CHARLES UNIVERSITY IN PRAGUE

FACULTY OF SOCIAL SCIENCES

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Bachelor thesis

2016 **Esenbek Karymshakov**

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Effects of sanctions on Russian Federation: analysis of effects on Russian companies

Bachelor thesis

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Author: Esenbek Karymshakov

Supervisor: Mgr. Ing. Vilém Semerák, Ph.D.

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Abstract

My thesis analysis studies the effects of sanctions on the Russian Federation and Russian companies which represent energy and banking sectors of the economy: Rosneft, Gazpromneft, Transneft, Sberbank, Gazprombank, VTB group. After the invasion and annexation of Crimea by the Russian Federation, most western countries reacted immediately, expressed condemnation of Russia's activity in Ukraine. Therefore, the main task of thesis is to analyze implications of sanctions against the Russian Federation onto financial position of the Russian companies resulting the year 2014. Each company will be analyzed individually before and after sanctions in order to observe the scale of sanctions on them and their countermeasures. I will include all major factors, which are affecting onto the Russian Federation's decision. Finally, the main aim of my thesis is to prove and try to show the importance and relevance of my hypothesis, which is mentioned below.

Abstrakt

Tato bakalářská práce se zabývá analýzou efektu sankcí na Ruskou federaci a ruské společnosti, které představují energetický a bankovní sektor hospodářství. Rosněfť, Gazpromneft', Transneft', Sberbank, Gazprombank, VTB. Po invazi a anexi Krymu Ruskou federací, většina západních států reagovala okamžitě a odsoudila ruské aktivity na Ukrajině. Hlavním úkolem této práce je analyzovat dopady protiruských sankcí na finančních pozicích ruských společností v roce 2014. Každá společnost bude analyzována individuálně z pohledu před a po uvalení sankcí, aby bylo možné pozorovat rozsah sankcí týkající se každé společnosti a následná protiopatření. Pokusím se zahrnout všechny hlavní faktory, které ovlivňují Ruské rozhodování. Hlavním cílem této práce je dokázat a pokusit se demonstrovat důležitost mé hypotézy, která je zmíněna níže.

Keywords

Sanctions, Russian Federation,, petroleum indrustry, baking sector, contrmeasures, production, policy, investment, market, devaluation.

Core Bibliogpraphy

Books

1. *Energy Strategy of Russia for the period up to 2030* // App. to the public and business magazine Energy Policy. M.: Institute of Energy Strategy, 2010. – 172 p.
2. Gros Daniel and Mustilli Federica. *The Economic Impact of Sanctions against Russia: Much ado about very little*. Centre for European Policy Studies. Brussels, 23 October 2015.
3. M. Korabik Kevin, *Russia's Natural Resources and their Economic Effects*, Penn State College of Earth and Mineral Sciences, 1 December 2007.

Declaration of Authorship

1. The author hereby declares that he compiled this thesis independently, using only the listed resources and literature.

2. The author hereby declares that all the sources and literature used have been properly cited.

3. The author hereby declares that the thesis has not been used to obtain a different or the same degree.

Prague …   Esenbek Karymshakov

Acknowledgments

I would like to express my special appreciation and thanks to my supervisor Mgr. Ing. Vilém Semerák, Ph.D. for his patience, comments and supervision of my thesis.

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Topic Characteristics:

The intervention of the Russian Federation in Ukraine in the beginning of 2014 created grounds for a considerable number of states for taking restrictive steps against Russia's unlawful activity in Ukraine. Western countries imposed various types of sanctions in an attempt to make an influence on Russia. Additionally, it is worth noticing that before the crisis in Ukraine the EU was the main trade partner of the Russian Federation. In my Bachelor Thesis I will analyze the sanctions and their effects on Russian economy, namely the petroleum industry and the banking sector which are two main sectors of the economy. I will show how sanctions affected each company and which moves companies and government took in order to improve situation. During analysis all factors will be taken into account and data will be collected from possibly most reliable databases.

Hypothesis:

The first hypothesis is that all sanctions imposed against the Russian Federation are aimed at achieving a shift in the political course of Russia. The intention is to make Russia adjust its attitude by costing considerable losses to the country.

The second hypothesis is that the impact of recently applied sanctions are difficult to predict in a long term. It is worth noticing that the banks are able to resist one or two years under the pressure of extensive restrictions, but in a 10-year term they can be seiously affected.

The third hypothesis is that the sanctions mainly effect banking sector and petroleum industry.

Methodology:

The main method of my thesis is the influence of sanctions and analyses of acquired data.

Outline:

1. Introduction

2. Overview of the anti-Russian sanctions and Russian food embargo of 2014.

Goal: identification of 4 industrial sectors affected by the Political measures.

3. Analysis (financial/marketing) of the selected industries. Source of information – internet.

Goal: identification of 5-10 major players.

4. Financial analysis of the P&Ls of 2014 and comparison with the 2013-2015 P&Ls. Source of information – official web pages.

Goal: identification of financial indicators triggered by the Political measures.

5. Conclusion.

Contens

Introduction

The activity of Russia in Ukraine in February 2014, that ended with further intervention, created grounds for a considerable number of states for taking restrictive measures towards particular individuals, businesses and state representatives from the Russian Federation and Ukraine. Despite the Moscow's open claims of discontent with the current security system in Europe, the Russian invasion of Crimea shook the world and even a considerable part of Russians.

The US and EU reacted immediately, all the western states expressed condemnation of Russia's unlawful activity in Ukraine. They compensated with the most common means of foreign policy that is used by 21st-century western society to express dissatisfaction of governments violating international law.

Initially the sanctions were aimed at individuals and groups having connections with the invasion and annexation of Crimea. This was followed by ban on trade with Crimea. In July 2014 the West (the US and the EU) significantly increased the pressure on the Kremlin by expanding the ratio of restrictions and applying economic sanctions against the Russian Federation. These sanctions prohibit the capacity of the banks and particular companies to raise credit on EU and US capital markets. In parallel to these financial means, the EU and the US raised sanctions on specific spheres of export to Russia: export of arms, dual-use goods, and even technically progressive facilities for oil exploration.

Simultaneously the Russian economy has shown a significant decline. The downfall started in 2011 is a consequence of the politicized system of economy as it hampers increase of productivity and institutional improvement. This deterioration happened despite the soaring prices of oil.

The lack of boldness stimulated by the invasion of Ukraine has driven to increased capital flight and depreciation of the currency. This contributed to the further deepening of the crisis. Ultimately, the downfall of the oil price resulted as nearly zero growth in 2014 and a considerable reduction of the economy is predicted in 2015.

All the sanctions imposed against the Moscow indicate the dissatisfaction of the US and EU with the Russian policy in Ukraine. The restrictions targeted on vital functions and spheres of the economy of Russia are aimed at achieving a shift in the political course of Russia. The idea is pretty simple: make the country more tolerant and prone to cease hostilities by affecting the economy.

Two years have already passed since the restrictive measures were taken, and the expected question arises – are the sanctions efficient from the perspective of the economy being affected, and how do they interact with other circumstances that facilitate the gradual drop of the economy? To sum up briefly, that is the *importance and relevance* of the research topic.

So, the *objective of the thesis* is to qualitatively evaluate the influence of the economic sanctions imposed by the EU and US against Russia as a result of the annexation of the Crimean peninsula and subsequent actions in eastern Ukraine.

In my research I have analyzed the impact of sanctions against Russia and Russian embargo (political measures) on food on financial position of the Russian companies resulting the year 2014. For this sake, first of all there have been distinguished the major spheres of economics that were mostly influenced by the political steps taken within the second semester of 2014. As a second stage, there have been analyzed the *petroleum industry* and *the banking sector*, as the two main sectors of the Russian economy most of all affected by the sanctions. The comparative analysis of the dynamics of sales, costs by types, gross margin, operational profitability and net margin for 2013 and 2014 of several companies in those sectors were carried out. The methodology of *retrospective analysis* has been practiced in this research.

As a final step it have built hypothesis on the banking system and oil market of the Russian Federation, with the financial indicators for the year 2014 representing outcomes of the Political measures adopted.

1. Overview of the sanctions against Russia and Russian food embargo of 2014

«…sanctions are not punitive, but designed to bring about a change in policy or activity by the target country, entities or individuals»[1]

Currently, Russia classifies as the third partner of the EU (performing 8.4% of total merchandise trade and services trade) and the EU is Russia's trading partner number one (With as much as 48% of summary Russian foreign trade) and the most significant foreign investor (The EU provides up to 3/4 of foreign direct investment). The main EU exports to Russia are transport equipment (cars), machinery, medicines, chemicals, electrical and electronic goods and agricultural products (total value constituted €103 billion in 2014). Russian exports to the EU are mainly prevailed by fuels of mineral origin (74.9%), which represents a substantial Russian trade surplus (total value of exports to the EU established €182 billion in 2014). Trade in services performs nearly 12% of total EU-Russia trade.[2]

The regulative basis of the trade between the European Union and the Russian Federation is Partnership and Cooperation Agreement, which is in force since 1 December 1997 and renewed annually starting from 2007. On the background of the events took place in Ukraine, the talks on a new agreement were suspended by the European council. Starting from early 2014, a sequence of sanctions of economic and diplomatic meaning were introduced and extended by the EU against the Kremlin in protest at Russian destabilizing actions in Ukraine and violation of the territorial integrity of Ukraine.

Overwhelming majority of EU leaders charged Russia of creating threats in order to keep Ukraine under its influence. In the end of November 2013 EU Commission President *Manuel Barroso* claimed the following «*The times for limited sovereignty are over in Europe … Russia still seemed to consider Ukraine as a*

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[1] EU restrictive measures. Factsheet. Brussels, 29 April 2014

[2] Economic impact on the EU of sanctions over Ukraine conflict. European Parliamentary Research Service October 2015

subservient neighbor».[3]

«*Soft power*» is the acceptable limit of the EU's foreign policy. Precisely for this reason the reaction of the EU towards Russia's annexation of Crimea and the following military intervention in the Eastern regions of Ukraine took shape of immediate imposition of economic sanctions.[4]

In spring 2014, in an attempt to shift the policy of Moscow towards Ukraine, a considerable number of Western states applied sanctions against Russia. At the outset, restrictions targeted particular individuals standing close to the Russian ruling elites and key decision-makers. By this sanctions their entrance to the U.S. and EU member states were prohibited and the assets they had in those countries were frozen.

Soon, Western states realized that sanctions on this level do not produce desired results and changed their strategy by imposing sectoral sanctions. As the further escalation of the crisis in Ukraine continued, the countries changed the dimension of the sanctions, deliberately focusing on specific fields of the Russian economy such as energy, banking and finance, defense and high tech.

The implementation of the sanctions can be divided into *3 main rounds*.

First round of sanctions *(March/April 2014).* On 6 March 2014, when the president of the United States Barack Obama referring to the International Emergency Economic Powers Act and the National Emergencies Act, endorsed an administrative disposition that announced emergency on national level imposing sanctions on particular group of individuals which at that time were not specified. These sanctions put also travel bans and frozen their assets in the US. The day after the referendum in Crimea, on 17 March 2014, the EU, the US and Canada launched the first round of deliberately targeted sanctions. This was implemented just a couple of hours sooner than president Putin recognized the independence of Crimea by signing a conforming order.

Second round of sanctions *(April 2014)*. On 28th of April, business transactions of seven Russian officials were banned within the territory of the United States. Executive chairman of Rosneft, Igor Sechin, and seventeen other Russian Companies were listed (*Appendix 1*). On the same day, another fifteen individuals became subject

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[3]http://www.telegraph.co.uk/news/worldnews/europe/ukraine/10482680/EU-will-not-accept-Russian-veto-says-Barroso.html

[4] The Economic Impact of Sanctions against Russia: Much ado about very little/Daniel Gros and Federica Mustilli. Centre for European Policy Studies. Brussels, 23 October 2015.

to travel bans by the EU. In respect to this, the EU released a paper stating the objectives of the adopted measures. The EU states that their «*sanctions are not punitive, but designed to bring about a change in policy or activity by the target country, entities or individuals. Measures are therefore always targeted at such policies or activities, the means to conduct them and those responsible for them. At the same time, the EU makes every effort to minimize adverse consequences for the civilian population or for legitimate activities*».[5]

Third round of sanctions *(2014-present).* In response to the intensifying War in Donbass, on 17 July 2014 the US expanded its restriction of transactions to two leading Russian energy companies, *Rosneft* and *Novatek*, and two major banking corporations, *Gazprombank* and *Vnesheconombank*. The US also advised heads of member states of the EU to join the Third Wave driving EU to start preparing European Sanctions a day ahead. On the 25 July, as a result of further expansion of sanctions by EU many individuals and groups became subjects to them.[6] A few days later, on 30 July, another three entities and eight individuals followed them. A day after this the EU launched the third session of sanctions. This wave included a long list of restrictions. Within them embargo on arms and relevant equipment, restriction on technology designed for military use or military end user and dual-use goods, a restriction on imports of arms and complementary components, regulations on export of facilities for the oil industry, and a prohibition on the issuance of and trade in specific bonds, equity or financial means of that type on a maturity more than 90 days (Decreased to 30 days on September 2014). [7]

In essence all the sanctions involved wide-scale economic and trade measures, involving asset freezes, restrictions on travel, the suspension of development loans from the EBRD, finite access to capital markets within the European Union both primary and secondary (for targeted Russian financial organizations, energy and defence companies), restrictions on trade (export and import) of arms, a ban on the export of dual-use goods and decreased access to sensitive technologies and services connected to production of oil. In addition, the sanctions were not only economic but born

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[5] EU restrictive measures. Council of the European Union. 29 April 2014. Retrieved 23 August 2014.
[6] List of persons and entities under EU restrictive measures over the territorial integrity of Ukraine file:///C:/Users/Souren/Downloads/20160316%20list%20of%20designated%20persons%20and%20entities.pdf
[7] Council Regulation (EU) No 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's actions destabilizing the situation in Ukraine. 31.7.2014 EN Official Journal of the European

comprehensive character (Fig 1).

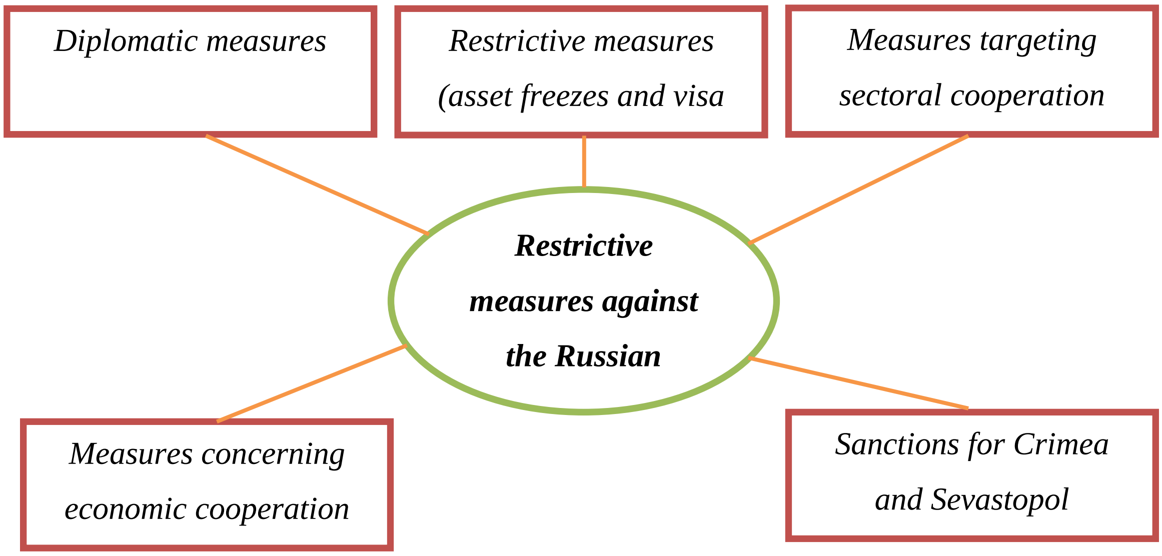

Fig. 1. The main groups of restrictive measures against the Russian Federation

Diplomatic measures. The G8 summit which should have been held in Sochi was cancelled and another meeting was held in Brussels instead on 4-5 June 2014.[8] This time the format was changed from G8 to G7. EU approved the suspension of the negotiations on Russia's joining the OECD and the International Energy Agency. The EU-Russia summit did not take place as it was planned initially and EU мembers chose to refuse systematic bilateral meetings. Bilateral talks with the Kremlin on visa regime issues and on the New Agreement between the sides were suspended.

Restrictive measures (*asset freezes and visa bans*). Freezes of asset and bans on visa apply to 149 individuals. Assets of another 37 entities are also frozen in the EU, including persons and entities in charge for actions that violate Ukraine's territorial integrity, individuals who support or benefit from Russian decision-making elites and 13 entities in Crimea and Sevastopol that were seized or that made benefits from a transfer of property violating the law of Ukraine.

Sanctions for Crimea and Sevastopol. The EU's policy that does not recognize the unlawful annexation of the Crimean peninsula and Sevastopol is deeply expressed in significant sanctions imposed on economic exchanges with the territory. Among them:

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- a restriction on imports of goods produced in Crimea or Sevastopol that do not have Ukrainian certificates;

- a prohibition of making investments in Crimea;

- a ban to provide tourist services in Crimea and Sevastopol;

- restriction on export to companies in Crimea or for use in the territory of Crimea for items and machinery relating transport, technology and energy spheres or the exploration of mineral resources, oil and gas;

- technical support, brokering, construction and services of engineering concerning infrastructure in the same sectors are restricted to provide.[9]

Measures aimed at cooperation and exchanges with Russia in specific sectors *(Appendix 2):*

- c*ompanies and nationals of the EU are not allowed anymore to sell or purchase new bonds, equity or financial means of that type that have a maturity more than 30 days,* released with the assistance of five major state-owned banks of Russia, three leading Russian energy companies, three Russian defense companies; satellites of the above mentioned companies, and those representing them or acting at their direction outside the EU.

- *assistance concerning the release of this type of financial instruments is also forbidden;*

- *the loans that have maturity more than 30 days may not be provided to the above mentioned companies;*

- *prohibition of the export and import of military equipment and related material from/to the Russian Federation,* covering all components on the EU accepted military list, a few exceptions exist;

- *ban to export goods of dual use as well as military technology for the use in the territory of the Russian Federation or to military end-users from Russia, all the components registered in the list of dual use goods of the EU are included;*

- *particular authorization is required from competent powers of Member States to export to Russia specific equipment and technology related to energy;*

- *the subsequent services required for the projects mentioned above may not be*

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[8] Russia to hold 2014 G8 summit in Sochi: Putin at PressTV.ir, 19 June 2013; retrieved 2013-6-19.

[9] The official news website of the institutions of the European Union («The EU Newsroom») http://europa.eu/newsroom/highlights/special-coverage/eu_sanctions_en

provided: drilling, well testing, logging and completion services and supply of specialized floating vessels.[10]

Measures related to the economic collaboration. On 16 July, a request came to the EIB from the European Council about suspension of the signature of new financing activity in the Russian Federation. The positions of the Member States of the European Union will be coordinated in the EBRD Board of Directors, the suspending of new financial operations was also taken into consideration. The fulfillment of the regional partnership and collaboration of EU-Russia bilateral programs has been broadly suspended. Exclusively cross-border and civil society related cooperation projects are supported.

The restrictions that required considerable concerns have been the bans on trade in particular goods, announced in July and September 2014. Economic sanctions involved means aimed at transactions with Russia in particular economic sectors. The EU implemented economic sanctions that target transactions with Russia in exact economic spheres in July and September 2014. In March 2015, leaders of EU Member States decided to link the current sanctions regime to the total completion of the agreements achieved in Minsk, which was predicted for the end of December 2015. Guided by this decision, the Council extended economic measures for six months on 22 June 2015. So, they were in force until 31 January 2016. This took place since the agreements confirmed in Minsk will not be fulfilled entirely by 31 December 2015. In its most general form the abovementioned variety of the sanctions may be categorized into 3 groups (Fig. 2).

The first forbids defined Russian state-owned companies' entrance to financial markets and services of the West. This includes enterprises in the sectors of energy, banking and defence.

The second imposes a ban on exports to Russia of machinery for high-tech exploration and production of oil.

The third concerns military and dual-use goods. They may not be exported to Russia.[11]

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[10] European Commission Notice of 25.9.2015 Commission Guidance note on the implementation of certain provisions of Regulation (EU) No 833/2014

[11] NATO Review Magazine ©. http://www.nato.int/docu/Review/2015/Russia/sanctions-after-crimea-have-they-worked/EN/index.htm 2015.

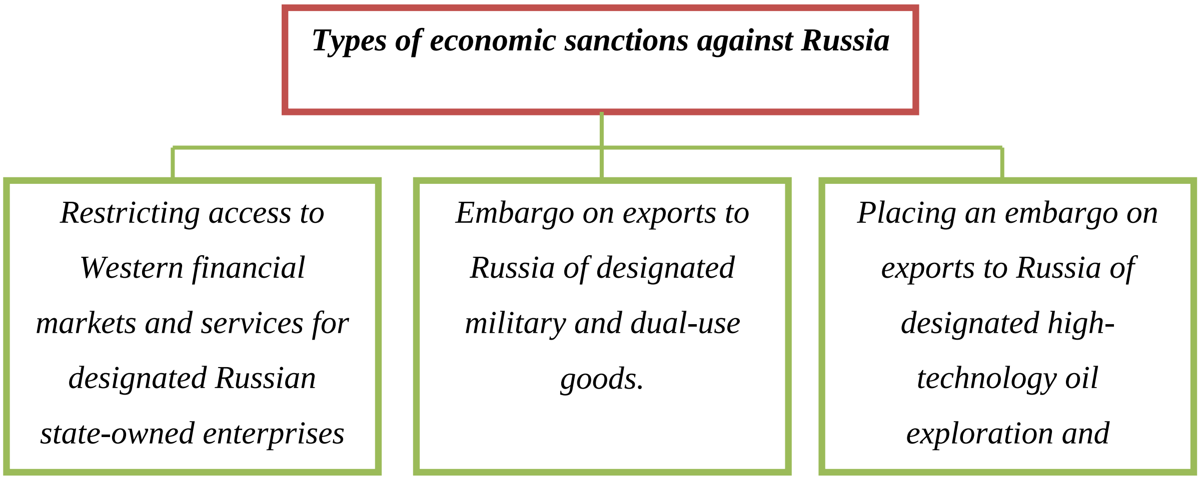

Fig. 2. Three types of economic sanctions against Russia

New data indicates the influence of the sanctions on Russia's economy after the referendum in Crimea and intervention in Eastern Ukraine. The macroeconomic challenges it was already meeting have enhanced due to the sanctions, especially the rapid and explicit decline in oil prices that started during the fourth quarter of 2014. Moreover, the combination of the effects of the mentioned restrictions and significant downfall in oil prices led to considerable devaluation of the Russian currency and increased capital flight. Key indicators of the foreign trade of the Russian Federation plummeted in November 2014 (Fig. 3).

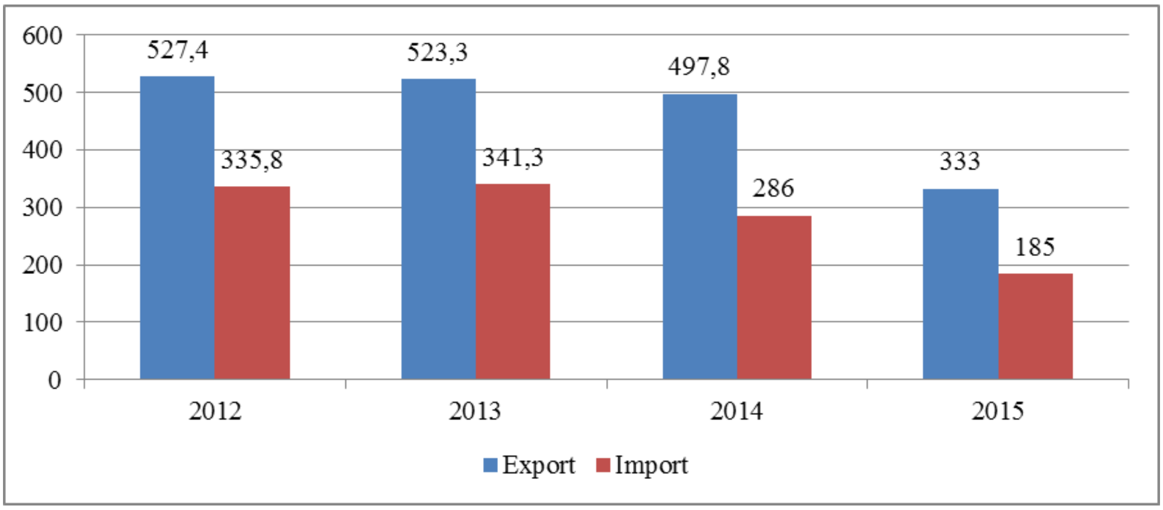

Fig. 3. Russian foreign trade for 2012 – 2015 (USD billion)[12]

[12] Federal Customs Service http://customs.ru/index.php?option=com_content&view=article&id=22570:--

The establishment of a «fiscal maneuver» in the oil and gas industry on the background of falling prices of crude oil generated considerable reduction in the crude oil export duty revenues in the beginning of 2015. The Federal Customs Service provided detailed information about the surplus of the foreign trade of Russia in January 2015 (Fig. 4).

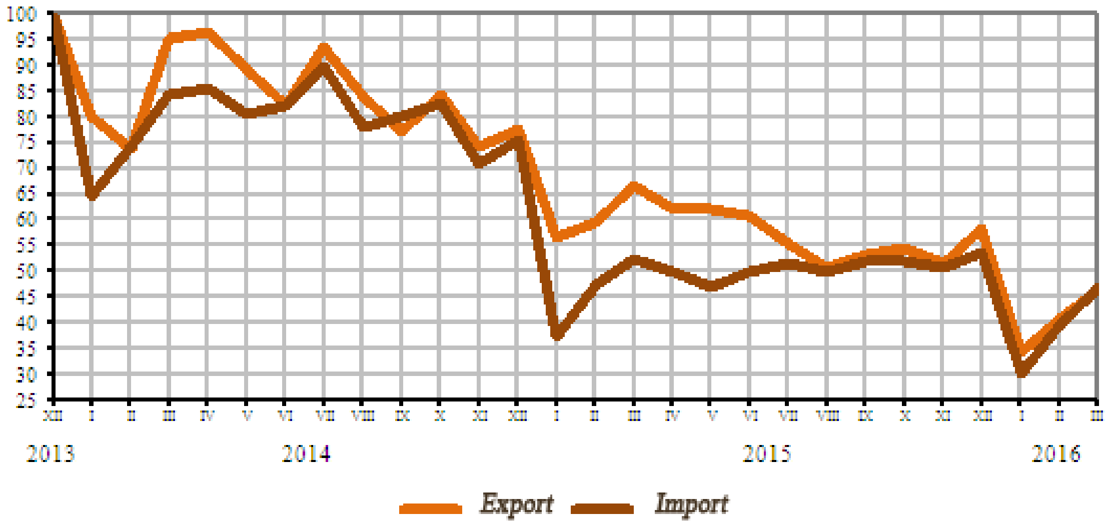

Fig. 4. Growth rates of Russian foreign trade (% to 2013) [13]

According to the indicators it fell by 20.1%, which equals to $4.1 billion, and the total was $16.3 billion.

It can obviously be concluded from the Fig. 4, that the foreign trade of Russia (both the import as well as the export) reduce rapidly till now.

The same may also be figured out for the GDP growth. Russia's GDP fell close to 4% (Fig.5) and the country was pushed into a deep depression in 2015 due to a combination of falling oil prices, structural limitations and imposed sanctions.

Most economists predict this decline will continue during 2016. In an effort of diversification of the economy away from extractive industries the Government has recently enlarged the amount of substitution. According to the prognosis of the Ministry of Economic Development of the Russian Federation a reasonable growth of 0.7% for enrire 2016 is anticipated. In contrast, the attitude of the Central Bank of Russia (CBR)

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[13] Russian Federation Federal State Statistics Service

is rather pessimistic and it foresees the recovery to start later in the year and a drop of 0.5% to 1.0% for the whole year. Considering the Russia’s dependence on the movement of world commodity costs the CBR claims that if oil prices do not climb above $ 40per barrel beyond 2016, the GDP will drop by up to 5% as a result of the shock.

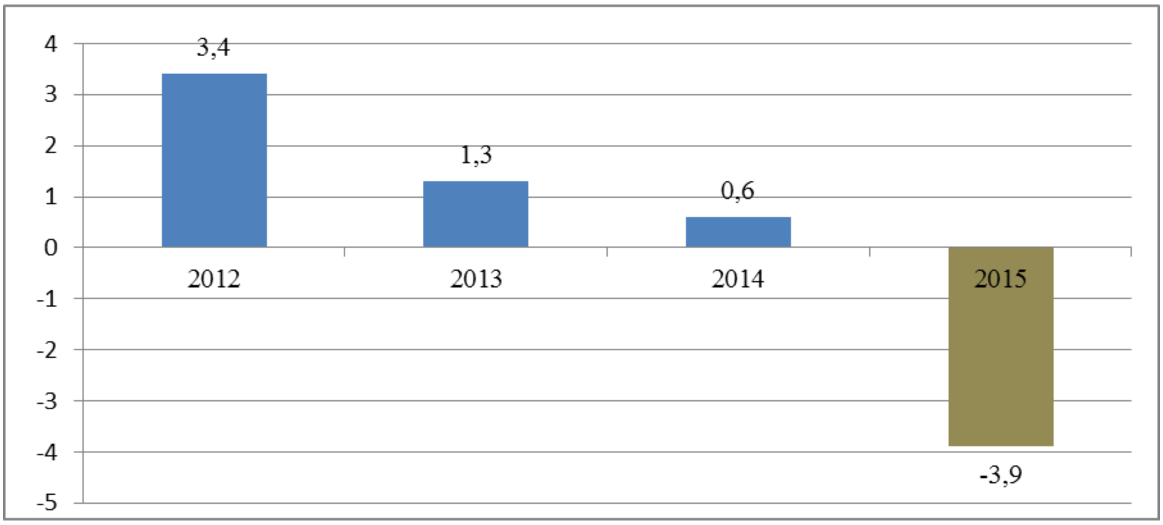

Fig. 5. GDP growth rates for 2012-2015 (% to last year)[14]

Latest statistics prove Russia’s entry into stagnation, with GDP growth of -2.2% for the first quarter of 2015, in comparison to the same period of 2014. According to recent predictions a drop in real GDP near 3-3.5% for 2015 and growth of almost zero for 2016 is expected. In fig. 6 we can see the dynamics of GDP during 2011 - 2015.[15]

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http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat /en/main/

[14] The World Factbook. Central Intelligence Agency. https://www.cia.gov/library/publications/resources/the-world-factbook/geos/rs.html

[15] http://www.statista.com/statistics/263772/gross-domestic-product-gdp-in-russia/

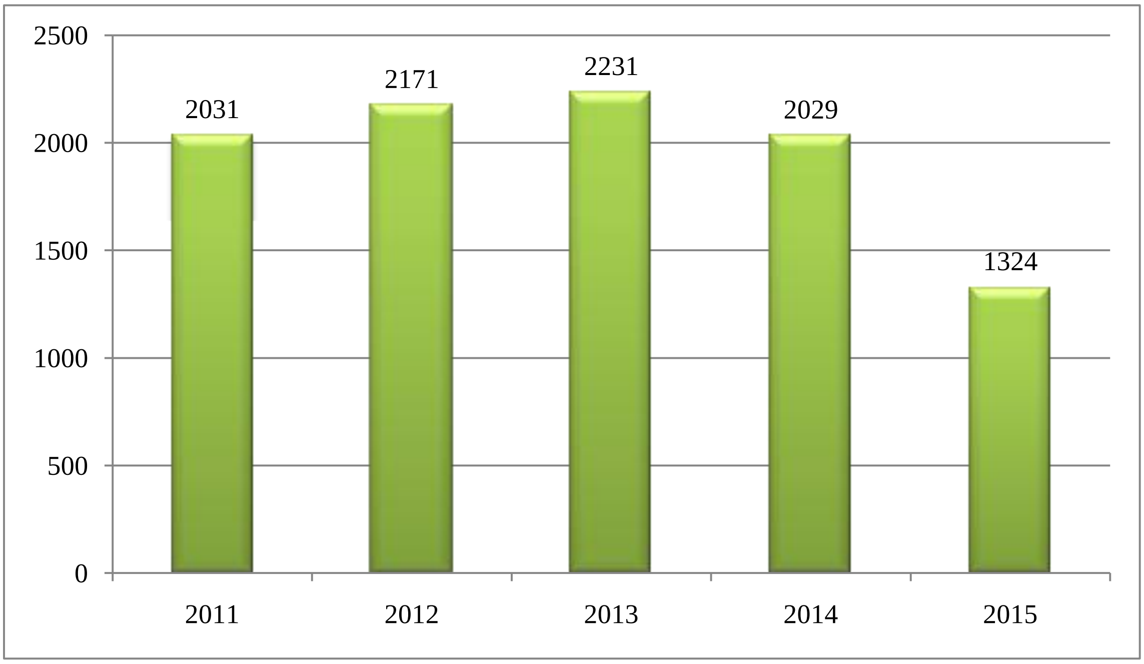

Fig. 6. Gross domestic product in current prices from 2011 to 2015 (USD billion)

The growth in 2013 decreased to 1.3 % a year instead of the 2-3 % predictions. The confidence crisis after Russia annexed Crimea and acted aggressively against Ukraine lessened growth expectations. The International Monetary Fund (IMF) reconsidered its prediction to 0.2% growth for 2014, 0.5 % for 2015, and a recovery up to 1.5 % only in 2016. Yet, in January 2015 the initial numbers showed 0.6% growth in 2014 and the IMF (2015) estimated a reduction of -3% for 2015 and -1% for 2016. The negative tendency was stiffened by the Western sanctions, counter-sanctions of Russia and the significant fall in oil prices. Three possible scenarios of the situation were outlined by the World Bank with growth rates within -2.9% and -4.6% for 2015 and 0.1% to 1% for 2016. The baseline scenario is presented in Table 1 and illustrates -3.8% for 2015 and -0.3% for 2016.

A big challenge that any modernization program faces in Russia is that even though the development since the reforms in the 1990s is huge, the economic system still carries some peculiarities of the Soviet command system. The informal institutions coming from the Soviet period and new versions of personal management that developed during Putin's office dominate over the institutions that usually maintain market allocation in many ways, as they are unsteady despite the transformation of the system from a command economy into a market economy.

Table 1. Macroeconomic development in Russia, 2012 – 2015 (World Bank baseline scenario 2015)

	2012	**2013**	**2014**	**2015**	**2016**
Oil price, USD/bbl	105	104	97.6	53.2	56.9
GDP growth, %	3.4	1.3	0.6	-3.8	-0.3
Consumption growth, %	6.4	3.9	1.5	-5.3	-1.9
Gross capital formation growth, %	3.0	-6.6	-5.7	-15.3	1.1
General government balance, % GDP	0.4	-1.3	-1.2	-3.6	-3.1
Current account, USD billion	71.3	34.1	56.7	73.7	62.9
Current account, % GDP	3.6	1.6	3.0	6.0	4.4
Capital and financial account, USD billion	-32.3	-56.2	-143.2	-122.1	-60
Capital and financial account, % GDP	-1.6	-3	-7.7	-10	-4.2
CPl, average, %	5.1	6.8	7.7	16.5	8.0

Source: World Bank

We can certainly claim that overall, sanctions imposed by the West have been a success from the perspectives of the proximate goal of affecting the economy of Russia. The significant value of the economic sanctions also contributes to this. Western nations acted in a coordinated way (expressing unity) against groups of strategic importance of the Russian state (expressing attribution of responsibility) in a manner aimed to cause economic losses (expressing reliability) while acknowledging the (limited) risk that economic troubles may befall them as a consequence (expressing determination.)

2. Implications of sanctions against Russia onto financial position of the Russian oil companies (2012 - 2015)

The massive resources of minerals and energy, which are considered to be the most extensive reserves in the world, have contributed to Russia's being one of the largest producers of oil and gas worldwide. Constitution of long-term energy policy started with the first steps of the new Russia as an independent state. On September 10, 1992 the Government of Russia issued resolution № 26 approving Energy Policy Concept of the Russian Federation. «*Major directions of Energy Strategy of Russia for the period up to 2010*» were approved by the edict № 472 of May 7, 1995 of the President of Russia. On 13 November 2009 the Government of the Russian Federation approved «*Energy strategy of Russia for the period up to 2030*» by Decree № 1715-r.[16]

In the course of the conduction of the Energy Strategy of Russia its fundamental provisions proved to be corresponding to the existing process of development in the sphere of energy of the country even under the pressure of internal and external factors that define the primary parameters of functioning of the fuel and energy complex of the Russian Federation. Parallelly, once in five years adequate reforms are needed to be made in that strategy. The petroleum industry in Russia represents one of the greatest in the world (Fig. 7).

[16] Energy Strategy of Russia for the period up to 2030 // App. to the public and business magazine Energy Policy. M.: Institute of Energy Strategy, 2010. – 172 p.

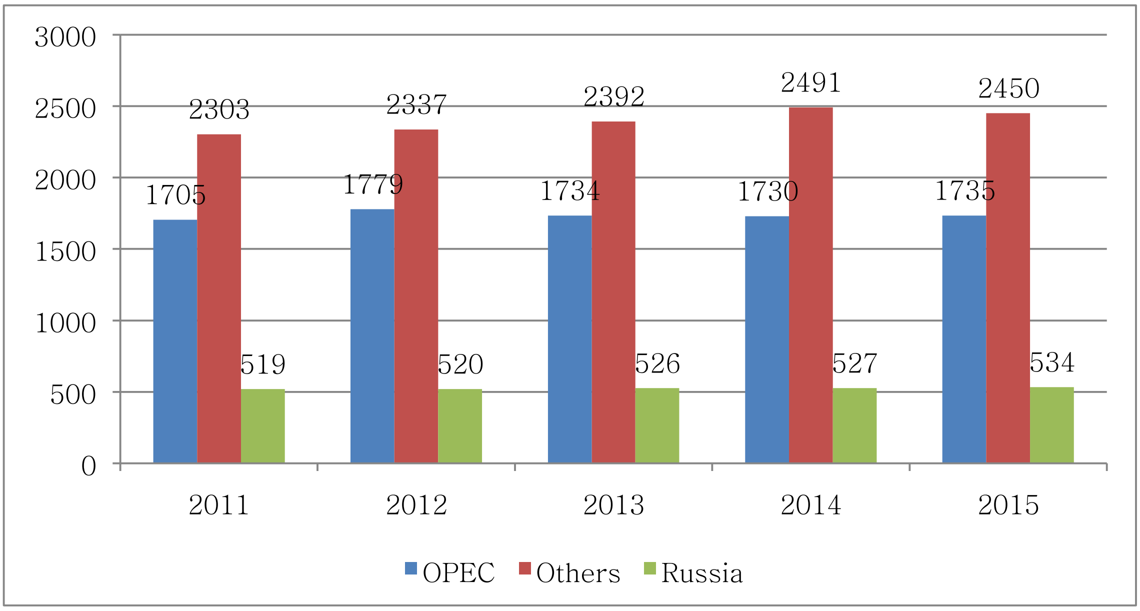

***Fig. 7. Production of petroleum products in the world (mln. tonnes)*[17]**

The dominant exports of Russia are Crude Petroleum ($155B), Refined Petroleum ($88B), Petroleum Gas ($35.9B), Coal Briquettes ($12.7B) and Raw Aluminium ($7.64B).

It is clear that Russian economy is mainly dependent on the petroleum industry. This is the direct reason of sanctions to be targeted to petroleum companies. *Rosneft* is the biggest, then comes *Lukoil*, *Surgutneftgaz*, *Gazprom Neft* and *Taftneft*. The state-owned monopoly *Transneft* owns and operates all the oil trunk pipelines (excluding *Caspian Pipeline Consortium*). *Transeftproduct*, which is the subsidiary of *Transneft* enterprise, owns and operates pipelines of oil products.

Gas and oil exports constitute nearly 75% of the total Russian export income and about 50% of the income of the government of Russia. Aiming to increase tension on the Russian state, the imposed sanctions targeted Russian state-controlled oil companies, particularly *Gazprom Neft* and *Rosneft*.

Rosneft. It is vertically integrated oil and gas enterprise vast majority of which belongs to Russian government. The company is directly involved in exploration and production of hydrocarbons, oil refining and product marketing. After buying assets of Yukos, a former huge oil producer, at state-run auctions Rosneft became the top

[17] BP Statistical Review of World Energy June 2015 https://www.bp.com/content/dam/bp/pdf/energy-economics/statistical-review-2015/bp-statistical-review-of-world-energy-2015-full-report.pdf

company of extraction and refinement. In March 2013, Rosneft became the largest publicly traded oil company. After purchasing TNK-BP Rosneft explores and produces oil and gas on Sakhalin island, Siberia, Timan-Pechora field and in the South of the Russian Federation, also in Chechnya. The analysis of the main figures of the company during the last 5 years (including the periods before and after the imposition of the sanctions) illustrates that a number of figures plummeted in 2014, although there is a growth trend for some indicators (Table 2).

Table 2. Rosneft's Financial and Operating Highlights[18]

RUB billion

	2011	***2012***	***2013***	***2014***	***2015***
Revenues and equity share in profits of associates and joint ventures	2,718	3,089	4,694	5,503	5 150
EBITDA	662	618	947	1057	1245
Net income	335	365	551	350	356
Capital expenditures	391	473	560	533	595
Net Debt	440	591	1,860	2,467	1,220
Total dividend accrued, RUB bln	78	85	136	87	124.5
Dividend per share (RUB)	7.53	8.05	12.85	8.21	11.75

So, the figures of Revenues for the period from 2011 to 2014 shows steady increase and there is a fall of 6% only in 2015. But, for instance, an important figure as Net income plummeted rapidly down to 350 billion RUB in 2015, even though it has risen again surpassing the level it had in 2013. (Fig. 8)

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[18] Rosneft official website: https://www.rosneft.com/Investors/Reports_and_presentations/Consolidated_financial_statements/

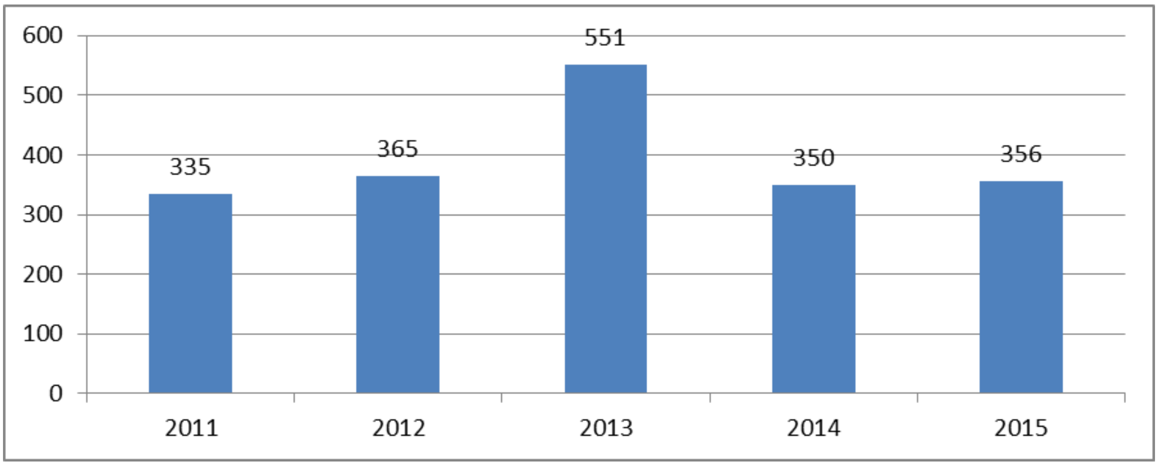

Fig 8. Rosneft's net income (RUB billion)

Taking into consideration the differentiation of value of Ruble in 2013 and 2014, we can conclude that the real negative dynamics is greater. Similar negative dynamics is also noticed in the figures of Net Debt of the company, which increased dramatically in 2014, exceeding three times the figures of 2012. The same could be concluded for the indicators of Total dividend accrued and Dividend per share which show sharp downward tendency (Fig 9).

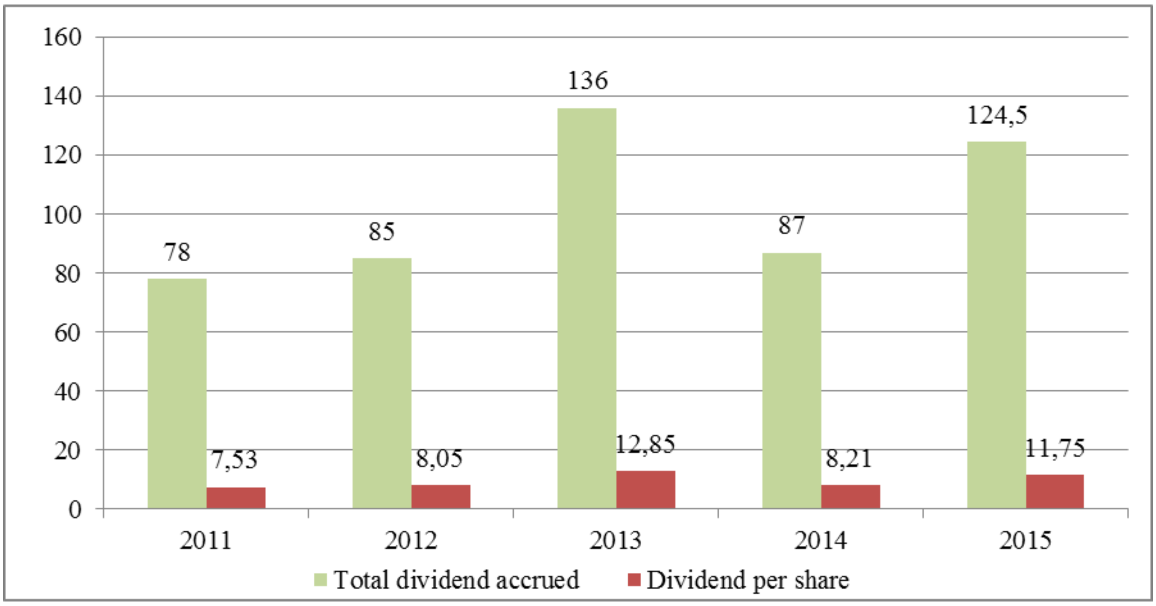

Fig 9. Rosneft's total dividend accrued and dividend per share (RUB billion)

However, it should be mentioned that in 2015 the figures return to the level of 2013. Although, in this case, considering the devaluation of Ruble, the dynamics may also be viewed as negative.

To sum up, we can conclude for the first company that it showed downfall in important figures like *Net income*, *Net Debt Total dividend* and *Dividend per share* resulting the year 2014.

The decrease in oil production of Russia is linked to the decline in productions from existing sectors, the required substantial contribution to counteract this decline, and the main role in the industry of state-owned Rosneft. Over 40% of Russian oil is generated by Rosneft. Its debt burden, coupled with sanctions-limited access to finance, diminishes the chances that the company will be able to commit the resources needed for keeping the existing volume of production (Fig. 10).

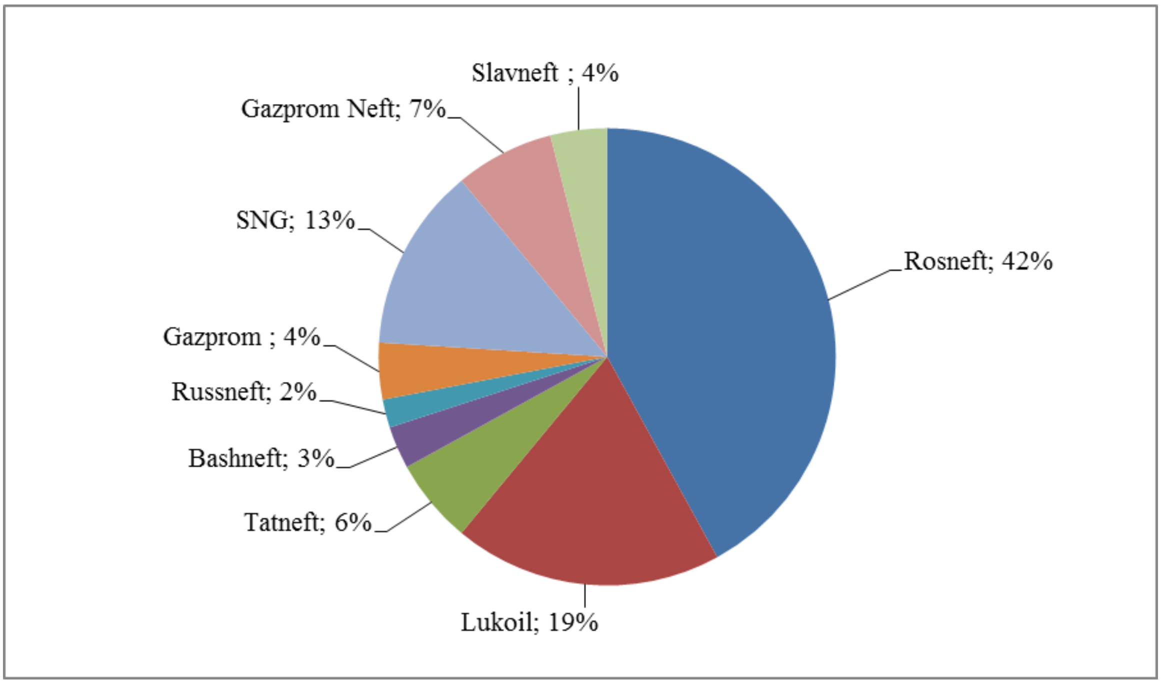

Fig. 10. Russian oil production in 2014[19]

The fall in oil prices exacerbates the depression of the Russian oil sector, but for Rosneft - that has low prices of production, in particular after the devaluation of the Ruble – sanctions remain the crucial trouble. Other Russian companies, including biggest Russian private oil company Lukoil, are also reviewing investment budgets, development of new production is expected to be suspended.

The perspectives of the production of Russia are closely linked to the Rosneft

[19] Ministry of Energy of the Russian Federation http://minenergo.gov.ru/en

and the financial capacity of the company to support its field development program. But a considerable debt was cumulated due to the acquirement of TNK-BP in 2013, a major part of which is scheduled to be repaid in 2015. In normal situation the payment could have been fulfilled, but refinancing in Western markets is restricted for the company and it suffers a significant deficit of income due to the lower oil prices. The president of Rosneft, Igor Sechin, claimed in February that from 2014 there would be cut of 30% in capital expenditure (in US dollars).

In an effort to close his debts the company has addressed several times to the National Welfare Fund of the Russian Federation. In September it asked 1.5 trillion rubles to satisfy its capital needs for the coming year. After the refuse from the Ministry of Finance, which pointed to a summary fund size of only more than 3 billion rubles, 60% of which was destined for national infrastructure investments[20], Rosneft subsequently lifted its demand to 2 trillion rubles.

As the access to capital markets is banned, Rosneft is in alarming crisis. 30-50% of the National Welfare Fund is needed to be spent for supporting field development, otherwise projects will be shelved. The company has already stated that the two largest fields will be postponed (Russkoe up to 2019 and Yurubechno-Takhomskoe until 2018). These delays sign 2 and 1-year adaptation to a schedule that had already been reviewed and may not be the final rescheduling.

For this reason, even with the support of the government it is difficult to see where Rosneft will find proper funds for any capital expenditure in 2015. The Company also cumulated a significant debt that should be paid in 2016 and 2017. If the ongoing situation of income persists, planned investments in those years may inevitably be restrained as well.

Gazprom Neft. It ranked fourth largest oil producer in Russia and is the third by refining capacity. 96% of its sjares belongs to Gazprom, which means that the company is a subsidiary of Gazprom. After the relocation from Moscow in 2011, the headquarter of the company is moved to St. Petersburg (the company is currently registered in St. Petersburg).

In 1997 Sibneft was privatised by the Russian government with the aim of developing a market economy (a stake of 49% is acquired by private investors in Sibneft). Finansovaya Neftyanaya Kompaniya (Financial Oil Company) bids

[20] Oil and Gaz Journal http://www.ogj.com/index/about-us.html

successfully for the share in Sibneft owned by the state under the scheme of «loans-for-shares» of the Russian government. Gazprom Group holds 75.68% share in Sibneft. On 13 May 2006 the Company is renamed Joint Stock Company Gazprom Neft.

The strategy of the Company is aimed at becoming a global player with regionally diversified portfolio of assets around the entire value chain. Due to the support of its outstanding bases of resource, effective refineries and efficient management the Company expands swiftly. Gazprom Neft is the top company in Russia in production of hydrocarbons and refining growth rate. It also leads on a number of performance metrics.

By the end of 2012 the company counted for 10% of oil and gas production and 14.6% of refining activities in Russia. There was an increase by 4.3% in capacity of production in the year of 2012, comparing to the figures in 2011. Refining performance grew by 7%, revenue was up 19.5% with EBITDA and net profit exceeding by 7.7% and 9.9% respectively.

In comparison to Rosneft, Gazprom Neft shows a dramatic fall in the figures of *total comprehensive income* and *basic earnings per share* of in 2014 as well as in 2015 (Fig. 11).

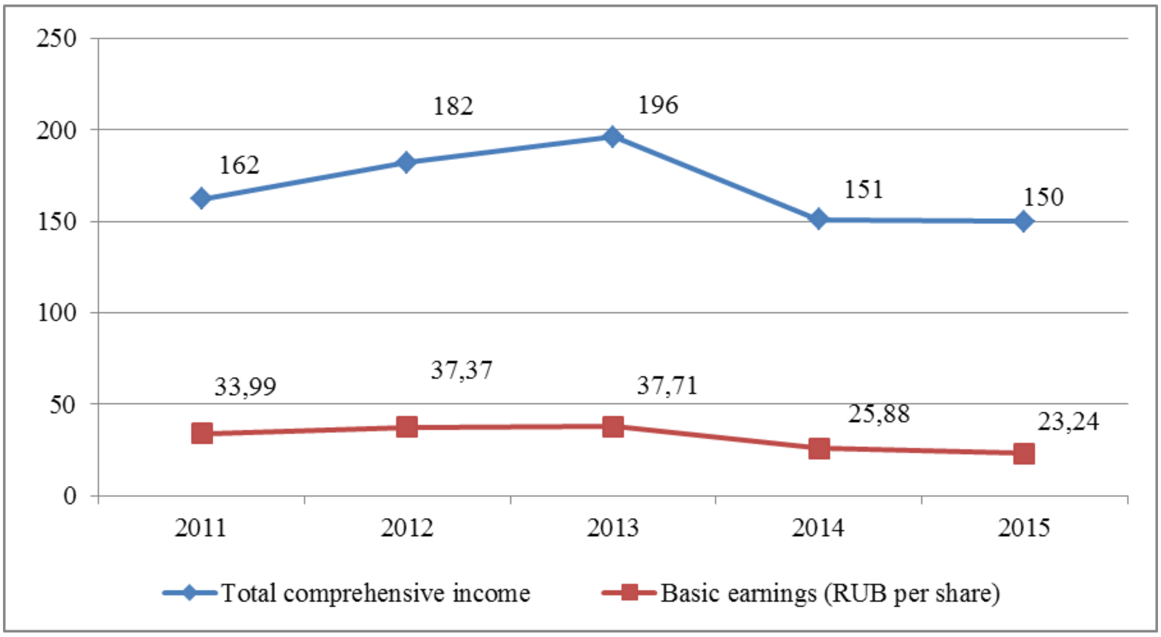

Fig. 11. Gazpromneft's total comprehensive income (RUB billion) and basic earnings

(RUB per share)[21]

This happens despite the steady growth of *total revenue from sales* (Fig. 12).

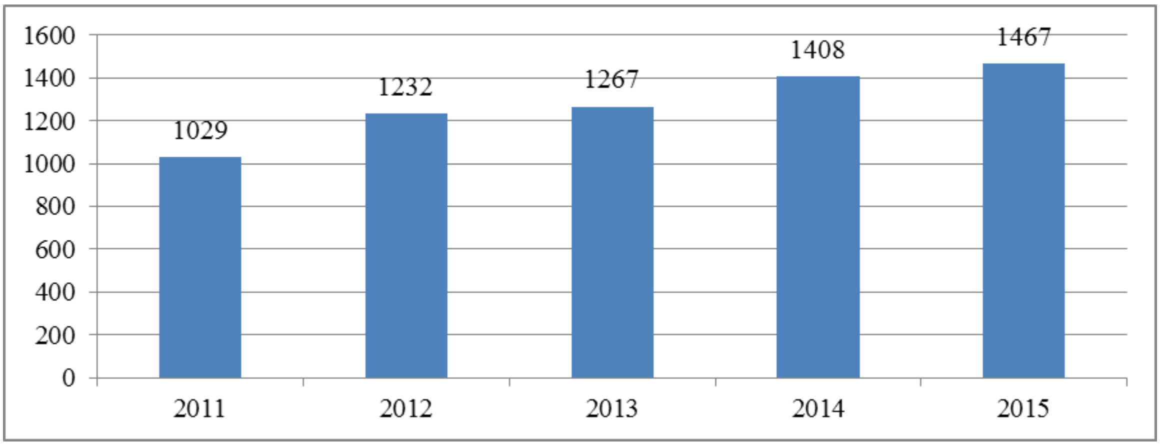

Fig. 12 Gazpromneft's total revenue from sales (RUB billion)

The two companies, Gazpromneft and Rosneft, that now face credit restrictions as a result of the sanctions fulfill respectively 1 and 10 out of 19 fields planned for production. These fields are the most extensive. In total they account for more than ¾ of the summary planned new fields' outcome.

The analysis of the planned projects is not comprehensive, but it is obvious that there are no any other large short-term fields in Russia. The essential question is whether Russia's oil companies, especially Rosneft, have the financial capacity for keeping the projects on schedule or will they start or slide.

Russia could rely on China as a substitution of financial source for oil and gas companies. Gazprom expected to get $55 billion in advance for the natural gas pipeline deal with PRC, total price of which is $400 billion, but this point was excluded in final negotiations over price.

Significant results for Rosneft from the Chinese relationship have been limited. A framework agreement have been achieved between Rosneft and China National Petroleum Co. according to which the latter acquired 10% share in Vankor Neft (holding the right for Vankor, Suzunskoe, Tagulskoe and Lodochnoe fields), with anonym investors from China also claiming to be interested in investments in enhanced

[21] Gazprom Neft Group Consolidated Financial Statements 31 December 2015

oil recovery (EOR) of Rosneft's fields in Ingushetia.

The contract of Vankor may bring some relief, but its influence is hard to quantify. The sales price was not revealed, neither were renovated investment plans for the fields involved. For this reason the Chinese connection of Rosneft can only be approximately assessed and is not included in the calculations in this research. However, it becomes clear that even a Vankor Neft 10% buy-in from Chine still would not settle the disbalance between the obligations and income of Rosneft.

Transneft. «Transneft» Joint Stock Company is a Russian monopoly and one of the biggest pipeline companies in the world. It was established on 14 August 1993 by the resolution No. 810 of the Government of the Russian Federation under the Decree No. 1403 of the president of Russia of 17 November 1992. More than 72000 km of trunk pipelines are handled by «Transneft» JSC. The company transports nearly 90% of the oil extracted in Russia and approximately a quarter of internal oil products. In addition it transfers a considerable amount of raw hydrocarbons from the countries of CIS. The current condition of the Company's pipeline system corresponds to the most severe requirements to reliability and guarantees constant delivery of oil to both domestic and foreign markets.

The main activities of the company include:

- pumping, Coordination and management of pipeline transportation of oil and other oil products by trunk pipelines throughout Russia and abroad;
- extensive development of the oil trunk pipeline network and other pipeline transport equipment;
- coordination of actions directed at finding solutions for issues of scientific and technological progress concerning pipeline transportation, presentation of new technologies and materials;
- international cooperation with pipeline transportation companies in order to transport oil and oil products in line with intergovernmental agreements;
- fundraising for enlargement of the volumes of production, expansion and development of the equipment of the subsidiaries of Transneft;
- organization and securing of ecological safety measures in the surrounding places of trunpipeline transportation facilities.

The analysis of the financial activity of the Company illustrates a steady increase of revenue in the period from 2011 to 2015 (Fig 13)[22].

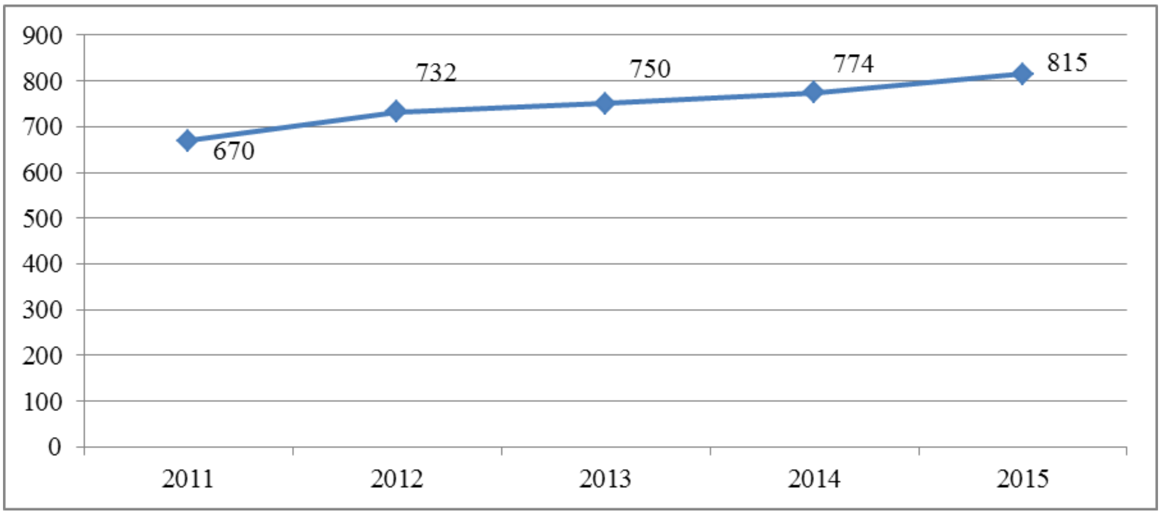

Fig. 13. Transnet's revenue (RUB billion)

Nevertheless, a sharp decline in the figures of *total comprehensive income* and *dividends per share* is noticed in 2014 (Fig. 14, 15).

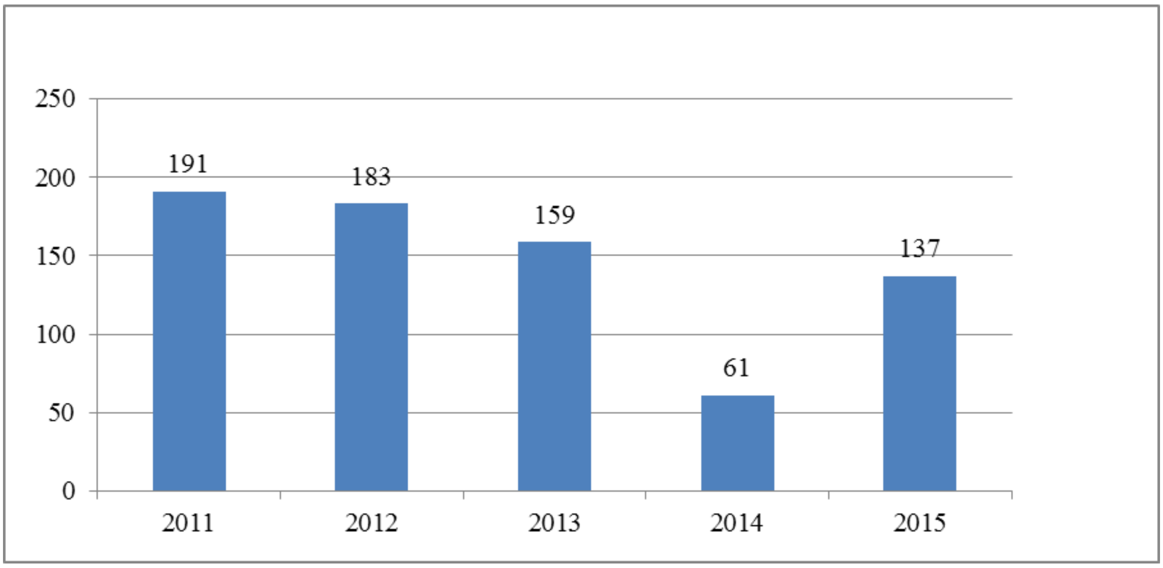

Fig. 14. Transnevt's total comprehensive income (RUB billion)

[22] Consolidated financial statements prepared in accordance with International financial reporting standards (IFRS) and auditors' report for the year ended 31 december 2015.

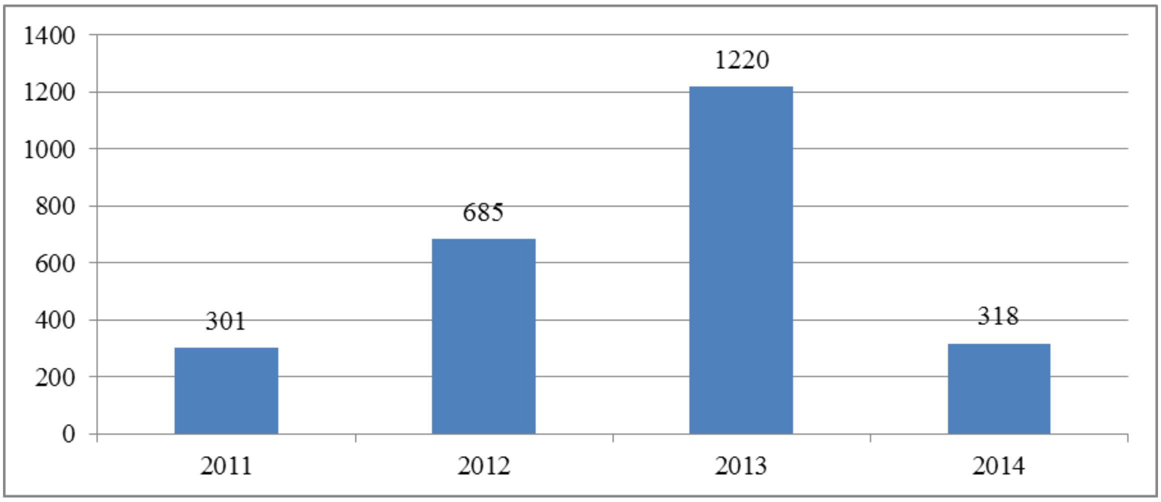

Fig. 15. Transnevt's dividends per share (Russian rubles)

On October 30, 2014 the eleventh meeting of the Expert Board of Transneft, JSC was held and the development outlook for the system of oil product trunk pipelines and the situation on the Russian market for oil products were discussed. M. Margelov, Transneft’s Vice President, who was supervising public relations and foreign economic activities, underlined that the transportation system should meet the growing demand for fuel transportation both to the Russian Federation domestic market and abroad. He said the oil product pipeline system needs to be developed using state-of-the-art technologies that ensure a high level of reliability, industrial and environmental safety, and an optimal level of transportation costs.

On December 2014 after ceremonial launching of new ESPO-1 production facilities in Bratsk territorial control room of Transneft, the President of Transneft, JSC, Nikolay Tokarev held a press-conference at which he made a number of important statements. He said Transneft, has no plans to reduce the Company’s investment program and the sources of funding should be the tariffs and a special dividend policy of the Company.

Mr. Tokarev recalled that previously the Government had reviewed the investment program of Transneft, JSC, as well as the program of technical revamping and overhaul repair. The amount of the investment program exceeded RUR 500 bill, and that of the technical revamping program, RUR 1.4 bill. An extended investment program till 2020 has also been defended before the Government. The volume of investments remained unchanged – they shall be virtually the same.[23]

Hence, we can conclude that in 2014 the political measures affected Russian oil industry most. The problem number one for Russia is the oil price. There are countries that prosper when oil prices fall, but this is the exact opposite for Russia. Russia exports more than it imports. This means that when oil prices fall, Russian economy falls into a recession. Oil and gas comprise more than 60% of the overall exports of Russia and constitute over 30% of the country's GDP. The influence of the 2014 oil price collapse on the economy of Russia was swift and destructive, which becomes clear from the given analysis.

In summary, the collapse in oil prices has driven Russia to a deep depression and devaluation of ruble.

3. Implications of sanctions against Russia onto banking sector

Russian banking system as well as its establishments experienced several stages of its development throughout the last decades. Deep depressions and significant growth periods replaced each other. As the country got engaged in the conflict of Ukraine, the EU imposed sanctions in various fields. Banking sector was not exclusion; the restrictions touched credit organizations of Russia.

On 31 July 2014 the EU banned the access of Russian state-owned banks to the capital markets and particular sectors of the EU. Russian banks could no more seek financial aid on the mentioned markets (Council Regulation 833/2014). The state securities of Russia, in which state stake exceeded 50% and which had maturity of over 90 days, were restricted to be invested or traded. Financial institutions, their subsidiaries and state-controlled Russian banks – VTB, VEB, Sberbank, Rosselkhozbank and Vneshekonombank- were among the targets of the sanctions.

In April 2014, the trends noticed in the several previous months preserved in the banking sphere of the Russian Federation:

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[23] Some Statements of the President of Transneft, JSC, Nikolay Tokarev for Mass Media http://en.transneft.ru/news /view/id/2531

- the tendency of growing of the stake of state-owned banks in all major sectors of the banking service remained.

- The decline in the growth rate of retail lending continued, whereas the quality of this kind of loans continued to worsen – furthermore, it became increasingly dependent on distributions from regulations of money market[24]. There is a single positive feature that should be pointed out – the outflow of the private-customer deposits stopped. Yet the decline of the annual growth-rate of the deposit endured despite that positive effect.

Later in 2014, the depreciation of ruble caused another shock for the Russian banking sector. The raising crisis-related developments contributed to the worsening of the situation, first of all the fall in real disposable household income. Russian banks borne such considerable losses since the financial crisis of 2009, and the regulator of money market enlarged its support to banks.

Parallel to this, the pressure on the banking sector was exerted by a drop in economic growth rate. In 2015 the incomes of the country's largest financial institutions decreased by a combined 50 per cent the Central Bank of Russia reports (Fig. 16) [25].

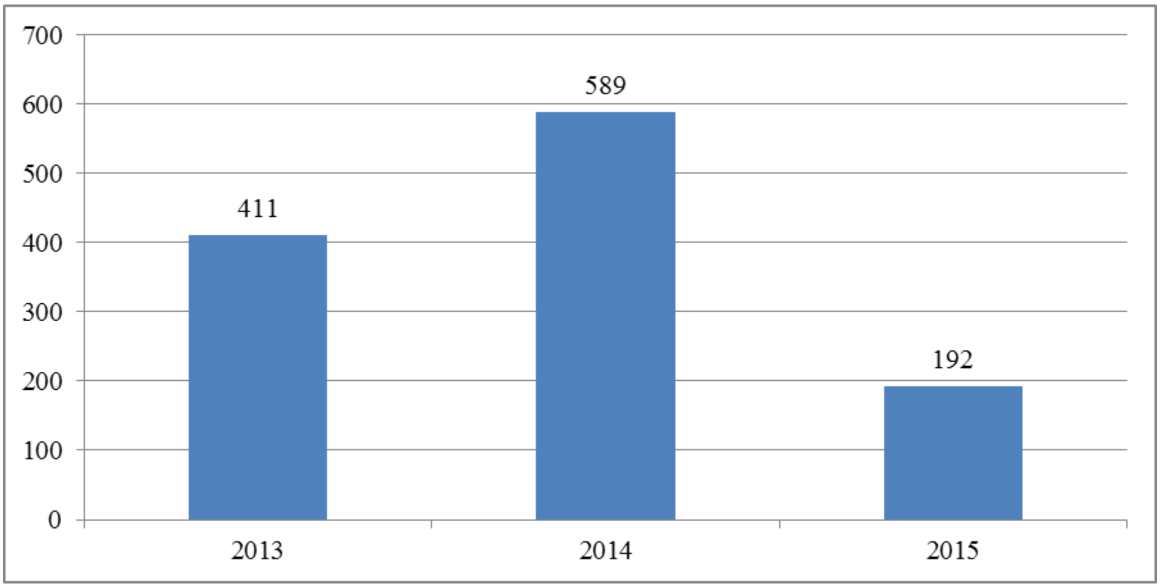

Fig 16. Banking sector total net income in Russia (RUB billion)

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[24] The Russian banking sector in april 2014 (M. Khromov) http://papers.ssrn.com/sol3/papers.cfm?abstract_id= 2458424
[25] Official websyte of The Central Bank of the Russian Federation.
 http://www.cbr.ru/statistics/print.aspx?file=bank_system/4-1-3_010116.htm&pid=pdko_sub&sid=opdkovo

The Central Bank threw 1.4 trillion rubles (nearly $2 billion) at the losses to cover most of them. Overall, the CB spent almost 589 billion rubles to keep the banks solvent.

The Government of Russia distributed 840 billion rubles to recapitalize the banking system through the Deposit Insurance Agency (DIA). This measures were taken in the frameworks of the anti-crisis actions. In 2015, the DIA gave subordinated loans and bought privileged shares in 25 banks for total amount of 803 billion rubles. The federal budget and the National Wealth Fund made invested 300 billion rubles to enlarge the capital of some state-owned banks.

The collapse of the Russian ruble, starting in 2014, has also contributed to the current financial crisis in Russia (Fig. 17).

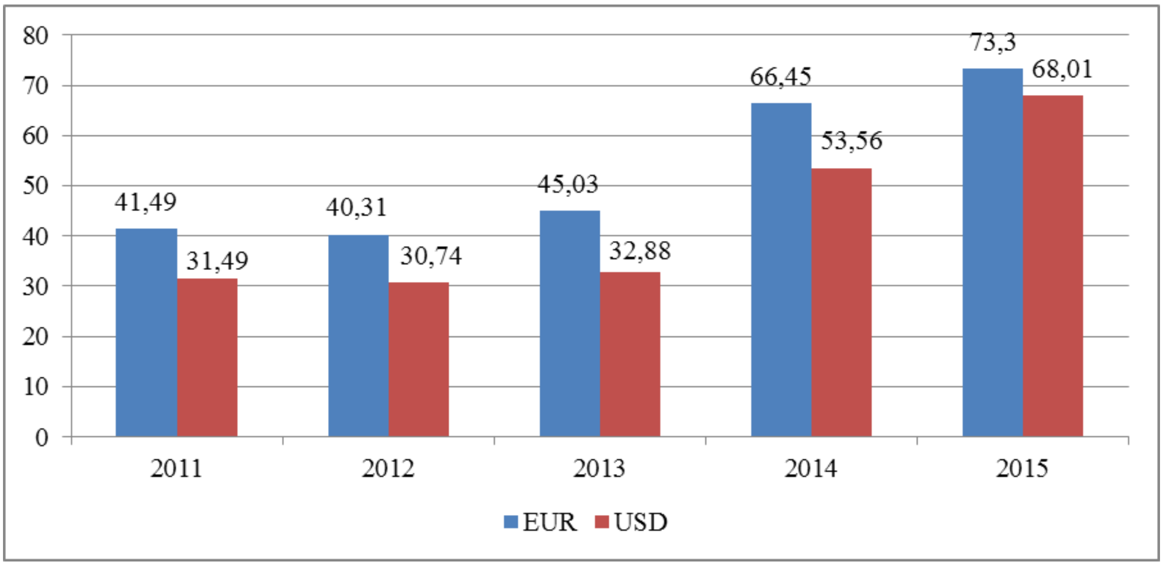

Fig. 17. Russian Ruble to Euro and US Dollar end-of-year foreign exchange rates[26]

As the devaluation of ruble was unprecedented, many Russians started buying durable goods, such as furniture, jewelry, refrigerators and televisions to change their savings from rubles to US dollars and Euros. Some exchangers of currency benefited from this situation. They offered cash at considerably higher exchange rates: USD up to 99,8 RUB, when the official rate was 61,15, and EUR up to 150 RUB, when the official

[26] The Central Bank of the Russian Federation http://www.cbr.ru/eng/

rate was 76,15. [27]

In December 2014, the banking sector suffered immense losses (192 billion rubles), which constituted 25% of the profit produced during the first 11 months of the year. The annualized figures of the ROA and ROE in December 2014 were -3.15 and -34.4% accordingly. As a consequence, the annual profit of the bank was reduced by 41% (down to 589 billion rubles) in comparison to 2013, while the annual figures of ROA and ROE fell to 0.9% and 9.0% respectively, almost equaling to the indicators of 2009 (0.7% and 6.3% respectively). [28]

In our research we tried to assess the dynamics of financial figures of the three Leading Russian banks that were targeted by western sanctions for over a year: *Sberbank Gazprombank* and *VTB*.

Sberbank. Today it is the engine of the Russian economy. It constitutes one third of Russian banking system. Sberbank is the historical successor of Savings Offices that were founded by Tsar Nicholas I. At the outset it was an institution having 2 branches in Moscow and St. Petersburg with 20 employees. Later they managed to establish a network of savings offices throughout the empire. The offices contributed to the stability of the Russian economy even during the hardest recessions. The Soviet government transformed them into the State Labour Savings Bank System. Now they represent an up-to-date universal bank, a large international enterprise with a brand well known in more than twenty countries.

In December 2014 Sberbank experienced what its CEO German Gref described as a «coordinated attack»[29], with the ruble plummeting and oil prices falling under the western sanctions. Millions of customers were being informed that the deposits would be blocked as the bank was about to be cut away from international financial systems. At that time the bank could no more raise fund from western financing due to the sanctions.

There was substantial outflow of individual deposits in 2014, but in 2015 a little growth was noticed. During the year the deposits in foreign currency were increased by

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[27] Interfax. Official website. http://www.interfax.ru/business/413507

[28] Russia's Banking Sector in December 2014 (Michael Khromov) Gaidar Institute for Economic Policy; Russian Presidential Academy of National Economy and Public Administration (RANEPA)February 24, 2015 Russian Economic Developments, No. 2, pp. 27-30, 2015

[29] Financial Times http://www.ft.com/cms/s/0/4abbcba6-c413-11e5-808f-8231cd71622e.html#axzz4CxjXK8LO

USD 8 billion and ruble deposits by RUB 2.7 billion.[30] This has relieved the pressure on ruble and resolved the issue of currency liquidity deficit in the system. Even a surplus of liquidity was generated due to low demand for credits. The inflow of customer funds in 2015 decreased the dependency of the banks on Bank of Russia from RUB 9.3 trillion to RUB 4.4 trillion and decreased the sensitivity of their interest rate risk.

Depositors withdrew RUR 1.3 trillion (over $20 billion) in a week. Queues were formed at Sberbank ATMs and as a result the IT operating systems were overloaded. The Management was inclined to think that the reassuring messages might only stimulate the panic, so they kept silent. «It was a very dangerous moment. Our systems, our liquidity management, our customer service, were all put to the test» Mr Gref says.

The numbers below illustrate the Sberbank net income trends (Fig. 18). [31]

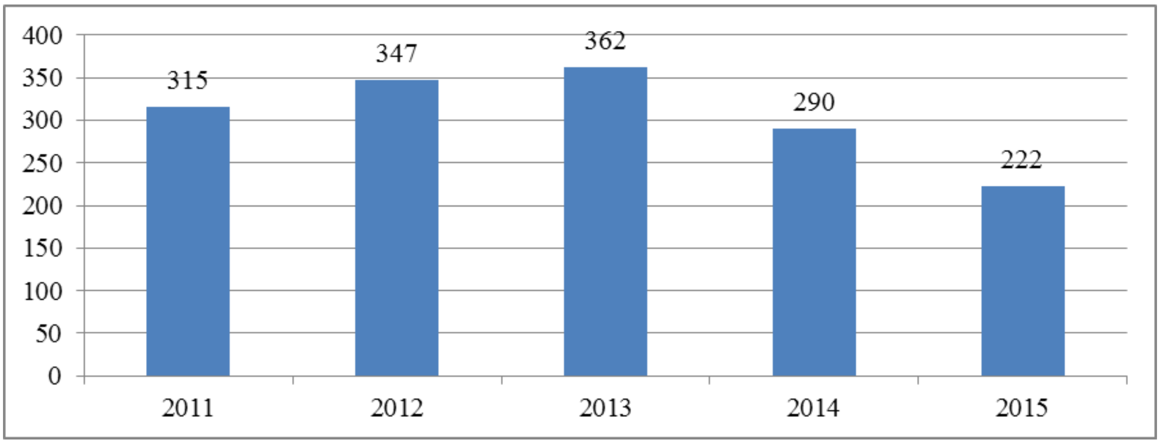

Fig 18. Sberbank net income (RUB billion)

As we can see, a rapid decrease in figures is expressed in 2014-2015. The same can be concluded for other figures. An important feature as *Sberbank Dividend per share* showed a dramatic fall (Fig. 19).

[30] Sberbank's official statistics.
[31] Sberbank's official website. http://sberbank.com/investor-relations/financial-results-and-presentations/annual-reports

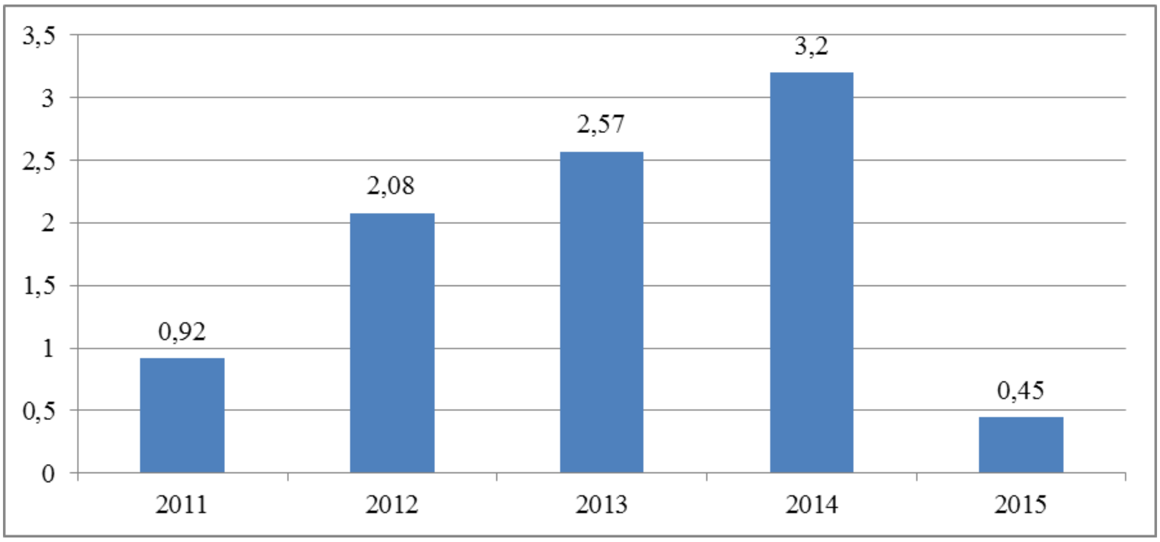

Fig. 19. Sberbank dividend per share (RUB)

This means that with the results of 2014 it was impossible to pay high dividends to shareholders. The situation is not so different concerning the liabilities of the bank (Fig. 20).

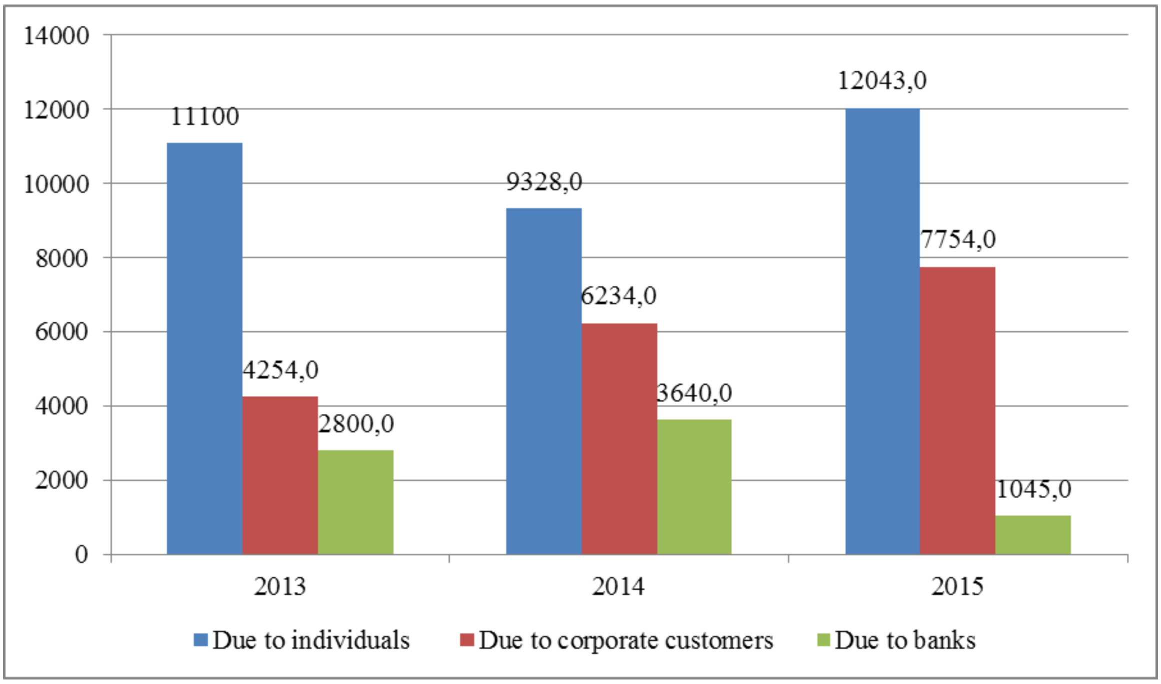

Fig 20. Sberbank liabilities (RUB bln)

The reason of major losses in 2015 was a fall of net interest income by 19% (470 billion rubles). The key rate decrease during the first semester of 2015 brought some recovery to the banking sector's margin; however, a further decrease in the key rate is needed for further recovery of the profitability of the banking sector.

Increased confusion and macroeconomic problems in 2015 brought to a significant decline in demands for credits, both from private as well as for corporate customers. The banks, on their part, complicated their lending requirements as the overdue debt was growing and borrowers' financial situation was deteriorating. The total amount of corporate loans provided fell by 11.4% in 2015, and the sum of loans for mortgage provided dropped by one third.

The consequence of this was decrease of the private loans' amount by 5.7% and increase of loans to nonfinancial organizations by 12.7%. The portfolio of loans to nonfinancial organizations increased by only 2.5%, if we exclude the revaluation.

In 2015, provisions with total amount of 1600 billion RUB were created by banks for possible loan losses. This was 100 billion rubles less compared to 2014. The stake of overdue loans in the total loans issued to nonfinancial organizations increased from 4.1% up to 6.2% and from 5.9% to 8.1% for loans to private clients. The worst deterioration was noticed in consumer loans, particularly in the sector of high-margin consumer lending. The quality of loans on mortgage stays high – the share of overdue loans constitutes only 1.7% (excluding 1.1% foreign currency mortgages).

Lending to corporate clients showed the lowest numbers in loan portfolio quality in the fields of real estate, construction, air transportation and trade. The fall in global prices for Russia’s exports is affecting second- and third-tier metal and oil companies.

Gazprombank. Gazprombank was founded by the world’s greatest gas producer and exporter Gazprom in 1990. Since then the bank has successfully acted in the banking sector of Russia and is now one of the leaders of the sector, due to its key performance indicators it is among the top three banks of Russia.

Gazprombank is a universal financial organization which provides a wide range of investment and banking services to more than 45,000 corporate and nearly 4 million private customers. Gazprombank makes investments and provides loans to companies in main sectors of economy such as oil and petroleum industry, machine building, transport, telecommunications, metallurgy, nuclear industry, electric power industry, real estate construction and trade. Diversified client base empowers a steady growth of a corporate loan portfolio. The retail business also demonstrates significant growth due to this. Despite of a rough growth of the loan portfolio, the bank manages to show the lowest figures in the proportion of problem and non-performing loans among the largest

Russian banks due to the conduction of effective risk policy and proper approach to borrowers.

In 2015, among all the above mentioned companies Gazprombank probably had the *lowest net income* indicators after the sanctions, with a loss of 46000 billion rubles (Fig. 21). [32]

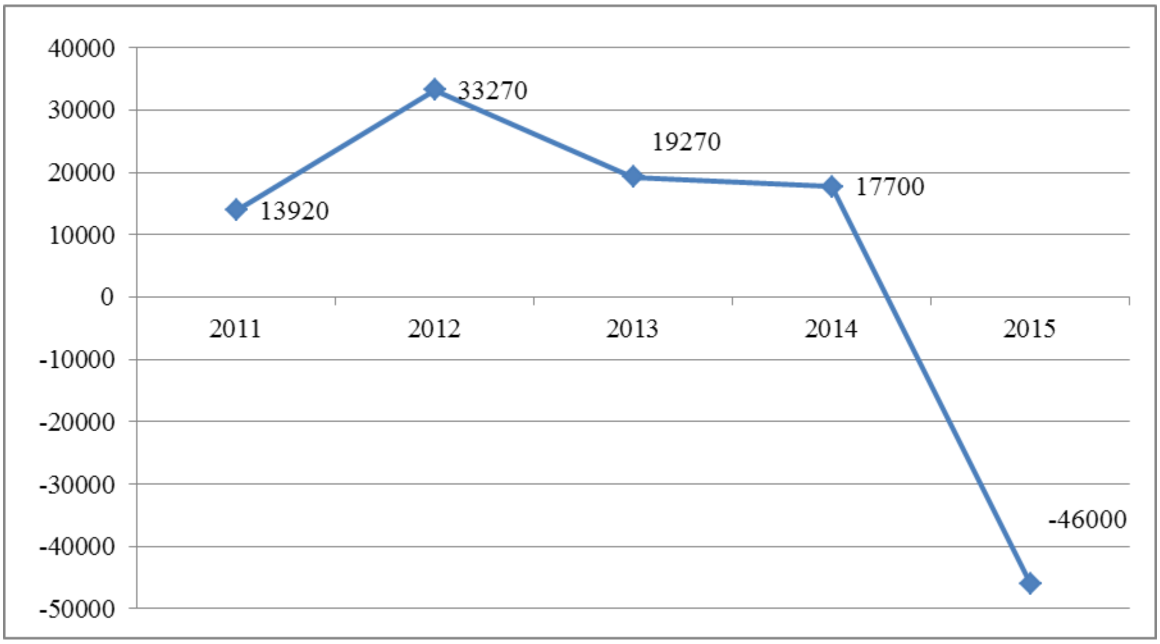

Fig. 21. Gazprombank's net income (RUB billion)

Similar rapid fall was noticed with the *Dividend per share* figures (Fig. 22).

[32] Auditor's report on the annual accounts (financial) statements 2015 http://www.gazprombank.ru/upload/ iblock/f18/GPB_RSBU-2015_Links3.pdf

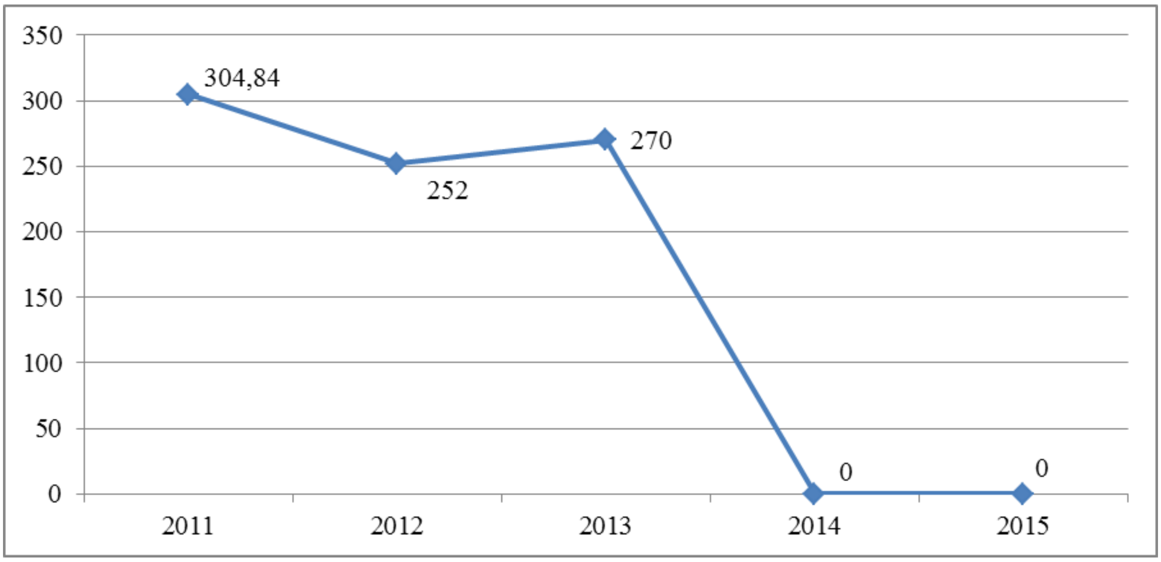

Fig. 22. Gazprombank's dividend per share (RUB)

In addition, according to the results on 2014 dividends for regular shares were not paid considering the pure loss of 13 689 million rubles.

On 10 December 2015 Long Term Issuer Default Rating of Gazprombank was assessed by Fitch Ratings at «BB+», the outlook was «Negative». On 3 November 2015 Standard & Poor's claimed Gazprombank's Long Term Issuer Default Rating at «BB+», again the outlook was again «Negative». On 26 April 2016 Moody's affirmed long-term ratings of Gazprom at «Ba2» with negative outlook.

VTB Group. It is a global distributer of financial services, consisted from more than 20 credit institutions and financial organizations actively engaged in all primary sectors of financial markets. It is a holding company with strategically aligned development model, which is common for all the member companies. It includes a common brand, centralized financial and risk control and integrated compliance systems.

The global network of VTB Group is exceptional for the Russian banking sector. It allows the group to promote international partnerships and support Russian companies that aim to interact with global markets. The group established a wide international network in CIS member countries: Ukraine, Belarus, Kazakhstan, Armenia and Azerbaijan. It also has branches in Germany, France and Austria. These are part of a European sub-holding with VTB Bank in Austria acting as the parent bank for Germany and France. The holding also owns subsidiary and affiliated banks in the UK, Georgia, Serbia, Angola and Cyprus. Branches also operate in China and India and VTB

Capital has offices in Dubai and Singapore.

The lion's share of the stocks of the VTB Bank belongs to the Government of Russia (60.9% of the voting shares). As it is represented in Fig. 23, VTB Group, as the rest of the companies, suffered dramatic decrease in net profit for the period 2014-2015.[33]

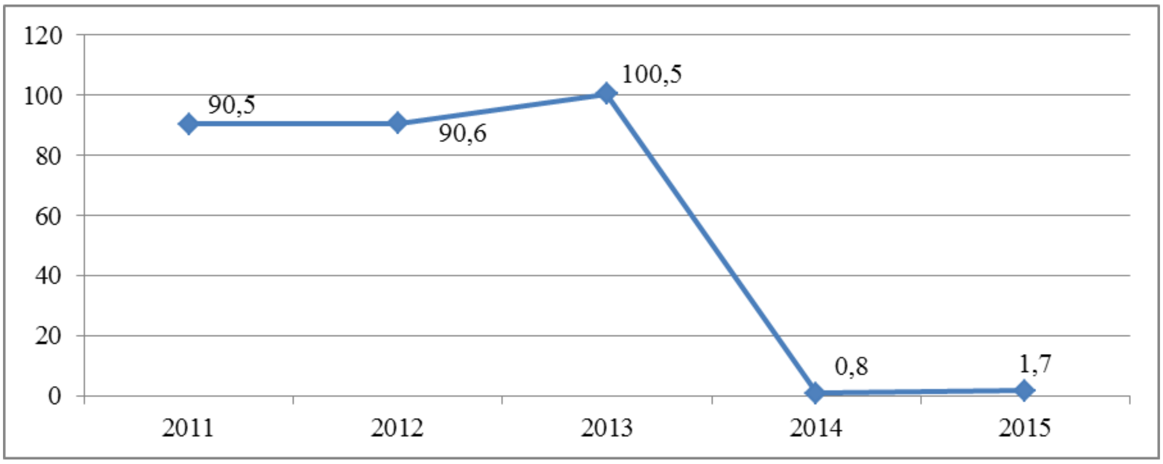

Fig. 23. VTB Group net profit for 2011-2015 (RUB billion)

For VTB Group we also studied the dynamics of an important indicator like ROE (*Return on equity)*. These figure started decreasing since 2011 and a fell rapidly after the sanctions in 2014-2015 (Fig. 24).

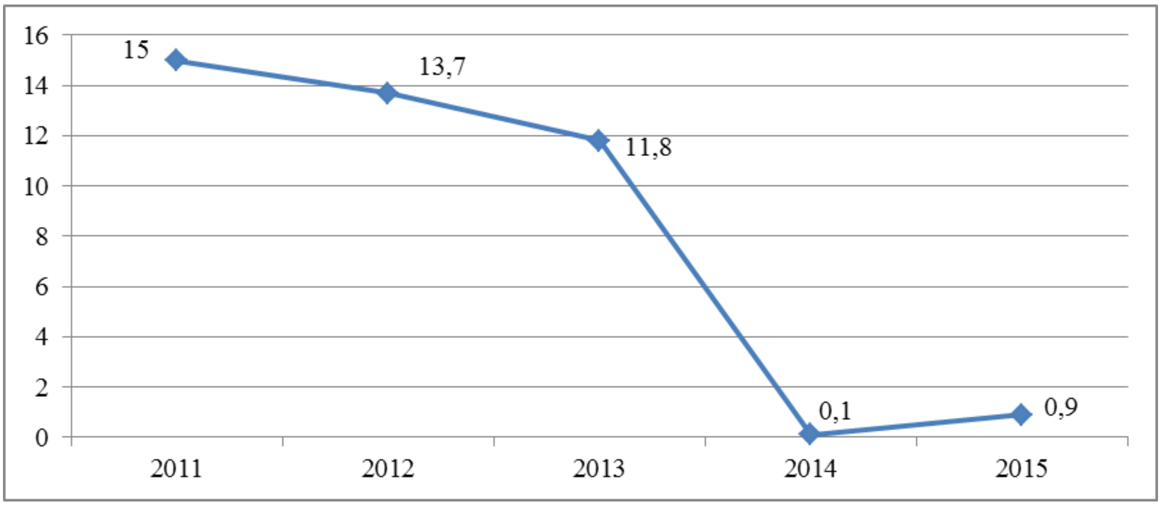

Fig. 24. VTB Group return on equity (ROE) for 2011-2015 (%)

[33] VTB Bank. Interim condensed consolidated financial statements and report on review of interim condensed consolidated financial statements. 31 march 2016. http://www.vtb.com/ir/statements/fannual/

The imposed sanctions cost an enormous amount of losses for the banks. In an attempt to ease the consequences of the sanctions VTB, Sberbank, Gazprombank, VEB and Russian Agricultural Bank refused to comment on the annual results of the losses caused by those sanctions.

The analysis presented illustrates that all the banks that are subject to the research suffered crucial losses in 2014-2015 concerning *Net profit, revenue, ROE* and *earnings per share.*

4. Implications of sanctions against Russia onto the Russian economy (2013 - 2015)

The current economic system of Russia can be described as a hybrid of the old Soviet methods with inefficient state-controlled subsidized companies and state intervention, on one hand, and a market economy with mainly small and medium-sized business segment that developed after the reformation of the system, on the other.

One can characterize the existing economy of Russia as an economy of government and three sectors:

1. *The sector of rent-creating* (in regard to Russia it is mainly the industry of oil and gas).
2. *The rent-dependent sector* (Soviet-typed companies that need subsidies, for instance the defence industry, main part of which is in this group).
3. *A private sector* (first and leading companies that were established during transition that are acting under market rule). [34]

In the XXI century Russia created a mixed economy with upper middle-income countries. The sectors of strategic importance are owned by state. The main part of the industry and agriculture of Russia were privatized due to the market reforms of 1990s, the only serious exceptions are noticed in the energy and defense-related segments.

An influential factor that determines the economy of Russia is its geography. According to some estimations Russia possesses more than 30% of the world's natural

[34] The economic sanctions against Russia Susanne Oxenstierna and Per Olssone. September 2015

resources. [35] The World Banks claims that the summary value of Russia's natural resources equals to nearly 75 trillion US dollars. Russia leans on incomes from energy to stimulate its growth. Russia has immense resources of oil, natural gas and precious metals, which constitute a vast share of Russia's exports. According to the results, by the year 2012, the sector of oil and gas accounted for 16% of the GDP, 52% of federal budget incomes and more than 70% of total exports. [36] So, we can mention the issue of «Dutch disease», i.e. that the rich resources can also act as a curse because they can make the desirable diversification much more difficult to achieve.

Russia has a massive and complex arms industry. It is able to design and produce high-tech military equipment, fighter jets of fifth generation, short as well as long range intercontinental ballistic missiles and even submarines that work on nuclear power. The total amount of arms exports in 2013 was equal to 15.7 billion US dollars – only the US exceeded Russia in this field. Combat aircraft, air defense systems, ships and submarines are also being exported by Russia.

In 2014, the economy of Russia displayed significant results, it was the sixth by Purchasing Power Parity (PPP) and tenth at the market exchange rates. During the period of 2000-2012 the export of energy had a big contribution in the rapid growth of living standards. As a result the figures for real disposable income increased by 160%. This was seven times more than in 2000. In the same period, unemployment and poverty rates roughly halved and self-assessed life satisfaction of Russia rose significantly. This increase was produced due to the combination of commodities boom of the 2000s, high oil prices and proper economic and fiscal policies. However, these results were provided unequally, since 35% of all financial assets owned by Russian households belonged to 110 wealthiest people in Credit Suisse Global Wealth Report. [37] Russia also suffers the great amount of illegal money outflows due to its weak governance. In the period of 2002-2011 Russia lost 880 billion US dollars in this way. Starting from 2008 Forbes describes Moscow as the «*billionaire capital of the world*».[38]

After Russia illegally annexed Crimea and intervened in Eastern Ukraine, the western states imposed economic sanctions as a counteraction. In July 2014, the EU, the

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[35] Kevin M. Korabik, Russia's Natural Resources and their Economic Effects,Penn State College of Earth and Mineral Sciences, 1 December 2007

[36] World Development Indicators: Contribution of natural resources to gross domestic product. World Bank. Retrieved 21 July 2014.

[37] World Economic Outlook. International Monetary Fund. 19 January 2016.

[38] Geromel, Ricardo (14 March 2013). Forbes Top 10 Billionaire Cities - Moscow Beats New York

US, Canada and some of their allies raised sanctions in a coordinated way. The range of the restrictions was extended in September 2014. The sanctions levied by the US and Canada do not have any limitations in time. The EU sanctions that should have been expired in July 2015 have been extended to 31 July 2016.

Experts predicted a chance for Russian economy of going into a recession from 2014 – based on the falling oil prices, the Russian military intervention in Ukraine and the following capital flight. Yet, Russia managed to keep positive GDP growth – 0.6%. In 2015, the Russian economy decreased 3.7% and is foreseen to decrease even more in 2016.

The consumers have been hit by the economic recession most of all (2.3 million Russians fell into poverty in the first nine months of 2015, 9.5% decline was driven in real wages resulting the 12.9% inflation). Retail sales were shrunk by about the same amount; large contractions were suffered in many sectors (including automobile sales and construction). Many are aforesaid luxuries like winter getaway or a new car. In the reports, presented by the state statistics service, it’s visible that in the first nine months of 2015 number of journeys abroad by Russians reduced by 31.4%.

In the short run, the most damage is caused by the financial restrictions as they affect the sanctioned banks and large state-owned companies that need to find new means for their debt. Therefore, the federal reserve is being under serious pressure, as a result a wide range of planned infrastructural investments and other long-term government initiatives had to be put on hold in order to make more urgent payments. In an attempt to refinance its debt, the large oil company, Rosneft, applied for state support of more than 40 billion USD.

Furthermore, the restrictions on financial sector stimulated a rapid growth in capital flight from Russia. The capital flight in 2014 made up to 152 billion USD, in contrast the same rate for 2013 was 61billion USD (it more than doubled). [39] As a reaction to these restrictions of access to Western financial markets, during the annual statement to the Federation Council of 4 December 2014, Putin proclaimed an amnesty for capital returned to Russia. In July 2014 the Government of Russia provided 21 billion US dollars to support infrastructure and welfare programs in Crimea until 2020.

The point is that the influence of the restrictions on financial sector turned was stronger than anyone could expect. It is obvious that money has been going out from

Again. Forbes. Retrieved 21 August 2014.

Russia. As we can see on Fig. 25 capital outflows by private sector have increased and the inflows – have decreased (sign «+» denotes net outflow of capital, sign «-» implies net inflow).[40]

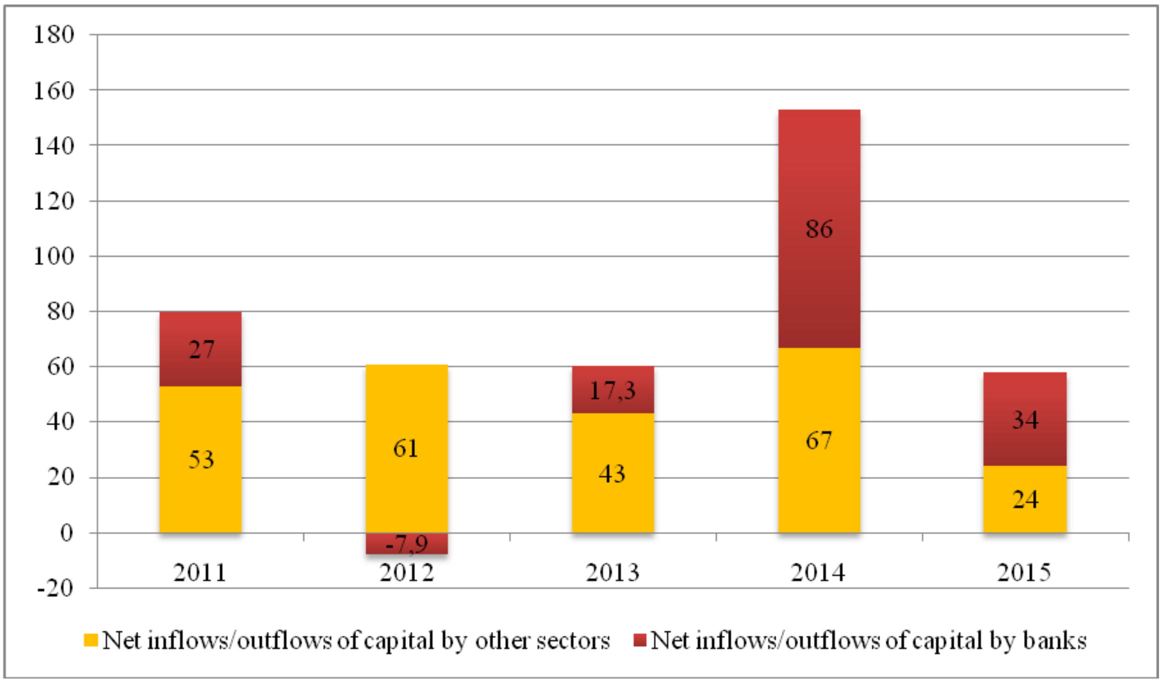

Fig. 25. Net inflows/outflows of capital by private sector, total (USD, billion)

The maximum outflows there have been in 2014. Starting from August 2015 none of the financial institutions dared to supply Russia with financing.

Russia might not alleviate this blow by borrowing money. In regular situation, Russia is perfectly credit-worthy, as its public debt makes up to only 10% of the GDP. But it does not matter how credit-worthy a country is, if it doesn't have access to financial markets. It means the country, in some meaning, is no more credit-worthy.

On the other hand, the debt to GDP ratio is just one of the indicators which determine credit-worthiness. Investors are well-aware of the fact that Russia more or less defaulted in 1998 and that some of corporate debt actually should rather be included in the public debt. Many of them can also be scared by the spectacular claims and policies of people from Russian government.

The Russian banking sector will be considerably dependant on its present state,

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[39] Internatioanl Monetary Fund report http://www.imf.org/external/country/RUS/index.htm
[40] Balance of Payments and Other Statistics Compiled under the Methodology of the 6th Edition of «Balance of Payments and International Investment Position Manual» (BPM6) http://www.cbr.ru/eng/statistics/?PrtId=svs

on domestic economic policy and the external factors, such as the level of oil prices, the state of the financial markets and the rate of the international money interests, the new markets' condition etc. Under any circumstance, the combination of different indicators will harm the national banking system conditions.

As the access to foreign markets was prohibited, there were nothing to do than to work in Russia, expand the domestic borrowing programs and the stake of CBR funding.

The banks concentrated on the bond market of Russia. Sberbank announced for placement of exchange bonds for 50 billion ruble, almost 827 million US dollars. VTB Group approved a new project in June, but the details were kept in secret. Gazprombank approved contribution of bonds for 70 billion rubles (approximately $1.16 billion).

It is important to realize that the opportunities given by internal bond market are very limited. According to Fitch, the annual share of CBR in the liabilities of state banks enlarged by 2.2%, 5.4% and 8.3% for Sberbank, the Russian Agricultural Bank and VTB respectively. Thereby, even though the reliance on the CB’s funds increases, the amount of critical resources yet cannot be measured.

There is a possibility that the largest banks, subject to restrictions, were even able to decrease the amount of debt load in that year reports the Cbonds. [41] As of July 30 the redeemable debt of Sberbank declined in annual terms by 19% to $13.5 billion, Gazprombank's debt- by 28% to $12.31 billion, the debt of VEB – by 15% to $17.23 billion. Summary debt of the Russian Agricultural Bank and VTB decreased to $15.072 billion and $10.51 billion respectively. In the cases with debts in ruble the amount of debt to maturity increased as the ruble was depreciated by 40%.

In 2016 the banks are not obligated to repay a big amount of foreign currency debt. Sberbank has to pay 410 million Swiss francs in the autumn, VTB – 300 billion Swiss francs and 2 billion yuan, Gazprombank – 500 million Swiss francs and 1 billion US dollars, the Russian Agricultural Bank has to pay 450 million Swis francs, VEB does not have any payments on foreign currency in the near future. Overall, Russian banks did not have any troubles with the repayment of the debt this year.

Despite the fact that five biggest Russian banks do not have access only to the Western currency markets, the global integration of the investment flows provides chances for the Russian companies to find partners in other countries. Not immediately,

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[41] Cbonds financial information http://ru.cbonds.info/

but within some time Sberbank or VTB may become known brands in Hong Kong or Singapore. Due to the sanctions, however, the largest Russian credit institutions cannot attract «a penny» abroad.[42]

The banks were affected mostly by the sanctions indirectly – external pressure hit on the solvency of clients, which increased the cost of risk and led to the creation of unprecedented reserves. An obvious example of this is the cost of VBT's risk, at the final quarter of the last year, which almost doubled, reaching to 4.6%. However, the bank managed to reduce the cost of risk to 2.2% by the end of Q1 of this year through tightening its credit policy and risk management. Meanwhile, in the first quarter Sberbank enhanced the provision charges from 76.6 to 115 billion rubles ($1.9 billion). Yet, in quarterly terms the rate of growth of Sberbank reserves fell.

A few experts believe that in long term the capital markets of Asia could play as an outlet for Russian banks. The thing is that Asian investment bankers are anxious that cooperation with banks under restrictions may mean restrictions for them as well. For instance, the same thing was done by the US Treasury in respect to the counterparties of the banks of Iran. In sake of attracting new capital, Russian bankers have visited Asian region a couple of times: German Gref was in Singapore, in the capitals of Asia-Pacific a series of road-shows were organized by Gazprombank. However, no placements were achieved.

Gazprombank and VTB are the two banks that have progressed most in the development of Asia. VTB is traditionally represented in the capital markets of the East; the documentation for Gazprombank’s exchange bonds in yuan was accepted in spring. “The specific plans for banks on placing these bonds have not been yet determined” Gazprom said.

Experts are afraid of the sanctions to be extended for an uncertain period. The banks are able to resist one or two years under the pressure of extensive restrictions, but a in 10-year term they can be seriously affected. «*A further extension of the sectoral sanctions will lead to the isolation of the banks. We will slowly come to a planned economy. It will no longer be a market*» reports TASS’s source from one of the top-30 banks. According to the source the extension of sanctions may cause the banks to be more dependent on the CB and government.[43]

As for the sector of oil, we cannot exclude the influence of the decreasing oil

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[42] Year under sanctions: how Russian banks survive http://tass.ru/en/economy/811922

prices on the Russian economy. It adds to the deteriorating geopolitical situation and applying of economic sanctions on Russia. On the whole, these factors resulted to increasing uncertainty, a sharp fall in economy and a worsening of economic growth.

First of all, the fulfillment of large upstream programs is challenged by low oil prices. This has influenced the position of government towards Russian oil companies. For the first time in decades, the government is actively discussing the perspective of directly subsidizing state companies and projects of strategic importance that are not subject to NWF (National Wealth Fund) reserves.

The second important outcome is connected to the fast redirection of the export policy of Russia. The combination of decrease in demand of the European market, the inflaming rivalry for European consumers among Middle Easter, African and Russian oil and petroleum providers and the falling oil prices make the key strategic priority of Russia the large scale cooperation with Eastern partners.

The issues concerning insufficient investments (given low prices) are also on the schedule of the cooperation with Asian partners as well. Russia is considering opportunities of Eastern companies to involve in Russian upstream programs in order to partly iron out the problems concerning investments. According to the contemporary law of Russia on strategic reserves, in companies, the oil reserves of which exceeds 70 million tonnes, developing extensive sectors shares over 10% may not be acquired by foreign investors.

By March 2014, the Russian government started considering the possibilities of Chinese companies to freely acquire a share of 25-49% in production companies. Even a controlling stake in companies developing fields of strategic importance was considered.[44] This would be exercised in the framework of economic integration of Russia and China. A special committee would approve measures of this type and they would be directed to increasing capital investments in the industry of oil. However, serious regulations need to be made in the current legislation of Russia for the implementation of these actions.

The issue of improvements in tax policy conducted towards oil producers have also been raised because of the low prices on oil. President Putin expressed his negative attitude to a proposed step toward a profit-based tax for oil producers. Nevertheless, the

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[43] Year under sanctions: how Russian banks survive http://tass.ru/en/economy/811922

[44] Gazprombank, Oil and Gas Weekly, March, 14, 2014, http://www.gazprombank.ru/upload/iblock/868/gpb _og_weekly_20140314.pdf.

supporters of such policy argue that low prices of oil will lead to such a move and the issue is still discussed. The counterargument for this taxation system is that even if it is beneficial for the oil producers it may be dangerous for the budget of Russia. Oil companies are actively trying to promote a move away from the existing system, which is sometimes described as “tax plus royalty”. Their aim is to achieve a shift to a profit-based tax. The key argument presented by the supporters of the new tax system is the point that the aim of the existing system is preventing super-profits, but in the current situation (lowered oil prices) it is proven inefficient, there are no companies producing super profit. Defenders of this position argue that the current regime could cause a serious reduction in investment and, hence, affect the production negatively. The argument of the opponents of the profit-based tax is the large deficit of budget revenue and the difficulty of tax management. For instance, the head of the Tax and Customs policy Department of the Ministry of Finance, Ilya Trunin, claimed that the initial assessments demonstrate possible losses of federal budget up to $44.4 billion, if a profit-based tax were implemented. 45 No ultimate decision has yet been made, but in any case, this introduction would have significant consequences for the Russian oil industry.

The sanctions have forced several foreign oil companies to suspend their participation in programs aimed at future oil production in Russia.

- ExxonMobil interrupted joint production of hydrocarbons with Rosneft in the framework of Sakhalin-1 deep-sea project;
- The cooperation with Rosneft on the production of heavy oil from the Bazhenov formation in the Khanty-Mansi Autonomous District was suspended by ExxonMobil;
- ExxonMobil also suspended the joint projects cooperated with Rosneft on the exploration of oil deposits in the Kara Sea in the Russian Arctic (In the Universitetskaya-1 deep-sea deposit only one single drilling was carried out in summer 2014);
- Shell suspended cooperation with Gazprom Neft on the projects for the production of heavy oil from the Bazhenov formation with multi-stage fractioning of Upper Salym field;

[45] Minfin: Poteri byudzheta ot perehoda neftyanki na NFR mogut dostich 2,8 trln rub” [Ministry of Finance: Budget Losses from the Oil Industry in the Transition PBT Can Reach 2.8 Trillion Rubles], *Neft Rossii*, March, 17, 2014.

- Total suspended the joint projects with Lukoil on the heavy oil extraction from the Bazhenov formation with multistage fractioning of shale in the Galyanovski deposit.

Lukoil and Gazprom Neft expressed their commitment to continue the above mentioned projects independently, based on their expertise in horizontal drilling and fractioning of shale. Rosneft is currently purchasing technical expertise (for horizontal drilling and fractioning of shale) in the heavy oil production. It is being carried out in two ways: through developing its own oil service units or by purchasing the assets of Western companies operating in Russia. Despite of that, it has delayed all deep-water projects in the Arctic till 2018.

The subsidiaries of Western companies are not subject to sanctions. This means that oil service companies owned by them will continue to operate on existing oil deposits. For instance, Baker Hughes and Schlumberger still cooperate with Gazprom Neft on the Prirazlomnoye field in Pechora Sea. Halliburton continues the cooperation with Gazprom Neft, Lukoil and other companies, but it suspended cooperation with Gazprom Burenye, as the latter belongs to Arkady Rotenberg.[46]

As it was mentioned above Novatek, Gazprom Neft, Transneft and Rosneft may no longer apply for the loans on favorable terms from Western banks, another point that also tangles the repayment and refinancing of their existing debts.

The financial problems created by the sanctions have decreased the interest of Russian oil companies in programs that require extensive investments, for example in the Arctic region or in deeper geological areas. Foreign credit restrictions drive them to concentrate on enhancing the performance of the existing oil deposits. However, such increase of performance is closely linked to the use of modern equipment – which is provided by foreign owned oil service companies, whose actions are not limited by the sanctions. The restrictions drove Russian oil companies to apply for help from the government or from financial organizations of those countries that have not levied sanctions. There were only two Russian companies that dared to request financial aid from the Government of Russia and from Russian Welfare Fund to ease their situation. Rosneft applied for 2 trillion rubles (approximately $34 billion) to carry out 28 projects but the government agreed to provide only 44 billion rubles for only one project

[46] Estonian Foreign Policy Institute. Eesti Välispoliitika. Impact of sanctions on the Russian oil sector. March 2016

(Shipbuilding complex Zvezda). As a result, in 2015, there was a dramatic drop of 30% in the investments of Rosneft compared to 2014.

There is a possibility for some Russian oil companies to tackle the financial challenges with the help of political connections. In order to repay the debt of the 6.9 billion USD on December 2014, Rosneft sold bonds to commercial banks in RUB and exchanged the amount immediately for USD in a closed auction in the Bank of Russia. This caused a sharp depreciation of the ruble. A similar situation happened again in January 2015, when Rosneft sold bonds at a closed auction in Moscow stock exchange for repaying the loan portion of same amount. Rosneft could only have fulfilled the above mentioned transactions with high-level political support. The company is now looking for investors for its projects from China and India. China’s oil companies have not agreed to invest their money into Rosneft owned assets, although long negotiations were held and framework agreements were achieved. They are inclined to import oil by long-term contracts. Indian companies have bigger interest. ONGC will acquire a stake of 15% in Vankorneft and another oil company, IOC, is also interested in purchasing a share in Vankorneft.

The impact of the sanctions is minimal on the oil production from the existing deposits. This contributed to Russia's oil companies being competitive in the price race that began in the world markets by the end of 2014. They managed to not only survive but displayed increase in oil production and exports to keep their market share. In 2015 the production of oil made up 534 million tons of oil (exceeding the results of 2014 by 1.4%). 241 million tons from that were exported, which is 10% more than in 2014. It is expected that the current level of oil production and exportation will be maintained in 2016 by the Russian oil companies.

The influence of financial measures on the sector of oil is already seen as the lack of financing is forcing Russian oil producers to considerably reduce the amount of planned investments, which unavoidably leads to the drop in oil production and export and to the decrease of tax revenues. According to the estimations of experts, in the period of 2014-2017, the Russian economy will lose around 170 billion USD due to the combined impact of financial restrictions and low oil prices.

The influence of the prohibitions on the import of high technology will be noticed in long-term run. The existing equipment fleet allows Russia to preserve the on-going level of production. Yet, the demand for new technologies increases parallel to the increase of the share of heavy oil in production. As the sanctions restrict the import of technology the Russian oil companies have to use the existing equipment, because they are not able to produce technology equal to Western. Buying-up Western companies with corresponding facilities or importing from non-aligned countries will not settle the problem for the Russian oil industry in the long term.

Conclusion

To sum up the research carried out, we can state that the crisis in Ukraine and international pressure on Russia make the debate over applied sanctions of utmost importance. The leaders of EU for a long time, even after the shot down of Malaysian Aircraft (MH 17), were uncertain and seemingly could not find a common attitude towards the type of measures that should be carried out as a response to the Russian illegal actions in Ukraine. Finally, the third round of the sanctions was launched, in framework of which the toughest restrictions were implemented. This really creates basis for extensive discussion concerning current dynamic between Western countries and Russia.

It is commonly perceived that the sanctions work by placing harm on the targeted country. As a reaction, the influenced population of the targeted country was expected to demand adjustments from the government in order to get sanctions canceled.

The sanctions against Russia have been thoroughly worked out the US and the EU as well. The aim is not to cause massive economic harm on the whole population of Russia. Instead, the restrictions have targeted individuals considered to be standing close to Putin regime. In addition, the restrictions have been targeted to the sectors of banking and energy (the segments that have strategic importance) in order to cause significant losses to the elite actors in the Russian economy.

All the measures implemented against Russia display that the policy conducted by Russia towards Ukraine is unacceptable for the West (the US and the EU). The aim of the sanctions is to influence Russia's political behavior through affecting vital functions and spheres in the economy of Russia. The intention is to make Russia adjust its attitude by costing considerable losses to the country.

Meanwhile, the restrictions on access to financial markets forced the Russian government to spend a part of its foreign exchange reserves to support the entities that are subject to the sanctions. These events put pressure on the hand of the CBR, which ceased to defend the value of the ruble and increase interest rates in December 2014.

The challenging situation was inflamed by the restrictions on imports of food from the West. As a result of this embargo, food prices increased rapidly and, therefore, the inflation went further. This was in the background of the devaluation of the ruble, due to which the prices of imported items and services in rubles had already climbed up.

The existing conflict in Ukraine and subsequent events have contributed to the increase of the estimated risks of doing business in Russia. The introduction of economic sanctions on Russian individuals and legal entities including the Company by the EU, the US, Japan, Australia, Canada and others, on one hand, and the reciprocal measures implemented by the government of Russia, on the other hand, has resulted as an increased economic uncertainty, more variable equity markets, a devaluation of the Russian currency, a reduction in local and foreign direct investment inflows and a considerable reduction in the availability of financing. Particularly, several Russian companies may become dependent on state banks of Russia to a greater extend, as they may no more have access to international equity and debt markets. The impact of recently applied sanctions is difficult to predict in log term.

The factors that have enhanced the impact of the restrictions are the lowering oil price, devaluation of the ruble and reduced trade. The existing politicized economic system provides favorable conditions for rent-addicted loss-making producers that are devoted to the regime over competitive companies in resource distribution, which is harmful for the economic performance of the country.

One of the key conclusions of the thesis is that the combination of sanctions imposed by the US and the EU and other factors caused significant losses to Russia, but so far did not fulfill their initial goal, they could not change the policy of Russia towards Ukraine.

In the period from June to December of 2014, the ruble depreciated by 59% in relation to the US dollar. By the first quarter of 2015 Russia, as well as Ukraine, had the lowest figures of purchasing power parity (PPP) comparing to any other country. Even more, the consumption of oil by Russians is rather small, so Russia does not receive the expected profit from low costs of pumping, in contrast the Americans do. Nearly two third of the oil produced is being exported, while the rest is for the local use.

Low investment demand hints at the deeper structural problems of the Russian economy and has already launched a new period with small growth rates. Currently, increased interest rates are causing downward pressure on the banks of Russia as their funding costs increase, credit levels fall, and more loans default. Because of the gradual decrease of the economy may bring to a vicious cycle of a scarce of financing for project, increasing lending rates, and a decreasing access to credit.

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Appendix 1.

Companies targeted by US and/or EU sanctions

Banks		***Defence industry***	
Rossiya	*US*	*OAO Almaz-Antey*	*US/EU*
Sberbank	*US/EU*	*OAO NPO Bazalt*	*US/EU*
Vnesheconombank (VEB)	*US/EU*	*JSC Concern Sozvezdie*	*US*
VTB bank	*US/EU*	*JSC MIC NPO Mashinostroeniya*	*US*
Gazprombank	*US/EU*	*Kalashnikov Concern*	*US/EU*
Bank of Moscow	*US*	*KBP Instrument Design Bureau*	*US*
Rosselkhozbank	*US/EU*	*Radio-Electronic Technologies*	*US*
		JSC NIIP	*US*
Energy companies		*United Shipbuilding Corporation*	*US*
Novatek	*US*	*Uralvagonzavod*	*US/EU*
Rosneft	*US/EU*	*OPK Oboronprom*	*EU*
Gazprom	*US*	*United Aircraft Corporation*	*EU*
Gazprom Neft	*US/EU*	*Dolgoprudny Research Production Enterprise*	*US*
Lukoil	*US*	*Mytishchinski Mashinostroitelny Zavod*	*US*
Surgutneftegaz	*US*	*Kalinin Machine Plant*	*US*
Transneft	*US/EU*	*JSC Sirius*	*EU*
		OJSC Stankoinstrument	*EU*
		OAO JSC Chemcomposite	*EU*
		JSC Tula Arms Plant	*EU*
		NPK Tekhnologii Mashinostroenya	*EU*
		OAO Vysokototschnye Kompleksi	*EU*

Appendix 2

Measures targeting sectoral cooperation and exchanges with Russia («Economic» sanctions)

EU nationals and companies may no longer buy or sell new bonds, equity or similar financial instruments with a maturity exceeding 30 days, issued by:

- five major state-owned Russian banks (Sberbank, VTB Bank, Gazprombank, Vnesheconombank (VEB) and Russian Agriculture Bank (Rosselkhozbank))
- three major Russian energy companies (Transneft, Rosneft, and Gazpromneft)
- three major Russian defense companies
- subsidiaries outside the EU of the entities above, and those acting on their behalf or at their direction

Assistance in relation to the issuing of such financial instruments is also prohibited.

EU nationals and companies may also not provide loans with a maturity exceeding 30 days to the entities described above.

Embargo on the import and export of arms and related material from/to Russia, covering all items on the EU common military list, with some exceptions.

Prohibition on exports of dual use goods and technology for military use in Russia or to Russian military end-users, including all items in the EU list of dual use goods. Export of dual use goods to nine mixed end-users is also banned.

The following services necessary for the abovementioned projects may not be supplied: drilling, well testing, logging and completion services and supply of specialised floating vessels.