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Here's One Measure That Shows Sanctions on Russia are Working

Bloomberg

November 16, 2018

Bloomberg

Sanctions may have knocked as much as 6 percent off Russia's economy over the past four years and the drag isn't likely to go away anytime soon.

A new study by Bloomberg Economics has found that the economy of the world's biggest energy exporter is more than 10 percent smaller compared with what might have been expected at the end of 2013, before the Crimea crisis triggered wave after wave of restrictions by the U.S. and EU. While some of the blame falls on the slump in oil prices, sanctions are the bigger culprit.

"The underperformance has been much bigger than crude alone can explain," wrote Scott Johnson, an analyst at Bloomberg Economics in London. "Part of the gap is likely to reflect the enduring impact of sanctions both imposed and threatened over the last five years."

The findings show that punitive measures are having their intended effect of putting pressure on Russia for its interventionist foreign policy without causing a shock that could spill over into other markets. Policies aimed at protecting the nation from future sanctions by building up reserves have made it more resilient, but they have come at the expense of growth. Still, the Kremlin argues that the sanctions haven't had an impact on its foreign policy.

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The analysts based their estimates on a growth forecast that might have seemed reasonable at the end of 2013. The estimate takes structural constraints into account, not sanctions or the drop in oil prices. They admit that part of the 6 percent gap could be attributed to other shocks, such as the introduction of inflation targeting and a sell-off in emerging markets.

However, the fact that the gap in potential versus actual growth continues to widen implies that sanctions are having a prolonged impact, the analysts said. The lingering effect puts under question Russian government forecasts that policy changes and investment will push GDP growth above 3 percent by 2021.

“It’s possible, but that pace won’t be sustainable without a dramatic pick-up in productivity gains,” Johnson wrote. “If sanctions remain in place, as seems likely, that’s one more reason to expect the economy to come up short.”

In our weekly podcast “From Russia With News,” Henry Foy from the FT discusses the effect of sanctions on Russia.

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