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The Economic Impact of Russia Sanctions

In response to Russia's full-scale invasion of Ukraine starting in February 2022, a broad, multilateral coalition, including the United States, the European Union (EU), the United Kingdom, Canada, Australia, Japan, and others, imposed sweeping new sanctions on Russia. The sanctions—unprecedented in terms of scope, coordination, and speed—target Russia's key decisionmakers and influential business elites, among others. Sanctions also target Russia's financial, military, and energy sectors as well as access to U.S. technology and the dollar, among other measures.

Russia's economy has largely withstood sanctions to date, but economic pressures within Russia are building. On February 12, President Trump announced that, following a call with Russian President Vladimir Putin, negotiations to end the war would start "immediately." U.S. Secretary of State Macro Rubio has indicated that sanctions relief could be a concession in a negotiated settlement to end the war.

U.S. sanctions policy is set by Congress and, via emergency authorities delegated by Congress, the President. Congress might consider the conditions under which the United States should lift, maintain, or tighten sanctions on Russia. Congress might choose to exercise oversight of executive branch sanctions policy towards Russia and/or directly set U.S. sanctions policy towards Russia through legislation.

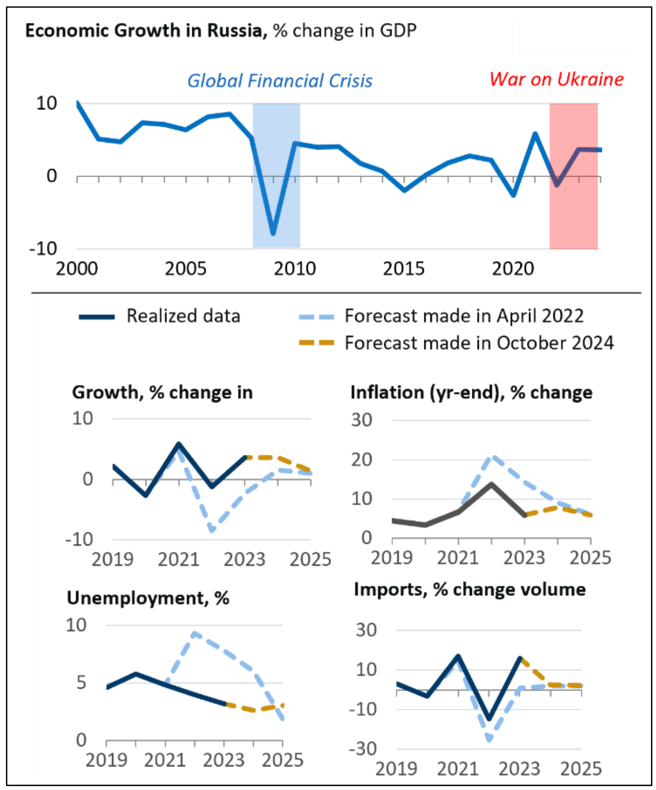
Impact on Russia's Economy

Early in the war, the broad consensus was that the new sanctions would devastate the Russian economy. By some metrics, though, Russia's economy has proved resilient to date. For example, the global financial crisis of 2008-2009 was far more disruptive to Russia's economic growth (**Figure 1**). Additionally, its rate of inflation, unemployment levels, and flow of imports have outperformed forecasts made early in the war (**Figure 1**).

There are at least three reasons why Russia's economy has beaten expectations:

- First is Russia's transition to a wartime economy, including increased military production and increased military personnel payments. Russia's military expenditures have roughly doubled as a percentage of Russia's gross domestic product (GDP) from 3%-4% of GDP in 2019-2021 to a projected 6.2% of GDP in 2025, boosting Russia's economy, at least in the short-term.
- Second is Russia's pivot to alternative economic partners. The coalition of countries sanctioning Russia is broad but not universal. Brazil, China, India, Saudi Arabia, and Turkey are among the major emerging-market economies that have not sanctioned Russia. Russia has deepened economic ties with these and other emerging-market economies.
- Third is Russia's energy exports. The United States and allies have imposed sanctions to limit Russia's ability to profit from energy exports. Due to concerns about stability in global energy markets, the U.S. and partner governments generally stopped short of seeking to restrict Russian energy trade worldwide and related financial transactions. However, over the course of the war, these countries have gradually tightened energy sanctions on Russia and Europe's imports of Russian energy—previously a significant source of Russian revenue—have fallen.

Figure 1. Economic Trends in Russia



Source: Created by CRS from International Monetary Fund (IMF) World Economic Outlook Database.

Are Economic Challenges in Russia Mounting?

Even though Russia's economy has exceeded expectations, sanctions have created challenges for Russia. Sanctions have complicated Russia's cross-border payments, Russia's military has difficulty procuring key components, and hundreds of U.S. and other multinational companies have left Russia.

More recently, some trends suggest economic pressure on Russia may be building. Russian President Vladimir Putin acknowledged in December 2024 that inflation and economic overheating are issues facing the Russian economy. To combat inflation, the central bank raised interest rates to 21% in October 2024, the highest level in decades. Russian corporate debt has risen over the course of the war, and there is speculation that high interest rates could trigger bankruptcies across Russia. Meanwhile, reports indicated that in 2023, factories in Russia reportedly were running at about 80% capacity due to labor and input shortages.

More generally, the transition to a wartime economy has been economically disruptive. For Russian factories, transitioning between civilian and military production incurs costs in terms of equipment and labor training. Given the overarching structural changes in the Russian economy toward war production, transitioning back to a peacetime economy focused on civilian sectors will likely entail additional economic disruptions.

Economic Impact Outside of Russia

Sanctioning Russia carries significant global implications due to its size—the 11th largest economy in 2024—and its integration in the global economy. In addition to its oil and natural gas exports, Russia is a key global supplier of several metals (titanium, aluminum, and nickel), chemical gases used in semiconductor production, wheat, and fertilizers, among other commodities.

U.S. and Other Multinational Companies

Russia has responded to sanctions with actions that have made operating and departing the Russian market costly. Since the war commenced, for example, the Russian government has reportedly required foreign companies to sell assets at fire-sale prices or increased taxes on firms leaving the country. Even though many U.S. and European companies have left Russia, around 800 companies from the United States and partner countries reportedly remain in Russia and are vulnerable to expropriation by the Russian government.

Europe and Energy Markets

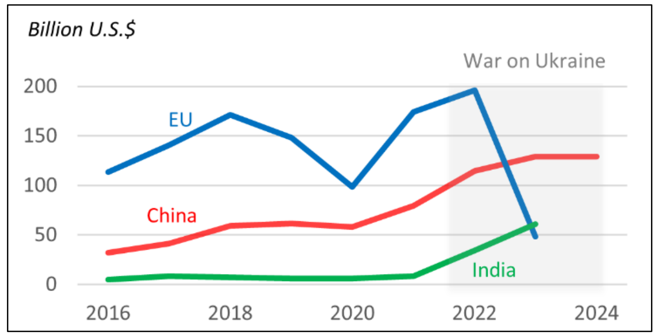
Within the coalition of jurisdictions imposing sanctions on Russia, Europe had been Russia's strongest economic partner and has faced the greatest economic disruption. In particular, Europe had been dependent on energy imports from Russia, especially natural gas, and transitioning to alternative sources of energy has been costly. Analysts estimate that European countries have spent between 1% and 7% of GDP shielding consumers and firms from rising energy costs, caused in part by building new infrastructure for energy security.

In contrast, the implications of Russian sanctions for U.S. trade overall have arguably been minimal. The United States has never had a substantial trade relationship with Russia (and the USSR prior to 1992), which has accounted for less than 3% of annual U.S. exports and imports since World War II.

Opportunities for Emerging Markets

Russia has sought deeper economic ties with countries outside of the sanctions coalition, creating new economic opportunities for many emerging-market economies. Notably, Russia has increased its exports and imports with China to historic highs; for example, China's imports from Russia have increased by 60% between 2021 and 2024. Likewise, Russia's trade with India have also increased since the onset of the war (**Error! Reference source not found.**).

Figure 2. Key Jurisdictions' Imports from Russia



Source: Created by CRS from Trade Data Monitor.

The Role of the U.S. Dollar

Treasury officials across various Administrations have cautioned that extensive use of financial sanctions could threaten the central role of the dollar and U.S. financial system. Sweeping sanctions on Russia appear to have accelerated efforts by various countries, including China, to reduce their reliance on the U.S. dollar in international transactions, as well as U.S. and European cross-border payments infrastructure more generally.

The United States benefits economically and politically from the dollar's status as the dominant reserve currency in the global economy. If de-dollarization efforts gain traction on a broader scale, there could be adverse implications for U.S. interests. Analysis from the IMF in 2024 finds that the U.S. dollar remains the preeminent currency in cross-border transactions, although the use of "non-traditional" currencies (including the Australian dollar, Canadian dollar, Chinese renminbi, Nordic currencies, Singaporean dollar, and South Korean won) has risen.

Policy Issues for Congress

The economic implications of sanctions on Russia are complicated. On one hand, Russia's economy has weathered the sanctions, the war continues, and China has deepened its economic ties with Russia. On the other hand, sanctions have imposed economic costs on Russia, and Russia's economy may be reaching a tipping point. The sanctions on Russia may signal to countries around the world that unprovoked aggression has consequences.

Many of the U.S. sanctions imposed on Russia since 2022 have been implemented through Executive Orders; such sanctions can be lifted unilaterally by the President. As Congress considers the trajectory of U.S. sanctions policy, Members might consider the conditions under which (a) it is preferable to delegate the authority to set U.S. sanctions policy to the President and (b) the conditions under which it prefers to establish sanctions policy directly through legislation.

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