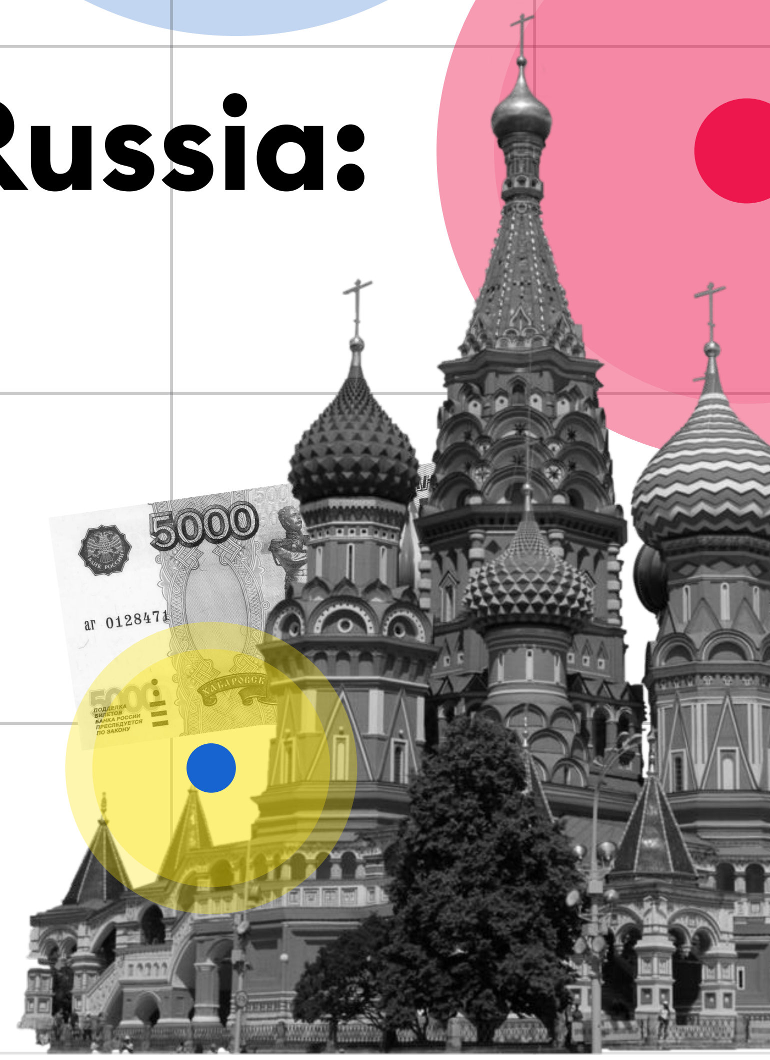
Sanctions against Russia: financial sector



In order to effectively deprive the Kremlin of financing for its war in Ukraine, **new additional sanctions must be imposed on the entire Russian banking system along with certain economic sectors.**

We must isolate Russia so that it is unable to finance the war and develop. Only a few of Russia's 330 banks, just a couple dozen have been comprehensively banned and sanctioned. However, sanctions ought to be imposed on all of them,

stressed **Oksana Markarova**,
the Ambassador of Ukraine to the USA.[1]

Financial sanctions have become one of the international community's key response strategies against Russian aggression in Ukraine. These measures are aimed at limiting the country's financial capabilities, thereby weakening its economic potential and pressuring the Russian government to change its policies.

The sanctions imposed stipulate a wide range of restrictions, including the freezing of assets, international payment system bans, and prohibiting the provision of investment and financial services.

The first sanctions involved freezing the assets of Russian banks and high-ranking officials supporting the Kremlin's aggression.

Banning several key Russian banks from the SWIFT system has jeopardized the country's international financial transactions, in turn reducing its capabilities to make payments on the global level. The prohibition on new investments and restrictions on transactions with foreign exchange reserves has further increased economic pressure on the country. Moreover, the sanctions include a prohibition on the provision of loan, insurance, and reinsurance services to Russian companies, complicating their financial activities. Restrictions on financial technologies and software exports are depriving Russia of access to modern financial instruments and services crucial for an effectively functional economy. **These measures have cumulatively created significant challenges for the Russian financial system and are aimed at achieving the political goals of the international community.**

Sanctions against Russia: international response and consequences for the financial sector

Canada announces new sanctions coordinated with the UK and the USA. The sanctions will be imposed on individuals and legal entities supporting the Russian army via financing, logistics, and sanctions evasion activities. The restrictions will affect Alfa Insurance and RESO-Garantia in particular. Bank Saint Petersburg has also been included on Canada's list of sanctions.[2]

According to the Japanese Ministry of Foreign Affairs, the country has expanded its sanctions list against Russian individuals and organizations involved in the Russo-Ukrainian war. In particular, restrictions were imposed on Tinkoff Bank, with its Japanese assets to be frozen at the end of March.[3]

China's state-owned banks tightened restraints on financing Russian clients after US President Joe Biden signed a decree imposing secondary sanctions against foreign financial companies assisting Moscow in its war in Ukraine.[4] During her visit to China, US Secretary of the Treasury Janet Yellen warned Chinese banks of supporting Russia and possible retaliatory sanctions.[5]

Angola wishes to drive Russia out of the joint diamond mining business. The sanctions imposed on the Russian Federation have made suppliers and banks refuse to cooperate with the company.[6]

Bank of Cyprus, the largest Cypriot bank, has closed its representative offices in Moscow and Saint Petersburg and withdrawn accreditation from its branches in the Russian Federation.[7]

The Russian and Turkish governments have found a partial solution to the problem of making cash transfers from Russia to Turkey for four sectors of the economy. Turkish exporters of ready-made clothing, textiles, footwear, and food products have begun receiving payments through the state-owned Emlak Katılım Bankası.[8]

ATMs in Austria have ceased dispensing cash to Russian Gazprombank cardholders. This is the largest Russian credit organization not sanctioned by the European Union. The Austrian company, which is responsible for foreign card payments, explained that this problem was beyond their competence. Gazprombank claimed that the bank's partners in Austria "refused to explain" the reasons for cash not being issued. The problem was reported at the end of the previous year. The same problem in Italy has been reported on Russian social media.[9]

Uzbek authorities have decided to uphold Western financial sanctions against the Russian Federation, which has affected more than 11 thousand citizens and companies as of the beginning of 2024. The lower house of the parliament of Uzbekistan (Oliy Majlisi) adopted a bill in its first reading aimed at prohibiting local banking operations for sanctioned individuals and legal entities. The initiative was submitted due to the risks of secondary sanctions to be imposed on Uzbekistan for violation of the sanctions, the lawmakers explained. The draft law was drawn up given the experience of the Czech Republic, Latvia, and Estonia, which have upheld the sanctions. It also grants additional powers to the national Central Bank. It is necessary to "increase the efficiency of the sanctions compliance system in the banking sector," the Oliy Majlisi emphasized. Uzbekistan, which has become one of Russia's parallel import hubs and is one of the main "debit card tourism" destinations of Russian citizens, welcomed more than 300,000 Russians in the first year of the war, 60,000 of whom then opened bank accounts. The volume of cash transfers from the Russian Federation to Uzbekistan jumped by 160% to a record US $14.5 billion (2022), and Russian entrepreneurs established a record number of companies in the republic.

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However, following repeated visits by EU and US officials to Central Asia, Uzbek banks have introduced stricter rules for Russians. In fact, the adopted draft law will only consolidate the already existing practice: banks in Uzbekistan already do not conduct transactions with sanctioned persons.[10]

International banks have called on the UK to improve laws on Russian assets seizure. International banks have demanded the UK government introduce legal principles before plunging into the seizure of billions of pounds in Russian assets, otherwise risking potential shocks to the global financial system and exposing institutions to legal action.[11]

Some Western banks oppose the European Union's proposal to use the interest accrued on frozen Russian assets to provide aid to Ukraine. Banks fear that Russia may later initiate legal proceedings against them.[12] Swiss banks have started closing accounts of their clients with Russian citizenship, even those with multiple citizenships.[13] That said, Russian banks are reporting record profits despite Western sanctions.[14]

The countries of the Group of Seven (G7) and the European Union (EU) are discussing sanctions against third-country banks that assist in evading sanctions imposed on the Russian financial system. Some of the allies have been considering measures against third-country credit institutions that use the financial messaging system introduced by the Bank of Russia, the Russian equivalent of SWIFT. This is planned to be implemented as a result of their activities assisting Russia in evading the sanctions introduced in 2022.[15]

On May 22, 2024, the Treasury of Belgium refused VTB bank a license to unblock client assets frozen in Euroclear.[16]

On June 12, 2024, the U.S. Department of the Treasury announced the expansion of the mechanism used to impose secondary sanctions – that is, restrictions against persons cooperating with already sanctioned persons – regarding Russia. The regulation issued by the US Treasury expanded the “Russian defense industrial base” definition, which now includes all sanctioned entities, Russia's VTB Bank and Sberbank in particular. The U.S. Department of the Treasury also specified that the sanctions apply to five Russian banks – Promsvyazbank, Vnesheconombank, Sberbank Russia, VTB Bank, and VTB Capital Holding, as well as their foreign representative offices irrespective of their names. In cooperation with the US Department of Commerce, the US Treasury also introduced measures to limit the Russian military industrial base's access to IT consulting and project services, as well as IT support and cloud services.[17]

Thus, **the expansion and improvement of sanctions against the Russian financial sector has proven the determination of the international community to counter Russian aggression against Ukraine**. New restrictions from Canada, the United Kingdom, the USA, Japan, and other countries are jeopardizing the financial activities of Russian banks and companies and isolating them from the global economy. Stricter restrictions imposed on China's state-owned banks and Uzbekistan upholding Western sanctions have shown the massive support for these measures at the international level. **Such a coordinated response by the global community is creating serious challenges for the Russian economy, contributing to achieving the political goals of ceasing hostilities and restoring peace in Ukraine.**

Increasing Russian financial isolation and its non-compliance with FATF principles

On January 25, 2024, the United Nations confirmed that it had opened a ruble account in a Russian bank, as Western sanctions made access to regular payment channels more complicated. The UN representative noted that the account was opened in 2022 to accept mandatory and voluntary contributions by this international organization. Since then, the organization received membership contributions to the UN climate funding program from three Russian banks.[18]

The Ministry of Finance of Ukraine and the State Service for Financial Monitoring of Ukraine call on the Financial Action Task Force (FATF) to deter Russia's growing efforts to undermine global financial security and strengthen its relations with Iran and North Korea.

A year ago, FATF suspended Russia's membership for violating the organization's key principles, which are to promote the safety, security, and integrity of the global financial system. The FATF also expressed its deep concern following reports of arms trade between Russia and UN-sanctioned states, as well as malicious cyber activity originating in Russia. Although these FATF measures are important, they have failed to deter Russia, which is becoming increasingly militant and developing its relations with North Korea and Iran.

Russia used North Korean ballistic missiles and munitions against Ukraine in December 2023 and January 2024. The acquisition of such missiles and conventional weapons from North Korea is a serious violation of both UN sanctions and FATF principles. Russia is using Iranian UAVs even more often to continue its illegal invasion and intensify attacks against the civilian population of Ukraine. Russia has created a joint payment system to help Iran bypass SWIFT and linked the two countries' banking systems.

“A year after FATF membership suspension, Russia's deliberate non-compliance with FATF principles and UN sanctions, increasing non-transparency, and continued malicious cyber activity make it one of the riskiest jurisdictions for financial crimes. There is even more indisputable evidence that Russia's illegal activities threaten global peace and security. We are confident that FATF will consider this issue with utmost attention during the upcoming plenary session to help protect global financial security,” said Ihor Cherkaskyy, head of Ukraine's State Service for Financial Monitoring.[19]

Thus, Russian activities aimed at evading Western sanctions and continuing military aggression have resulted in its increasing isolation from the global financial system. Despite FATF membership suspension and concerns about arms trade with UN-sanctioned states, Russia is strengthening its relations with North Korea and Iran, particularly in the military sector. The UN opening an account in a Russian bank to obtain contributions bears evidence to the efficiency of the sanctions, which are affecting even international organizations. **Ukraine has called on the FATF to take further action** to deter Russia's malicious financial activity undermining global financial security and continuing aggression against Ukraine.

Sanctions and workaround solutions: Impact on the Russian financial sector in 2024

The State Duma of the Russian Federation plans to adopt a bill allowing the use of digital financial assets backed by grain or gold in international settlements. This was announced by Anatoly Aksakov, the head of the State Duma Committee on the Financial Market. It will be an alternative to the international SWIFT and the Russian SPFS systems, which is especially important given the refusal of even friendly banks to make transfers if Russia is involved.[20] The Mir National Payment Card System was created in 2014 following sanctions for the annexation of Crimea in order to prevent potential problems with international payment systems. 100% of the company is owned by the Bank of Russia. From March 30, most Armenian banks will stop servicing Mir cards issued by the Russian payment system. This was reported by the representative of the local subsidiary of the Russian VTB bank.[21] Russia faces delays in oil payments as banks in China, the UAE, and Turkey fear US sanctions.[22] Russia's Tinkoff Bank will start its operations in occupied Crimea: starting February 20, the organization will deliver debit and credit cards to Simferopol and Sevastopol.[23] Russian President Vladimir Putin has authorized Expobank to acquire the local branch of HSBC Holdings Plc, thus allowing the biggest European credit institution to leave the country following the invasion of Ukraine.[24]

In Q1 2024, the profits of the 20 largest Russian banks decreased.

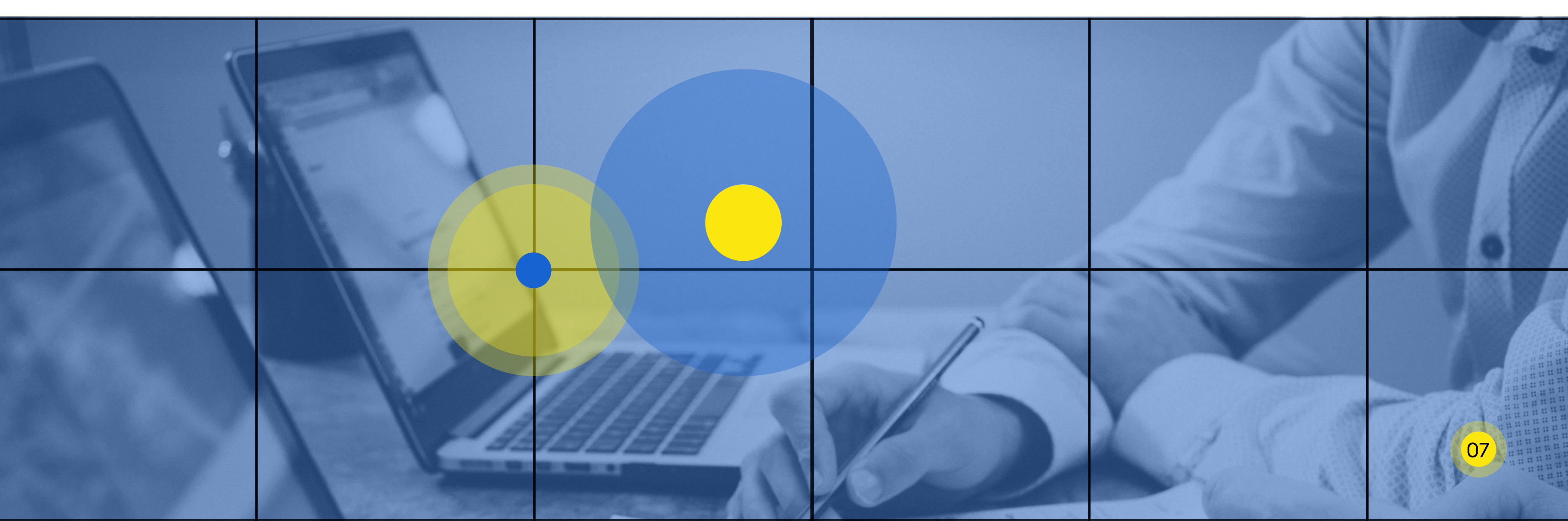
Banks traced the drop in business margins to sanctions and increased rates of excess profit tax – the so-called “war tax.”

ПОЧТА БАНК	**by 31.2 times ↘** to RUB 190 million (over US $2 million)	БАНК ЗЕНИТ	**by 7.5 times ↘** to RUB 174 million (~US $1.9 million)	HOME CREDIT BANK	**by 5,5 times ↘** to RUB 815 million (~US $9 million)
А	**by <3 times ↘** to RUB 8.5 billion (almost US $95 million)	ВТБ	**by 2,8 times ↘** to RUB 35.2 billion (~US $400 million)		**by 2,8 times ↘** to RUB 11.4 billion (~US $120 million)

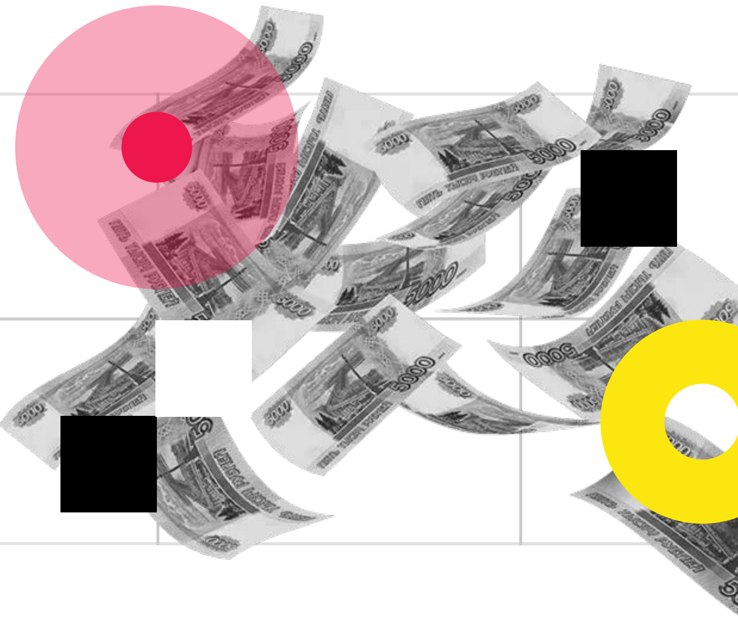
Post Bank named the stagnation of the retail lending market affecting general loan granting dynamics as the main reason for the decrease. Zenit Bank believes the main factor to be sanctions imposed in February 2023. Alfa-bank clarified that the results were affected by “the specific features of the calculations made according to the RAS.” Profits also decreased due to higher operating expenses, a conservative approach to provision accrual, and higher income tax expenses. Absolut Bank, where profits decreased by 35.7% year-on-year, noted the impact of income tax expenses. Moreover, the bank's income from operations with foreign currency decreased against the background of its inclusion on the US SDN list in the fall of 2023.[25]

When the US and Europe tried to ban Russia from the Western financial system, Moscow found workaround solutions. The key one was involving banks in the Persian Gulf and Europe which maintained their relations with Russia. Washington's efforts to close these loopholes have now begun to pay off. The main state bank of Dubai closed some accounts of Russian oligarchs and Russian oil traders. Turkish credit institutions have become increasingly cautious when dealing with businesses related to Russia. The US also warned bankers in Vienna, another important financial center. These actions follow the visit of US officials and recent rounds of sanctions against trading companies and other institutions. In late December, the White House granted the Department of the Treasury more sanctions powers, allowing it to punish foreign banks for transactions with the Russian military industrial base.[26]

As such, Russia is continuing to look for alternative ways to preserve its financial transactions in the international arena against the background of strict Western sanctions. Opening ruble accounts and using digital financial assets linked to grain or gold is an attempt to overcome SWIFT and SPFS limitations. However, even friendly countries such as China, the UAE, and Turkey are becoming more cautious about cooperation with Russian banks, fearing US sanctions. The refusal of many banks to work with the Russian Mir payment system and the closure of Russian oligarchs' accounts in the Persian Gulf have proven the increasing global financial pressure. **The profit decrease of the largest Russian banks in Q1 2024 bears evidence to the efficiency of the sanctions pressure forcing Russia to look for new financial solutions, which are often less effective.**



Threats and impact of Western sanctions on financial transactions in Russia



Janet Yellen, US Secretary of Treasury, claimed that European banks face growing risks if they continue to operate in Russia and that **the USA is considering improvement of its secondary sanctions against banks assisting Russian military transactions**. When speaking on the sidelines of the G7 financial leaders meeting in northern Italy, Yellen said that sanctions related to bank operations in Russia would only be imposed “if there is a reason but doing business in Russia poses a very big risk,” she added. When answering the question whether she wished for Austria's Raiffeisen Bank International and Italy's UniCredit to leave Russia, Yellen said: “I think their supervisors have advised them to be extremely careful about their activities there.”

Fabio Panetta, a European Central Bank official, gave clear instructions to Italian banks, mainly that the credit institutions should “get out” of Russia, as staying in the country creates a “reputational issue.” Raiffeisen is the largest European credit institution still doing business in Russia, followed by UniCredit. Another large Italian credit institution, Intesa Sanpaolo, is preparing the sale of its Russian business.

US President Joe Biden's new secondary sanctions grant the Department of the Treasury the power to ban banks from the US financial system if they are aiding in evasion of primary sanctions against Russia and other entities imposed related to Moscow's war in Ukraine. Yellen and other US Treasury officials noted that the Russian economy is becoming more of a “war economy,” making it difficult to distinguish between civilian, military, or dual-use operations. The secondary sanctions have already led to a decrease in banks' cooperation with Russia, however, Yellen has expressed concerns that Russia is managing to find ways to acquire goods to increase its military production, and cited transactions made via China, the UAE, and Turkey.[27]

US Secretary of Treasury Janet Yellen called on the heads of German banks to increase efforts to comply with sanctions against Russia and cease evasion attempts. Otherwise, they may fall under secondary sanctions that will block their access to the dollar, noted the head of the US Department of the Treasury at a meeting with representatives of the banking sector held in Frankfurt on May 21, 2024. Western banks, including the German Deutsche Bank and Commerzbank, are in no hurry to leave the Russian market. **In the previous year, the largest Western banks remaining in the Russian Federation paid more than €800 million in taxes there.**[28]

The ICU investment company received about UAH 949 million in profit from the seized bonds of Sberbank. The Ministry of Justice filed a lawsuit to collect UAH 2 billion from the company.[29]

Investment group ABH Holdings SA (ABHH) is considering filing a lawsuit against the Cypriot authorities due to the loss of its financial assets, including Russia's Alfa Bank, worth more than US $7 billion.[30]

Analyzed activities of companies from the "Finance and Payments" industry are presented in Fig. 1-8.

National investment company

Figure 1. Companies of the "Finance and Payments" industry that left the Russian market[31]

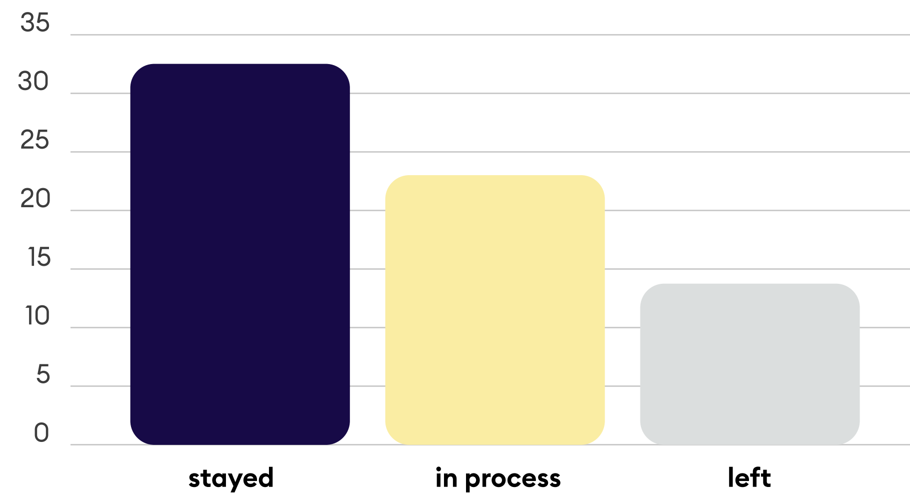


Figure 2. Companies of the “Finance and Payments” industry by status (as of 16 June 2024)[32]

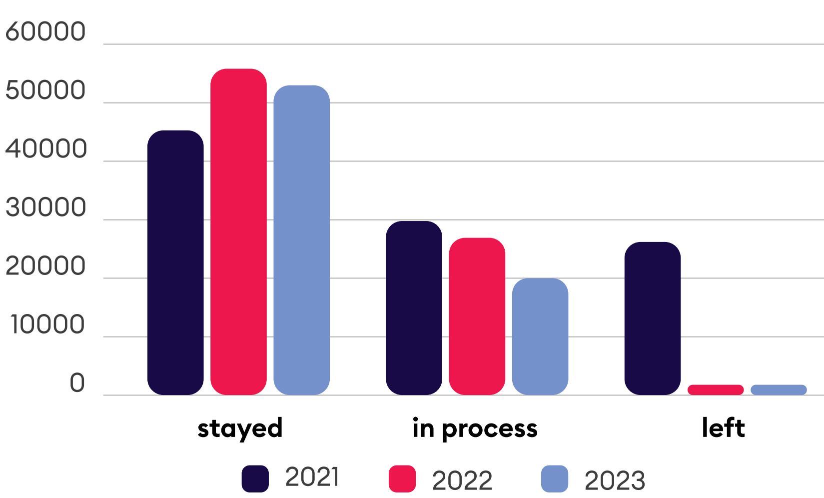


Figure 3. Assets dynamics of companies of the “Finance and Payments” industry in the Russian Federation in 2021–2023.[33]

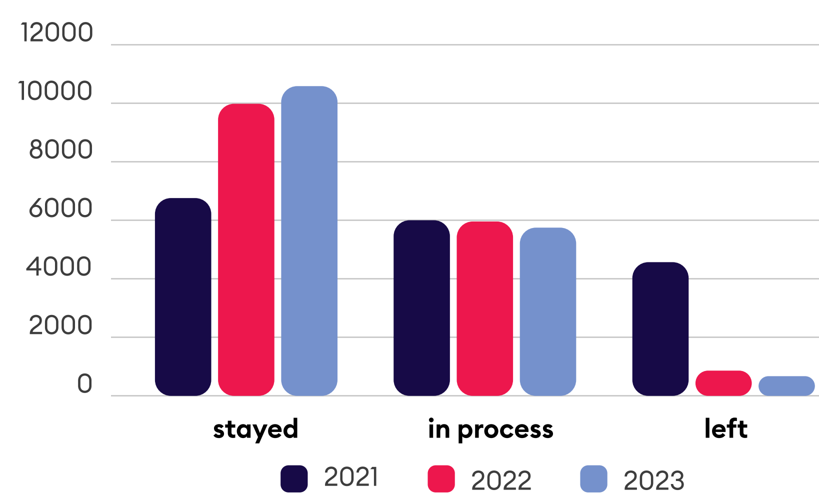


Figure 4. Capital dynamics of companies of the “Finance and Payments” industry in the Russian Federation in 2021–2023.[34]

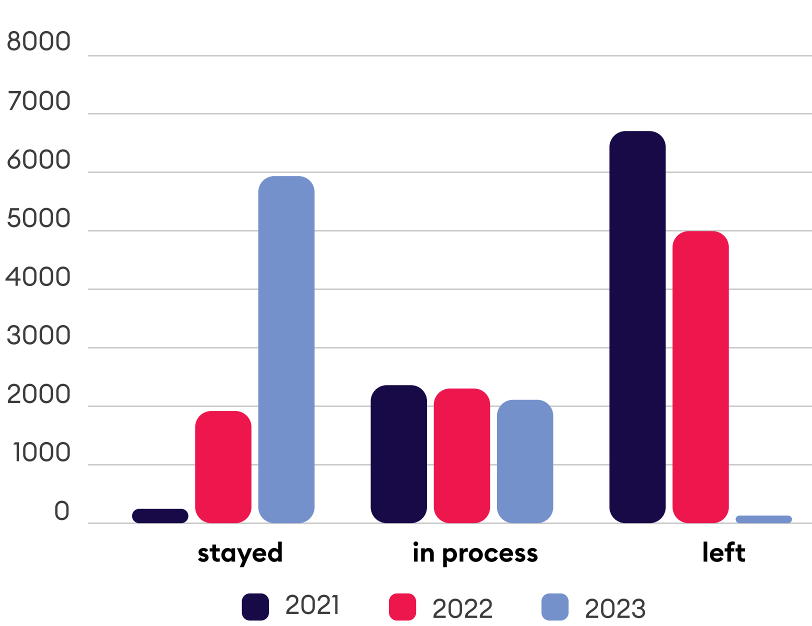


Figure 5. Income dynamics of companies of the “Finance and Payments” industry in the Russian Federation in 2021–2023.[35]

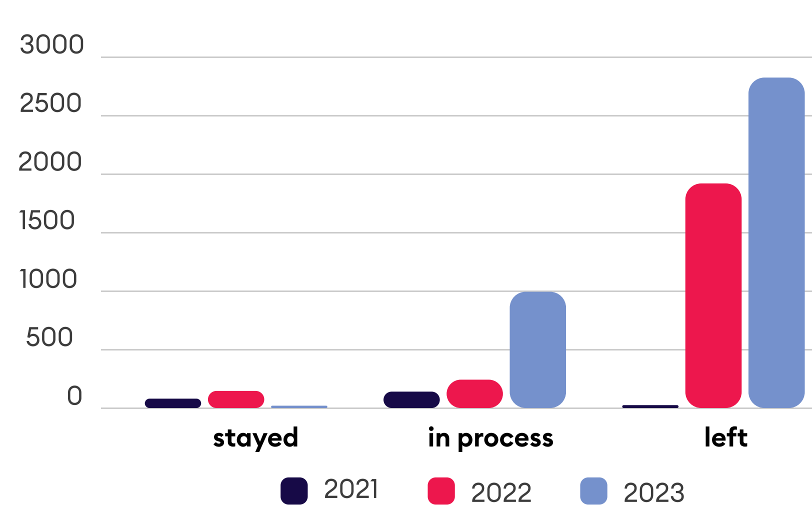


Figure 6. Profit dynamics of companies of the “Finance and Payments” industry in the Russian Federation in 2021–2023.[36]

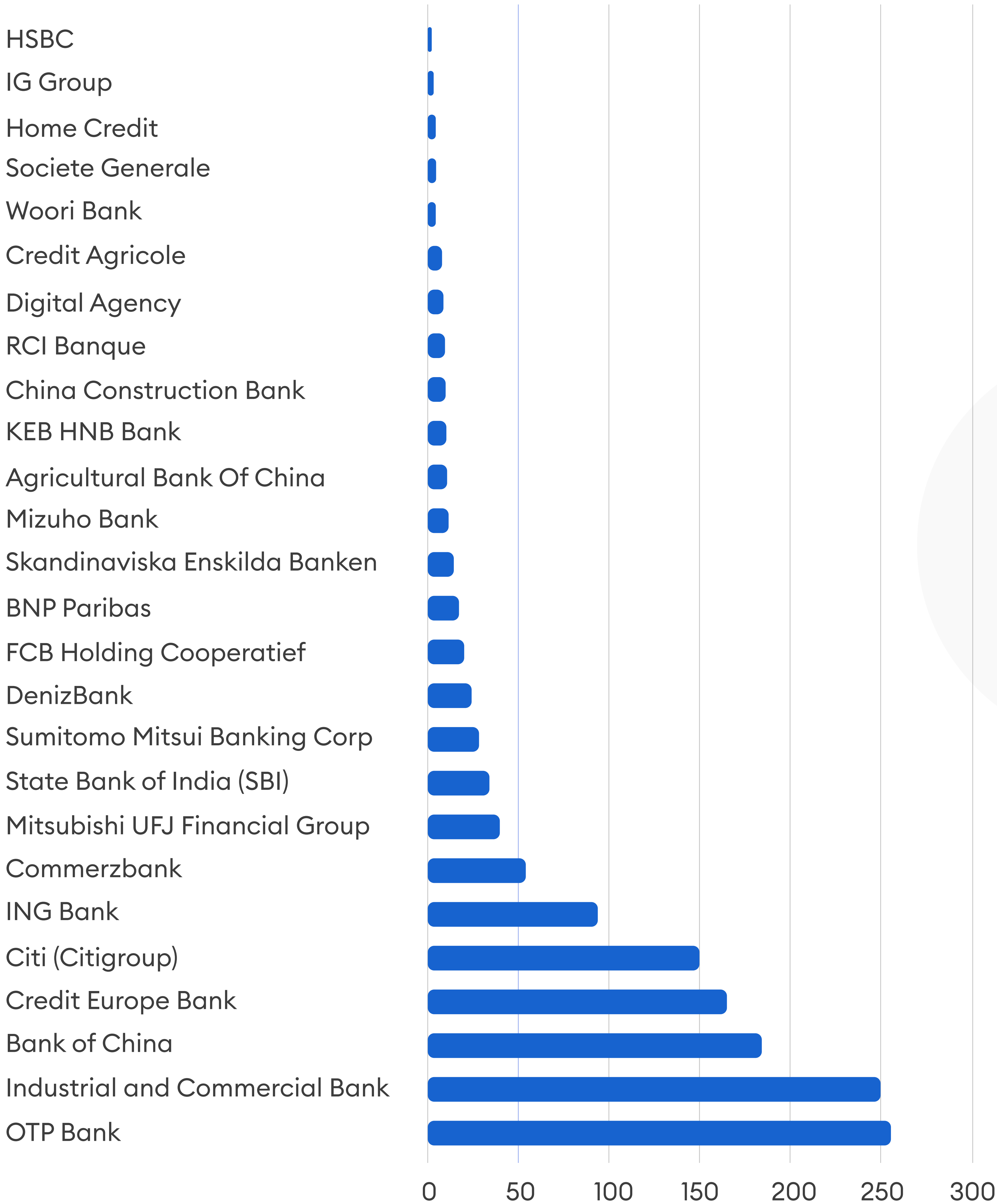


Figure 7. Companies showing profit growth in the Russian Federation in 2023/2022, in millions of USD[37]

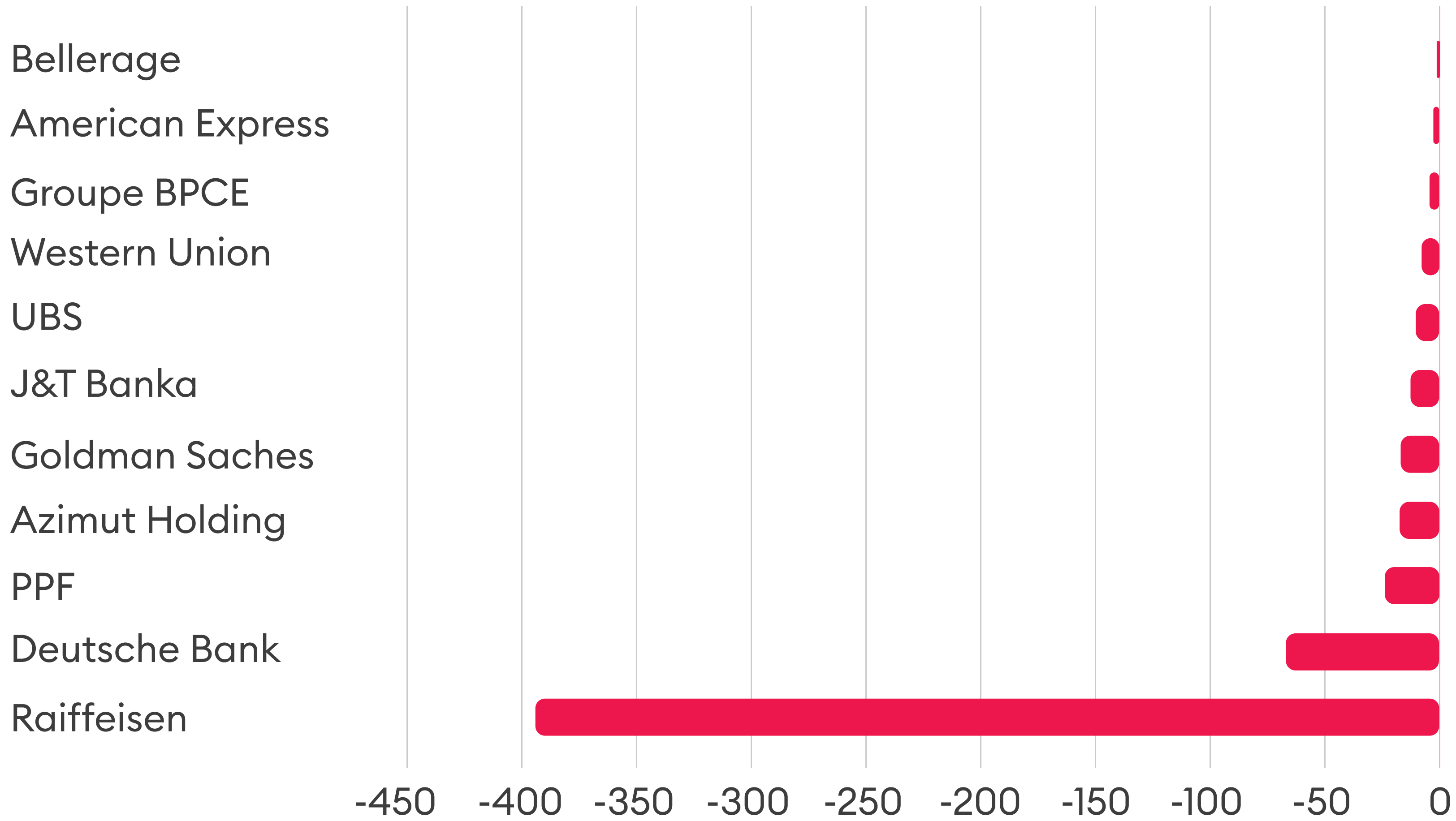
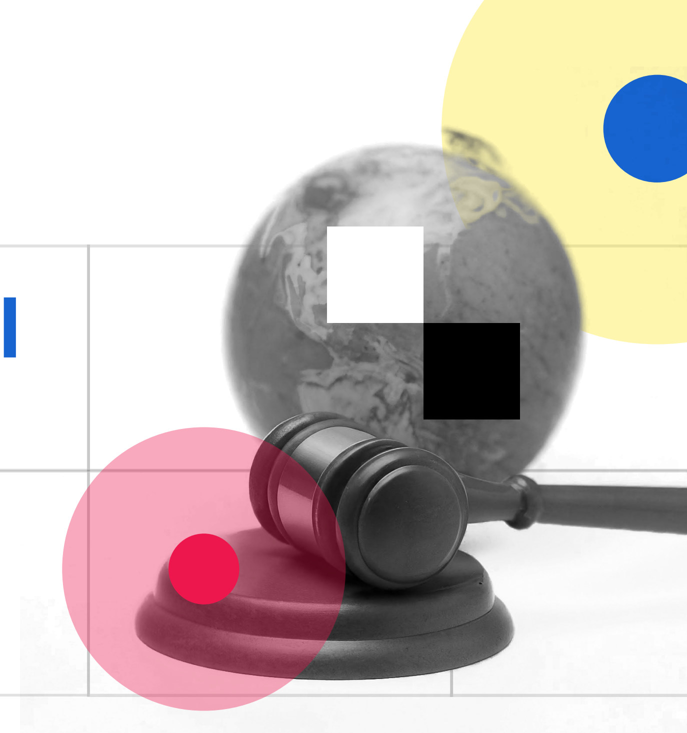


Figure 8. Companies showing profit decrease in the Russian Federation in 2023/2022, in millions of USD[38]

Thus, the US and Europe are actively considering the introduction of additional sanctions against banks that facilitate transactions supporting Russian military activities. The refusal of EU-controlled banks to operate in Russia and the sale of their Russian assets testify to the reality of the threat due to the potential imposition of the US secondary sanctions. This creates significant challenges for Russia's financial stability and its capability to conduct international financial transactions.

The improvement of international sanctions against Russian banks: limiting access to international financial markets



On February 7, 2024, Chouzhou Commercial, the main Chinese bank for Russian importers, stopped all transactions with the Russian Federation. Even refusing to use SWIFT did not save it from the sanctions risk.[39]

On April 8, 2024, the USA removed the former European division of one of the largest Russian banks, VTB, from the sanction list. This was reported by the country's Department of the Treasury. Thus, Ost-West Handeslbank was excluded from the sanction list, along with its former names: VTB Bank Europe and VTB Bank Deutschland.[40]

On April 17, 2024, China's largest bank, ICBC, and four others – China Citic Bank, Industrial Bank, Bank of Taizhou, and Bank of China – stopped accepting payments from Russia in yuan.[41]

On April 19, 2024, the European Central Bank (ECB) is ready to order the Italian bank UniCredit to significantly decrease its business with Russia. The requirements for the second-largest European bank in Russia will be similar to those imposed by the ECB on Austria's Raiffeisen Bank International, the largest western bank still operating in the country. The day before, Raiffeisen Bank International stated that the ECB demanded the bank reduce its crediting operations and transactions in Russia within the set terms. Following months of discussions, the ECB intends to issue a legally binding order to UniCredit. This is the second to last step before the ECB can impose such sanctions as fines. The ECB's official warning to UniCredit is giving the bank a last chance to prevent the forced collection procedure to be initiated by the supervisory authority.[42]

On April 30, 2024, the US Department of the Treasury allowed transactions with Russian banks to make settlements in the energy sector. **The banks included are VTB, Centrobank, Sberbank, and Alfa Bank. This is stated in the license issued by the US Treasury. The Treasury license also includes Otkritie, Sovkombank, Rosbank, VEB.RF, Bank Zenit, and Bank Saint Petersburg.** The prohibition on transactions is suspended until November 1, 2024, however, the permit may be extended. Transactions related to the extraction, production, processing, liquefaction, transportation, or purchase of petroleum and other energy resources, including liquefied natural gas, wood, coal, and uranium, will be considered energy-related. The license allows transactions with banks of the Russian Federation related to the production, supply, or exchange of energy via any method.[43]

May 20, 2024 Italian Foreign Minister Antonio Tajani expressed concern over the Russian court's decision **to seize UniCredit Bank's securities, accounts, and property worth 5% of the bank (CRDI.MI)**. The meeting was attended by representatives of UniCredit and various Italian ministries, as well as Italian companies operating in Russia.[44]

Thus, international sanctions continue to complicate financial conditions for Russian banks and enterprises by limiting their access to international financial markets and the capability to conduct international transactions. The terms and conditions of sanctions are constantly changing to be adapted to new political and economic realities, thereby challenging the capability of Russian banks to function effectively within the international financial environment in the future.

International litigation and seizure of assets in Russia

JPMorganChase

$439.5 million

*In Russia, a court seized Russian assets of **JP Morgan Chase**, the largest US bank, worth USD 439.5 million against a claim filed by local VTB bank.*

The related decision of the Arbitration Court of Saint Petersburg and Leningrad Oblast is dated April 22, 2024. The court confirmed the seizure of all funds in JP Morgan bank accounts in Russia, including correspondent accounts and accounts held in the name of subsidiary companies. The court also seized the interest capital of the Russian commercial bank “J.P. Morgan Bank International” owned by JP Morgan, and prohibited the disposal of the Russian subsidiary's capital. The court also ordered the seizure of several JP Morgan trademarks and all the securities owned by the US bank and other defendants. On April 17, 2024, VTB filed a claim against eight foreign companies owned by JP Morgan and the bank's Russian subsidiary to recover funds frozen after the imposition of sanctions. At the same time, VTB sent a statement on interim measures in the form of seizure of funds, movable and immovable property, and rights of claim owned by the defendants. On April 18, JP Morgan Chase filed a counter-claim against VTB to a New York court demanding cessation of the US $439.5 million recovery and calling VTB's related attempts in Russia a “clear violation” of the New York arbitration agreement.

JP Morgan Chase has frozen US $439.5 million in the accounts of Russia's VTB under the anti-Russian sanctions in response to the 2022 invasion of Ukraine. Previously, representatives of JP Morgan emphasized that US legislation prohibits returning funds from the frozen accounts to VTB. That said, the US bank feared that if VTB won the litigation in Russia, it would make attempts to seize JP Morgan's assets abroad.[45]

May 17, 2024 the Arbitration Court of Saint Petersburg and the Leningrad Oblast (Russia) seized the Russian assets of the Italian bank UniCredit against the claim filed by the RusChemAlliance, the operator of a natural gas processing and liquefaction complex in Ust-Luga. The property of UniCredit Bank amounting to €462.7 million became subject to related measures: securities, real estate, and accounts owned by Unicredit Bank (except for type “C” and “I” accounts), as well as 100% of shares in Unicredit Leasing and Unicredit Garant. UniCredit Bank was one of the guarantor banks under the agreement on a gas processing plant construction in cooperation with the German company Linde, which was terminated due to western sanctions.[46]

On May 18, 2024, the Arbitration Court of Saint Petersburg ordered the seizure of Deutsche Bank's assets, accounts, property, and shares in Russia as part of a litigation involving the German institution. The related information is available in the court register. The lawsuit against Deutsche Bank was filed by Saint Petersburg-based RusChemAlliance, a joint venture 50% held by Russian gas giant Gazprom. The Arbitration Court of Saint Petersburg prohibited Deutsche Bank from disposing 100% of its capital in the Russian subsidiary, along with Deutsche Bank Technology Center LLC. The court also seized the securities, real estate, and bank accounts of Deutsche Bank, its Russian subsidiary, and Deutsche Bank Technology Center LLC, amounting to €238.6 million/ US $259 million. Deutsche Bank claimed it had already allocated significant funds for the litigation.[47]

Thus, international legal battles and the seizure of assets in Russia indicate the aggravation of global financial conflicts due to sanctions and mutual claims between banks and companies of different countries. For example, the conflict between VTB and JP Morgan proves that anti-Russian sanctions cause not only political but also legal battles, with parties using all legal means available to protect their interests. The seizure of assets of UniCredit and Deutsche Bank also proves that court decisions in Russia may have a significant impact on the interests of international financial institutions. **Therefore, the global financial landscape is highly sensitive to political risks that may affect international financial stability and interaction between countries.**

The impact of new US sanctions on Russian financial markets

On June 9, 2024, new US sanctions against Russia resulted in the suspension of dollar and euro trading on the Moscow Exchange (MOEX), the country's leading financial market. MOEX and Russian Central Bank issued their statements within an hour of Washington announcing a new package of sanctions aimed at restricting the flow of money and goods to support Moscow's war in Ukraine.[48]

Russia suspends dollar and euro exchange trading due to US sanctions. Starting from June 13, trading on the foreign exchange market and the market of precious metals is to be carried out for all instruments except for currency pairs including the dollar and the euro. The Moscow Exchange announced the suspension of dollar and euro trading after being placed on the US Treasury's sanctions list. This is reported by the Moscow Exchange. The National Clearing Center and the National Settlement Depository, acting as intermediaries in dollar trading on the Russian foreign exchange market, were also sanctioned. Starting June 13, "trading on the foreign exchange market and the market of precious metals is to be carried out for all instruments except for currency pairs including the dollar and the euro." Similar restrictions will apply to the stock and money markets, where settlements on derivative instruments including the dollar and the euro have been suspended. The Central Bank had set the official currency exchange rates to the ruble based on the dollar and the euro exchange trades. Now, the regulator will have to resort to other procedures as described in a special instruction issued as early as autumn 2022, given the risk of similar sanctions being introduced. The Central Bank intends to use bank statements and information provided by digital OTC trading platforms to set currency exchange rates after the termination of dollar and euro trading on the Moscow Exchange. The exchange rates will be set "based on data on the weighted average USD/RUB exchange rate, calculated based on USD/RUB deals made during the current day until 3:30 p.m. Moscow time on the foreign exchange markets with a 'tomorrow' settlement term" provided to the Bank of Russia within the limits of access to digital OTC trading platforms. The Central Bank also stated that the purchase and sale operations involving the dollar and the euro for Russian citizens will not be affected by the sanctions against the Moscow Exchange.[49]

On June 14, 2024, the Central Bank of the Russian Federation proved itself unready for sanctions against the Moscow Interbank Currency Exchange, just as it was unready for the seizure of gold and foreign exchange reserves. Firstly, Russians love dollars and euros, evidenced by the collapse of stock indices and the outflow of bank deposits.

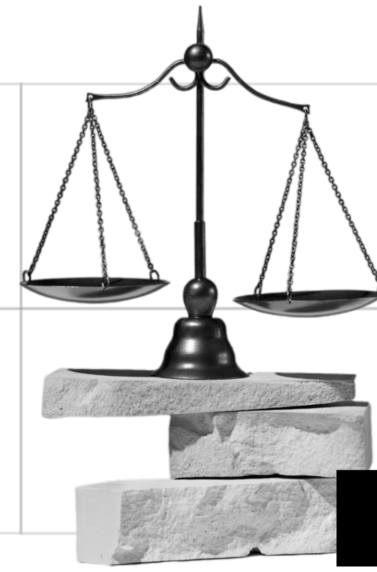
Secondly, the further development of the sanctions shock scenario will depend solely on the actions of the Central Bank of the Russian Federation. Thirdly, the dependence of the Russian economy on China is growing. The main currency exchange focus will now shift to the CNY/USD market, which means that the currency policy of the Central Bank of the Russian Federation will depend on Beijing's decisions on the related exchange rate. The CNY/USD market is quite unique and dynamic. Moreover, it is heavily politicized, as every weakening of the yuan against the dollar or euro is usually followed by Chinese accusations of worsening trade conditions with the USA and the EU. The People's Bank of China will not be happy with this spontaneous decision of the Central Bank, given that it accepts the inflow of liquidity but not the outflow of capital from the country.

The PRC itself has rather strict currency restrictions. **Currently, it is prohibited to take more than US $5,000 and more than CNY 6,000 out of the country. Moreover, there was also a recent annual purchase quota of no more than US $50,000 per person**. The Russians then popped up on this regulated horizon, planning to “move the yuan in bulk” back and forth across the border and also linking their ruble to the yuan.[50]

On June 22, 2024, it was announced that clients of the Moscow Exchange will not be able to withdraw currency from their accounts at the National Clearing Center responsible for transaction registration. Funds deposited in foreign currency will be paid out in rubles. The refund should take place by June 28 in rubles at the so-called “central rate” set by the NCC on June 13, which is RUB 89.22 per USD and RUB 95.7974 per EUR. Approximately 5% of currency funds were blocked. Moreover, problems with withdrawing Chinese yuan have also been reported. This was caused by the sanctions against the Exchange and NCC. Still, the Moscow Exchange assured that transactions in yuan “are being conducted as usual” and without any delays in debiting or crediting funds.[51]

Thus, starting from June 13, 2024, the new US sanctions have caused significant restrictions on Russia's financial markets, including the suspension of dollar and euro trading on the Moscow Exchange. This decision affected the exchange rate and the stability of the Russian financial sector and forced the Central Bank of the Russian Federation to look for alternative methods of setting official exchange rates. Moreover, the imposition of sanctions forced the Russian financial sector to reorganize its currency policy and switch to yuan in trade transactions, which also may affect the international currency relations between Russia and China.

The impact of international sanctions on the financial sector of Russia: limitations and consequences



Based on the study, sanctions against the Russian financial sector were imposed by many countries and organizations, such as the USA, EU, UK, Canada, Japan, and others, in response to Russian aggression against Ukraine. These sanctions include the following measures:

- **freezing of assets:** banks (sanctions include freezing of assets of such key Russian banks as Sberbank, VTB, Gazprombank, and others); individuals (freezing of assets of high-ranking officials, oligarchs, and other persons supporting the regime);
- **ban from SWIFT:** disconnection of banks (several Russian banks were banned from the SWIFT international payment system, which complicated their international transactions);
- **prohibition on investments:** new investments (prohibition on new investments in Russia or Russian companies for foreign investors); financial instruments (prohibition on buying and trading Russian state and corporate bonds on secondary markets);
- **restrictions on currency operations:** ruble (sanctions are aimed at limiting Russia's capability to get foreign currency); foreign exchange reserves (restrictions on Russia's access to its foreign exchange reserves deposited with western banks);
- **prohibition on providing financial services:** lending (prohibition on credit issued to Russian banks and companies); insurance and reinsurance (restrictions on insurance and reinsurance services to Russian companies);
- **export restrictions:** technologies (prohibition on the export of financial technologies and software used in the financial sector); services (restrictions on consulting, auditing, and other financial services).

These measures are significantly affecting the Russian economy by limiting its access to international capital markets and modern financial technologies, thus jeopardizing the country's economic growth and development.

Furthermore, the international sanctions imposed on the Russian financial sector are significantly limiting its opportunities in international capital markets and modern financial technologies. Freezing the assets of key Russian banks, the ban from SWIFT, the prohibition on new investments and trading in Russian bonds, as well as restrictions on currency transactions have significantly jeopardized financial transactions in the country. These measures have resulted in limited access to foreign capital and technology, which are negatively affecting the Russian economy and hindering its economic growth and development.

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