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ECONOMIC SANCTIONS IN A GLOBAL CONTEXT: RUSSIA'S ADAPTATION AND SPILLOVER EFFECTS

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ABSTRACT

This study provides a systematic analysis of the effects of sanctions policy on economic stability and the relationship between imposed sanctions and inflationary dynamics across countries. The initial hypothesis posited a direct and uniformly adverse impact of economic isolation on targeted economies; empirical evidence, however, indicates that outcomes are contingent on country-specific structural characteristics and adaptive capacities. The Russian case illustrates this complexity: despite extensive restrictive measures, the economy has demonstrated resilience through diversification of foreign trade, implementation of import-substitution policies, and expansion of domestic production, which have supported continued GDP growth in certain periods and mitigated inflationary pressures in key sectors. The analysis further shows heterogeneous sectoral responses to external shocks and highlights the role of institutional, fiscal, and market mechanisms in shaping macroeconomic trajectories under sanctions. These findings caution against blanket assumptions regarding the destructiveness of sanctions and underscore the necessity for policymakers to evaluate sanctions effects on a case-by-case basis, considering domestic economic structures, resilience mechanisms, and sectoral vulnerabilities to form more effective international economic policy.

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1 INTRODUCTION

Over the past decade, the global community has experienced profound shifts in international economic dynamics, largely driven by the deliberate implementation of politically motivated restrictions. Among the most frequently employed tools of external pressure is the imposition of targeted sanctions, which alter the internal economic dynamics of affected states. A vivid example of this practice is the imposition of reciprocal sanctions between Russia and several Western powers since 2014, including the European Union, the United States, Japan, and other countries officially designated as hostile under international law.

Economic sanctions represent a central instrument of foreign policy; however, their effectiveness varies considerably depending on the geopolitical context and the strategic disposition of the decision-making actors. Comprehensive research indicates that only about one-third of previously imposed sanctions have achieved their stated objectives, with less than a quarter succeeding in preventing armed conflicts. Moreover, the negative consequences have been particularly felt by the populations of the affected countries, leading to a decline in living standards and an increase in distrust towards the governments of the initiators of trade and financial restrictions. A nation's cultural identity plays a decisive role in shaping public responses to sanctions: in societies with strong national consciousness, citizens often express greater solidarity. Conversely, in more fragmented cultural contexts, sanctions may provoke social unrest and growing dissatisfaction with political elites (Prigoda & Cekerevac, 2016). Table 1 represents historical examples of the impact of sanctions on the economies of various countries.

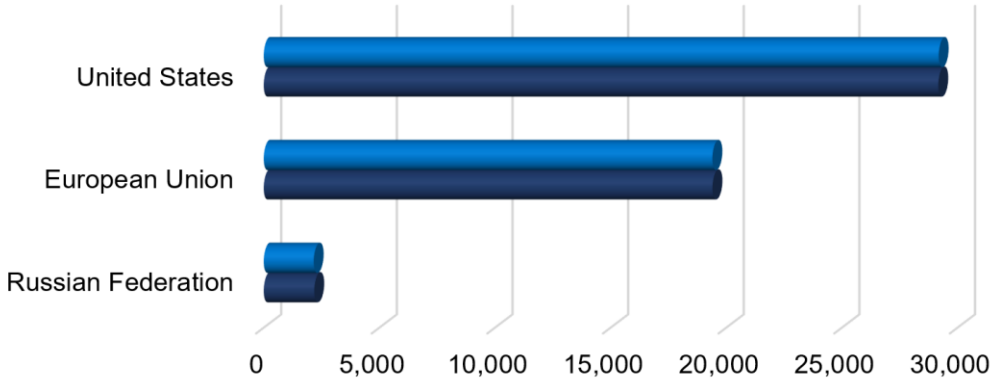
Table 1. *Historical examples of the impact of sanctions on the economies of various countries*

Sanctioned country	Sanctioning country, organizations	Effect	Result
Cuban blockade (1960–present)	The US imposed an embargo on Cuba in 1960 after Fidel Castro's revolution, banning trade and investment	- Cuba lost its main market (sugar, nickel). - The economy was reoriented towards the USSR, but its 1991 collapse triggered a severe crisis ('Special Period'). - Despite the deficit and poverty, the regime resisted, and sanctions became a pretext for anti-American propaganda.	The sanctions did not overthrow Castro, but they did enormous damage to the economy.
Iraq (1990–2003)	The UN imposed harsh sanctions after the invasion of Kuwait (ban on oil trade, except for the "Oil for food" program)	- GDP fell by 80%, and inflation reached 1000%. - Humanitarian disaster: 500,000 children died due to lack of medicines (UN data).	The ruling regime survived, but the economy was destroyed.
Iran (1979–present)	The US and UN imposed sanctions citing a lack of transparency in Iran's nuclear program and alleged support for terrorism.	- Hyperinflation (up to 50% in 2019). - Fall in oil exports (from 2.5 million barrels/day to 500 thousand in 2012). - Increased influence of China and Russia as alternative partners.	The sanctions pushed Iran into negotiations (JCPA-2015), but after the US exit in 2018, the economy was again under attack.
Yugoslavia (1991–1995)	- European Union (EU) - United Nations (UN) - United States of America (USA) -NATO for human rights violations and humanitarian crimes	- Large-scale reduction of the GDP of Yugoslavia (about 70% decrease). - Increase in unemployment and inflation - Energy crisis due to the oil and fuel embargo. - Deterioration of health and social services. - Shortage of necessities. - Exacerbation of internal social and political problems.	The signing of the Dayton Accords in 1995

2 DOMESTIC ECONOMIC EFFECTS OF SANCTIONS

Sanctions, as a tool of foreign policy influence, have a multifaceted impact on the economies of both the imposing country and the target of the sanctions. When analyzing the impact of sanctions on the economies of the imposing countries, it is important to consider the complexity of accurately assessing the damage. Typically, the economic loss for large entities such as the European Union and the United States remains modest amounting to less than 1% of their gross domestic product. However, since GDP growth in these countries often hovers around one percent annually, even a small negative effect can significantly slow development and lead to stagnation or recession in the economies of both sides.

At the same time, there is a pronounced asymmetry in economic resilience: the consequences of imposing sanctions largely depend on the economic potential of the state. Countries with larger economies are much less exposed to risks and can easily withstand potential losses. In contrast, states with lesser economic power are more vulnerable to negative consequences. In 2024, the gap in GDP between participants in sanctions wars was pronounced, reflecting this asymmetry (Figure 1)[1].



	Russian Federation	European Union	United States
World Bank (WB, 2024)	2,160	19,400	29,185
International Monetary Fund (IMF, 2024)	2,184	19,403	29,168

***Figure 1**. Nominal GDP Estimates for 2024 — Main Sanctions-Participating Countries (USD billions, current prices)*

Sources: (CBR, 2025; WB, 2024)

The share of the EU in the Russian foreign trade was 51-56%, while the Russian share in EU trade did not exceed 7-9%. For the USA, this figure was even lower—4.5-5%. According to analysts' research, Western economies, due to their strength, could withstand sanctions with minimal losses. In May 2014, the Deutsche Bank Research Center published a study stating that Western economies can endure a sanctions war, including the Russian countermeasures, without significant losses.

[1] Accurately determining the gross domestic product (GDP) of major economic entities such as the United States, the European Union, and the Russian Federation is a challenging task, as reported values vary depending on the source, methodology, and timing of publication. Various institutions—including the International Monetary Fund (IMF), the World Bank, the European Commission, and national central banks—apply different approaches when estimating both nominal and real GDP, with adjustments such as purchasing power parity (PPP) further contributing to these differences. In this study, however, we have elected to use only the IMF (2024) and World Bank (WB, 2024) data, as their estimates are relatively consistent and derive from well-established methodologies. Other sources were omitted because they either cover only certain countries or employ methods that do not allow for a comprehensive and comparable assessment across all actors. Furthermore, due to time lags in data collection and processing, most figures for the current or previous year represent estimates rather than final data, and these estimates are often revised as more complete information becomes available.

3 RUSSIAN ECONOMY AND SANCTIONS

Official statistical data shows that in 2014, the Russian losses from Western sanctions amounted to 1.5% of GDP, and by 2022, this figure had risen to 2.1%. These numbers reflect the impact of sanctions on the Russian economy, despite the focus on import substitution and support for domestic producers (Figure 2). (Bank of Russia, 2024)

Sanctions have become a catalyst for profound structural changes in the Russian economy.

To bridge the gap between societal needs and industrial productivity, the authorities took significant steps to support the real sector of the economy. Among the measures were subsidies and incentives for producers of essential goods. Within a year, such policies yielded tangible results: food production significantly increased, ensuring the stability of the country's food security level. New partners from China, Latin America, and the Middle East played an important role in replacing supplies from "unfriendly countries," which helped to fill the emerging gaps and reduce dependence on traditional supply sources.

In addition, efforts were intensified to create an independent financial infrastructure that would not rely on Western organizations. In response to the 2014 threat of exclusion from the international SWIFT system, Russian authorities began coordinating with BRICS partners on possible alternatives. Simultaneously, efforts were underway to reduce reliance on foreign payment systems such as Visa and MasterCard, through the creation of a domestic alternative and the development of internal settlement mechanisms.

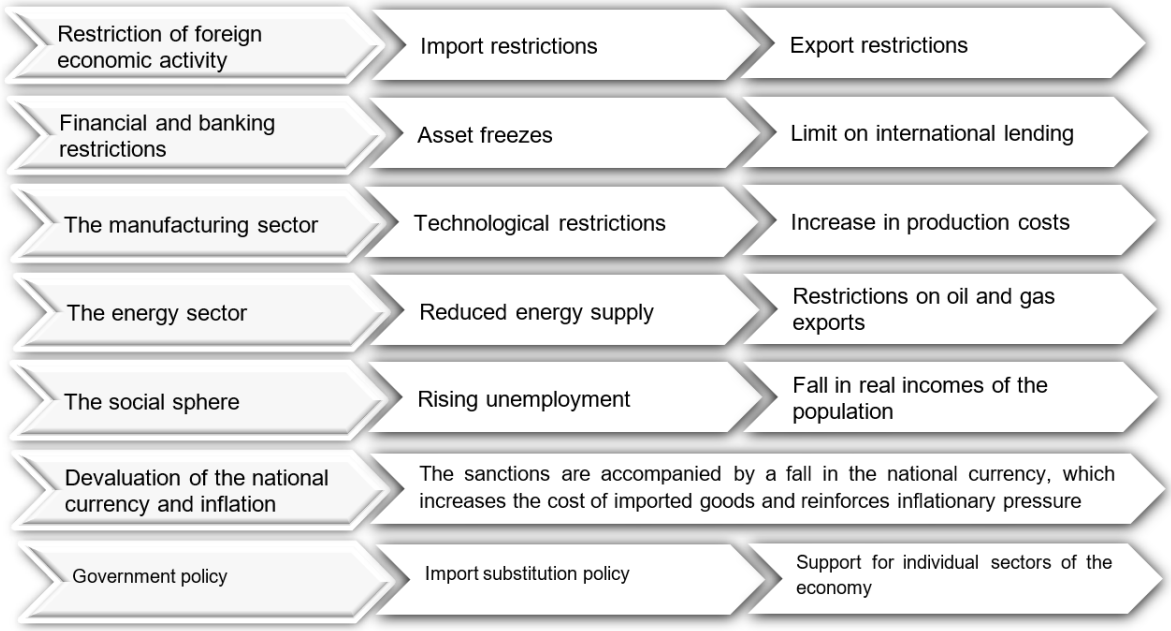


***Figure 2**. Mechanisms of the impact of sanctions on internal economic processes*

At the same time, within the BRICS association, processes have started to establish a development bank that could eventually compete with institutions such as the World Bank and the International Monetary Fund. Thus, a new international financial architecture is being created, allowing member countries to conduct operations outside the control of the West.

However, as practice has shown, Deutsche Bank experts were mistaken in their assessments, which had assumed that the sanctions policy would have only minimal negative effects on the European and American economies. In addition to the food embargo and a decline in tourism, the energy sector also experienced severe disruptions resulting from the EU's ineffective policy towards Russia. Sanctions, exacerbated by falling oil prices (the main source of budget revenue), led to a significant devaluation of the ruble, which, in turn, complicated the credit situation and impacted monetary policy. The Bank of Russia responded to these challenges by tightening its credit policy to stabilize the economy.

An analysis of the current difference between the Central Bank's key interest rate and the level of inflation shows that in the context of increased uncertainty in recent years, the relationship between these macroeconomic indicators has become less pronounced (Figure 3).

The analysis indicates that inflation responds less actively to increases in the key interest rate, complicating its forecasting. This is due to several factors, including shifts in market participants' expectations and the waning effectiveness of traditional monetary policy tools. These developments underscore the need to adopt alternative regulatory strategies in the context of global instability and sanctions. A predominantly inertial reaction of the market to inflation rates has been observed over the past four years.

An active budget policy aimed at economic development promotes growth in lending to both legal entities and individuals. The increase in income and revenue related to budget expenditure stimulates credit activity, including the use of preferential programs, leading to significant growth in lending activity, which, in turn, necessitates tougher measures to cool the market and slow down the increase in the overall credit portfolio of banks.

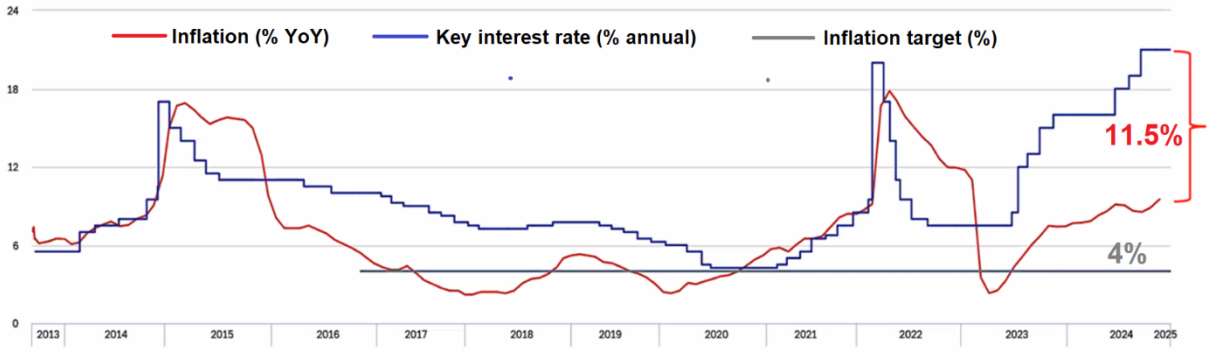


***Figure 3**. Analysis of the key rate of the Bank of Russia and inflation*
Source: (Tosunyan, 2025)

In 2024, the Bank of Russia raised the key interest rate during Monetary Policy Board meetings, which helped curb inflationary pressures. However, the inflation rate in the country reached 9.52%, which is twice the target level. In recent months, there has been an increase in inflationary pressure, persistent inflation indicators, and rising inflation expectations from both the population and businesses. A high level of consumer activity, bolstered by income and credit growth, highlights a structural imbalance between aggregate demand and supply-side capacity.

A key constraint on rapid production growth is the shortage of labor and the reduction of available production capacity. These limitations hinder the economy's ability to ramp up output swiftly and intensify pro-inflationary pressures.

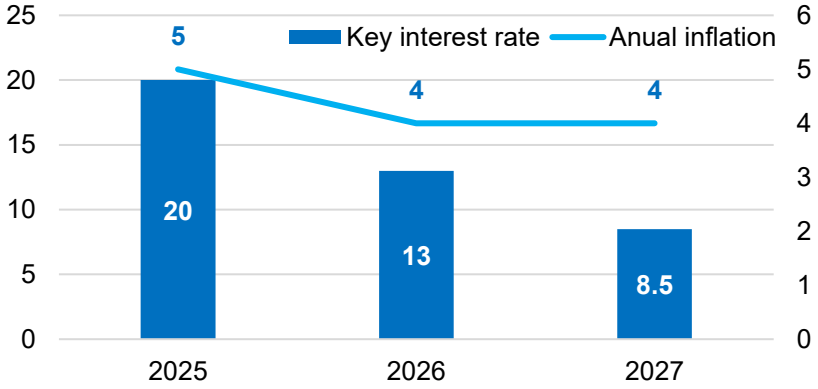


***Figure 4.** The key interest rate and inflation* (CBR, 2025)

To achieve the goal of reducing inflation and returning it to the target level, tight monetary conditions will need to be sustained over an extended period. According to the Bank of the Russian forecast, the key interest rate is expected to decline gradually: in 2025, it is projected to

range between 17% and 20% per annum; in 2026, between 12% and 13%; and by 2027, to return to the neutral range of 7.5% to 8.5% per annum.

This strategy aims to reduce annual inflation to 4.5–5% in 2025 and 4% in 2026 and to maintain it at the target level (Figure 4). Such an approach allows for the expectation of gradual stabilization of the economic situation and a decrease in pro-inflationary risks. However, its implementation requires coordinated action between monetary and fiscal policy, as well as the elimination of structural imbalances in the economy.

The analysis indicated that inflation dynamics have a substantial impact on the domestic investment climate and the Russian real-sector economy. However, the study only partially reveals the picture of the state's economic security, as it does not cover critical aspects of foreign policy such as exchange rate stability, foreign trade volumes, and financial flows. Therefore, the next phase of our study examines the impact of international sanctions on the Russian balance of payments indicators.

4 RUSSIA'S BALANCE OF PAYMENTS UNDER SANCTIONS

The performance of the Russian balance of payments has attracted considerable attention due to its positive trajectory in recent years. This phenomenon is driven by several factors, including the structural features of the national economy and the country's approach to foreign economic policy (Figure 5).

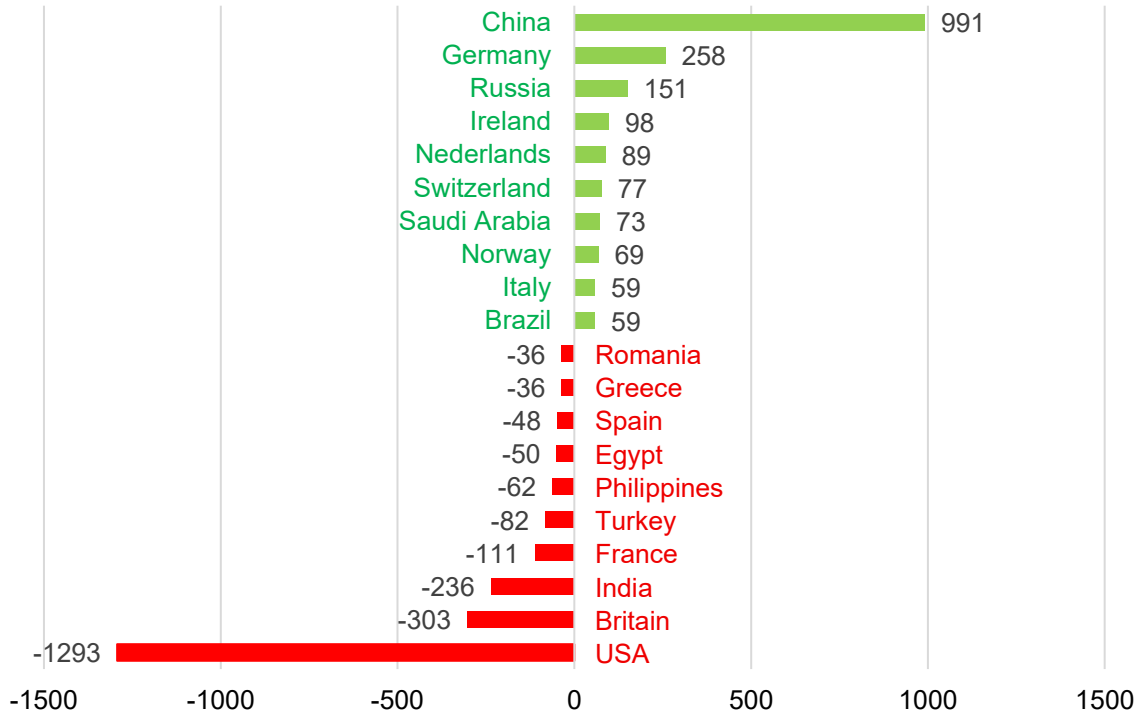


***Figure 5**. Balance of payments of some countries in 2024, $ billion.* (RIA, 2025)

Russia's balance of payments is shaped by a combination of endogenous and exogenous factors that ensure an excess of financial resource inflow over the outflow. Key aspects include:

1. *High revenues from the export of natural resources*. The export of oil products, natural gas, and mineral fertilizers provides a constant source of foreign currency inflow into the country. The Russian Federation traditionally holds leading positions in the global export of these categories of goods, positively affecting the state of the foreign trade balance.
2. *Limited integration into international production chains.* Despite active participation in the global division of labor, the Russian economy demonstrates a comparatively low dependence on external demand for manufactured goods. This circumstance minimizes the risk of significant current account deficits during periods of deteriorating global economic conditions.

3. *Effectiveness of state financial policy*. The implementation of a strategy to reduce the debt burden, the establishment of large foreign currency reserves, and the conduct of targeted monetary policy have contributed to the formation of favorable macroeconomic conditions for maintaining the stability of the state's financial position.
4. *Response to external negative shocks.* Russian authorities respond promptly to changes in the external environment through fiscal and monetary mechanisms. An example is the adaptation to falling oil prices and imposed economic sanctions, which includes the restructuring of public finances and activating an import substitution program.
5. *Attractiveness of the national stock market for foreign capital.* High yield rates, low borrowing costs, and the presence of promising investment projects make Russia an attractive jurisdiction for international investment.

A combination of these factors helps explain the Russian consistently strong balance of payments performance. As a result, the country has been able to offset the negative impact of unfavorable external conditions. However, further modernization of the economy's structure, increased labor productivity, and the expansion of high-tech exports will be necessary conditions for maintaining positive trends in the medium term.

5 PERCEPTION OF SANCTIONS BY RUSSIAN SOCIETY

Figures 6 to 8 present longitudinal data on Russian public perceptions of Western sanctions between 2022 and early 2025, based on Levada Center surveys. These visuals illustrate trends broader societal interpretation of the sanctions' purpose and effect."

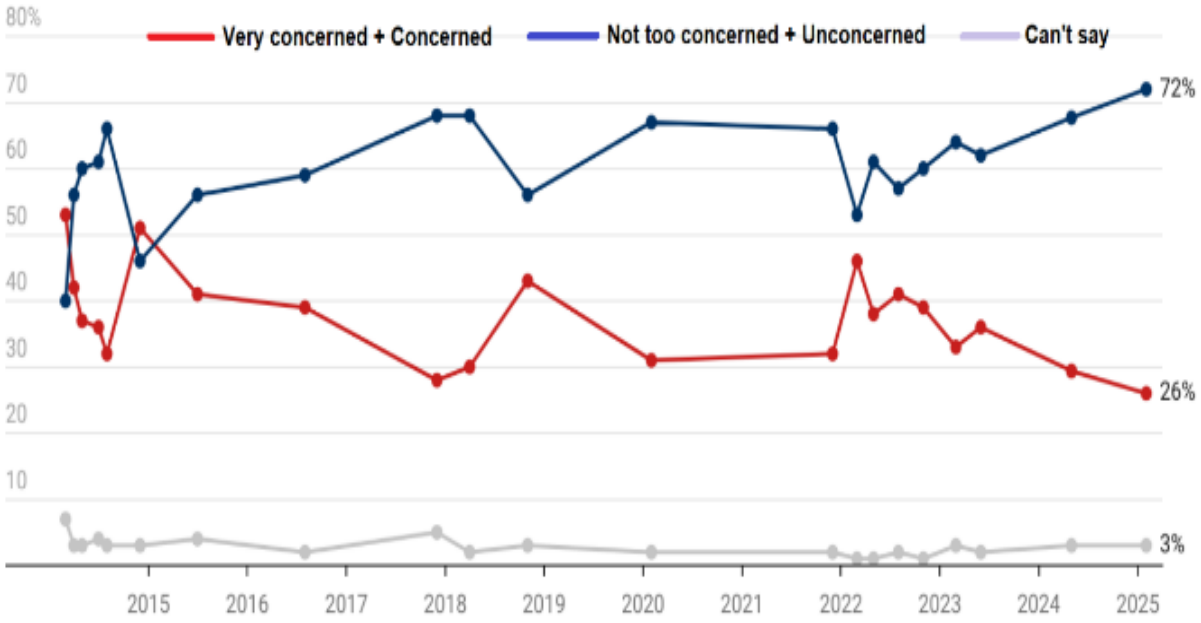


***Figure 6**. Results of the survey regarding the answer to the question: Are you concerned about the political and economic sanctions of Western countries against Russia? [In percentages of respondents]*

Source: (Levada, 2025A)

Sociological research conducted in the Russian Federation between 2022 and 2025 reveals a consistent trend: most respondents do not attribute the country's economic difficulties to international sanctions. By February 2025, 77% supported the continuation of the current political course aimed at countering Western pressure, while only 15% expressed willingness to seek compromise in exchange for the lifting of sanctions. (Levada, 2025B)

According to early 2025 data, nearly two-thirds of respondents reported no personal concern over

sanctions, with the primary worry centered on the freezing of Russian assets abroad (47%). Overall, 72% of respondents reported being unconcerned about sanctions—up 19 percentage points since March 2022—while only 26% expressed ongoing worry. (See Figure 6). Concern was more pronounced among older citizens, economically vulnerable groups, critics of the government, and those who had experienced financial setbacks. In contrast, younger individuals, government supporters, and respondents with stable economic conditions showed lower levels of concern. (Levada, 2025B)

The prevailing perception is that Western sanctions are intended to weaken Russia. Notably, over half of respondents believe that the sanctions will ultimately strengthen the country and serve as a stimulus for domestic development. Since March 2022, concern over political and economic sanctions has declined by 20 percentage points, reflecting growing public resilience or adaptation.

Beyond frozen assets, specific concerns include the cancellation of Russian cultural programs abroad (25%), the departure of Western companies (20%), restrictions on payment systems such as Visa and Mastercard (20%), limited air travel (18%), and sanctions targeting prominent Russian business figures (6%). The impact of sanctions is perceived as uneven across social groups and framed more as a geopolitical challenge than a direct threat to personal welfare.

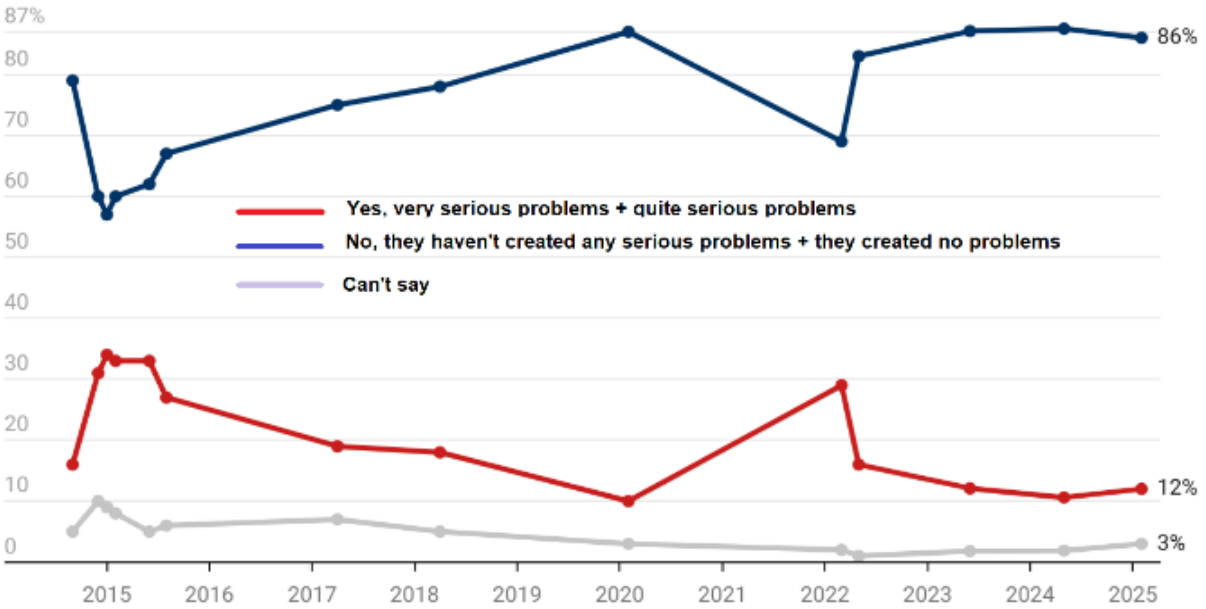


Figure 7 *Results of the survey regarding the answer to the question: Have the sanctions posed any problems for you and your family? [In percentages of respondents]*

Source: (Levada, 2025A)

The same study tracks shifting public perceptions in Russia regarding the impact and purpose of Western sanctions from 2022 to early 2025. While Figure 6 depicts general levels of concern, Figure 7 highlights perceived personal impact. According to the data, 86% of respondents report that sanctions have not directly affected them or their families.

Notably, attitudes toward who bears the brunt of sanctions are sharply polarized: 44% believe the measures target a narrow political elite responsible for Russia's Ukraine policy (a 16-point increase), while 45% see them affecting the broader population (a 22-point decrease). These interpretations vary widely by age, income, region, political orientation, and information sources. Critics of the government, younger respondents, and those with declining personal finances are more likely to feel personally affected; older and more affluent individuals, rural residents, and political loyalists report minimal disruption.

Despite divergent views, a prevailing belief is that Western sanctions aim to weaken Russia, yet many respondents (over half) view them as a catalyst for national development.

***Figure 8**. Perception of sanctions by the Russian society: Social Sentiment Index (March 2008 - 100%; dynamics since 1995)*

Source: (Levada, 2025B)

Figure 8 presents the Social Sentiment Index (SSI), a composite indicator based on four sub-indices—Family Situation, Country Situation, Expectations, and Trust in Government. Each sub-index is calculated as the difference between positive and negative responses plus 100, with the overall SSI ranging from 0 to 200. Values below 100 reflect predominantly negative assessments.

The graph shows that, since the mid-1990s, the SSI has risen from the low 70s—marking a period of post-Soviet instability—to sustained values above 100 from 2007 onward. Notable declines align with key crises, including the 1998 financial crash, the 2008 South Ossetia conflict, the 2014 Crimea integration, and the launch of the 2022 special military operation in Ukraine. Since 2023, the index has gradually stabilized above 100 points, indicating that overall economic, social, and political sentiment has recovered to a neutral or moderately positive level.

The data indicate a high degree of public adaptation to external constraints, with respondents largely maintaining optimistic expectations for socio-economic development despite ongoing challenges. These trends appear shaped by subjective interpretations of domestic economic realities and perceptions of the relationship between foreign policy and national well-being. In this sense, the SSI not only captures shifts in collective mood but also serves as a barometer of public confidence under pressure, helping contextualize societal reactions to geopolitical and structural change over time.

6 CONCLUSIONS

Analysis of the consequences of sanctions allows us to highlight several key conclusions:

1. Reassessment of interdependence.
   Russia's dependence on Europe turned out to be significant but exaggerated, while Europe's dependence on Russia was downplayed. This led to unexpected consequences for both sides.
2. Underestimation of the consequences for Western countries.
   Policymakers in the USA and EU, operating under the belief in their economic indispensability, underestimated the scale of losses from exiting the Russian market. This created opportunities for third countries that were able to fill the vacated niches.
3. Positive effects for Russian producers.
   In several industries, sanctions opened new opportunities for Russian companies, allowing them to occupy market segments that foreign producers previously dominated.
4. A mismatch in the supply and demand for goods and services has largely driven the emergence of inflation under sanctions. This has been further compounded by global production disruptions and the rising costs of economic adaptation faced by businesses. This creates persistent inflationary pressure that is poorly controlled by the usual methods of state monetary policy.

The global economic landscape is increasingly shaped by competition among major powers for

access to strategic resources, essential industrial components, and technological innovation. Against this backdrop, conditions have emerged for a closer alliance between the People's Republic of China and the Russian Federation. Their complementary economic structures and industrial synergies have enabled both countries to strengthen gradually their positions relative to Western competitors.

The United States was the first to assess the potential threats posed by global competition. It took steps to restore its national industrial base, attract international partners, and ensure reliable access to scarce resources at acceptable prices. The European Union currently faces one of the most challenging economic situations. Its high dependence on external sources of essential industrial components and energy carriers has significantly undermined its competitiveness in the context of growing resource shortages and mounting geopolitical instability.

Moreover, the application of sanctions often fails to advance the stated objective of maintaining international stability, as outlined in the United Nations Charter. Such measures frequently only increase tension, deepen contradictions within countries and global communities, obscure the true motives of the parties to the conflict and contribute to further escalation of situations.

Based on the research findings, it can be concluded that exogenous shocks caused by the sanctions' regime play a key role in shaping inflationary processes. These processes are driven by an imbalance between aggregate demand and supply, further reinforced by persistent disruptions in value-added chains and the adaptation costs borne by economic agents.

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