ON INTERNATIONAL TRADE FLOWS (a)

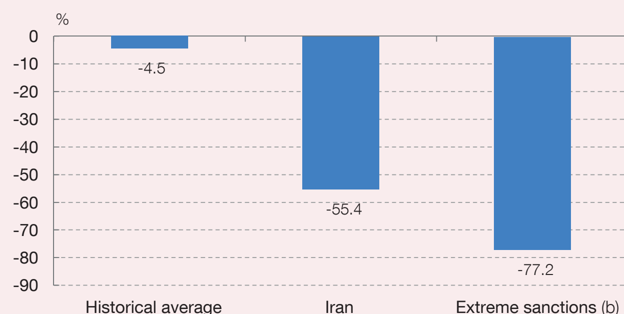

Chart 2
IMPACT OF TRADE SANCTIONS ON EXPORTS, IMPORTS AND GDP

SOURCES: Banco de España calculations, Felbermayr et al. (2021).

a The average historical impact of sanctions on bilateral trade flows is estimated using a model of bilateral trade flows, which covers 66 countries and the period 1995-2018.
b Extreme sanctions refer to those imposed on Cuba and North Korea, for example.

5 S. L. Baier, Y. V. Yotov, and T. Zylkin (2019), "On the widely differing effects of free trade agreements: Lessons from twenty years of trade integration", Journal of International Economics, 116:206-226.

6 As mentioned previously, this estimate is obtained using a model that only considers the trade channel and does not take into account dynamic effects. Consequently, it may represent a lower bound of the impact of the sanctions.

Box 1.1

ECONOMIC AND FINANCIAL SANCTIONS AGAINST RUSSIA (cont'd)

As already addressed in the body of Chapter 1, the main effect of the sanctions taken against Russia on the economic and financial risks facing EU countries is expected to be felt on the energy markets. Russian energy supplies to the EU cannot be replaced overnight, and the adaptation costs incurred could be significant. Thus, while this shock may accelerate technological innovation for the energy transition away from fossil fuel-based models, the switch will not be instantaneous. Moreover, a swift transition may also be less orderly, which would make it more costly in the short term. Given the scale of the measures and the uncertainty over the current macro-financial environment, the extent to which such measures are implemented and their impact will have to be closely monitored in the coming quarters.

Moreover, also worth noting is the indirect impact of the sanctions on the Austrian bank Sberbank Europe AG. This bank is a subsidiary of the Sberbank group (Russia's leading bank), whose largest shareholder is a sovereign wealth fund controlled by the Russian Ministry of Finance. While the subsidiary was not directly targeted by the sanctions imposed, the rapid and significant deterioration in its liquidity situation led the Single Resolution Board (SRB) on 28 February 2022 to declare it as failing or likely to fail, confirming the ECB's previous assessment. On 1 March, the SRB adopted resolution decisions for the subsidiaries in Croatia and Slovenia, transferring their shares to Hrvatska Poštanska Banka and Nova Ljubljanska Banka d.d., respectively. Conversely, the winding up of Sberbank Europe AG in Austria was not thought to pose a financial stability risk and did not therefore call for resolution action. Accordingly, the insolvency proceedings were carried out in line with national law.[7]

Meanwhile, Russia has also responded with a raft of measures that seek to circumvent or minimise the sanctions imposed by the West and its allies. These include its intention to nationalise some assets, currency controls, a ban on selling assets in Russia to foreign firms and the demand that gas be paid for in roubles. If adhered to, this last measure would have major consequences, as it would limit the impact of the sanctions on the Russian foreign exchange market. Lastly, Russia has also banned exports of certain products and commodities (wood and forestry products, grain and unrefined cane sugar) until end-2022. This measure, together with the ban on exporting some foods imposed by Ukraine, may exacerbate food price pressures and the humanitarian consequences for developing countries that rely on such food.

7 Another European subsidiary of a Russian bank has recently been declared bankrupt. Namely, Amsterdam Trade Bank, part of the Russian Alfa Bank. See, e.g. the De Nederlandsche Bank 22 April press release.