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Business withdrawal and sanctions cripple the Russian economy

Abstract ([Complete paper](#))

As the Russian invasion of Ukraine enters into its fifth month, a common narrative has emerged that the unity of the world in standing up to Russia has somehow devolved into a “war of economic attrition which is taking its toll on the west”, given the supposed “resilience” and even “prosperity” of the Russian economy. This is simply untrue – and a reflection of widely held but factually incorrect misunderstandings over how the Russian economy is actually holding up amidst the exodus of over 1,000 global companies and international sanctions.

That these misunderstandings persist is not surprising. Since the invasion, the Kremlin’s economic releases have become increasingly cherry-picked, selectively tossing out unfavorable metrics while releasing only those that are more favorable. These Putin-selected statistics are then carelessly trumpeted across media and used by reams of well-meaning but careless experts in building out forecasts which are excessively, unrealistically favorable to the Kremlin.

Our team of experts, using private Russian language and unconventional data sources including high frequency consumer data, cross-channel checks, releases from Russia’s international trade partners, and data mining of complex shipping data, have released one of the first comprehensive economic analyses measuring Russian current economic activity five months into the invasion, and assessing Russia’s economic outlook.

From our analysis, it becomes clear: business retreats and sanctions are catastrophically crippling the Russian economy. We tackle a wide range of common misperceptions – and shed light on what is actually going on inside Russia, including:

- Russia’s strategic positioning as a commodities exporter has irrevocably deteriorated, as it now deals from a position of weakness with the loss of its erstwhile main markets, and faces steep challenges executing a “pivot to Asia” with non-fungible exports such as piped gas
- Despite some lingering leakiness, Russian imports have largely collapsed, and the country faces stark challenges securing crucial inputs, parts, and technology from hesitant trade partners, leading to widespread supply shortages within its domestic economy
- Despite Putin’s delusions of self-sufficiency and import substitution, Russian domestic production has come to a complete standstill with no capacity to replace lost businesses, products and talent; the hollowing out of Russia’s domestic innovation and production base has led to soaring prices and consumer angst
- As a result of the business retreat, Russia has lost companies representing ~40% of its GDP, reversing nearly all of three decades’ worth of foreign investment and buttressing unprecedented simultaneous capital and population flight in a mass exodus of Russia’s economic base
- Putin is resorting to patently unsustainable, dramatic fiscal and monetary intervention to smooth over these structural economic weaknesses, which has already sent his government budget into deficit for the first time in years and drained his foreign reserves even with high energy prices – and Kremlin finances are in much, much more dire straits than conventionally understood

- Russian domestic financial markets, as an indicator of both present conditions and future outlook, are the worst performing markets in the entire world this year despite strict capital controls, and have priced in sustained, persistent weakness within the economy with liquidity and credit contracting – in addition to Russia being substantively cut off from international financial markets, limiting its ability to tap into pools of capital needed for the revitalization of its crippled economy.

Looking ahead, there is no path out of economic oblivion for Russia as long as the allied countries remain unified in maintaining and increasing sanctions pressure against Russia, and The Kyiv School of Economics and McFaul-Yermak Working Group have led the way in proposing additional sanctions measures.

Defeatist headlines arguing that Russia's economy has bounced back are simply not factual - the facts are that, by any metric and on any level, the Russian economy is reeling, and now is not the time to step on the brakes.