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Sanctions Against Russia: What Has Worked, What's Left, and the Role of Frozen Assets

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Abstract
Sanctions imposed on Russia since 2022 aim to deter aggression, constrain its war capacity, and signal the international community's disapproval. While deterrence failed, sanctions have limited Russia's revenues, access to advanced technology, and financial maneuvering space. Their impact, however, remains uneven and often obscured by data opacity and manipulation. Conference discussions highlighted three main takeaways. First, Russia's economy, though resilient in the short term, increasingly depends on war spending, opaque financing, and off-budget mechanisms that threaten long-term stability. Second, inflation and credit distortions suggest deeper structural stress than official figures reveal. Third, Western policymakers must complement sanctions with large-scale, predictable support for Ukraine.

A promising path forward is leveraging frozen Russian assets to fund Ukraine's reconstruction and defense. Using the returns or collateralizing the assets through long-term borrowing could unlock substantial resources without breaching international law nor imposing too high debt burden on either Ukraine or its partners. The stakes are high: ensuring that sanctions constrain Russia effectively while providing Ukraine with the means not only to survive but to prevail.

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1. Objectives and Logic of Sanctions

Sanctions are a policy tool designed to alter behavior, punish violations, and uphold international norms. At an early stage, they may serve a deterrent function, warning a target state against certain actions. However, deterrence may fail, for a number of reasons that include shortsightedness or overconfidence on the part of the target, or too weak or time inconsistent sanctions that are not deemed credible. In Russia's case, deterrence failed; sanctions were implemented after the full-scale invasion of Ukraine in 2022, confirming their failure to prevent aggression.

Once imposed, sanctions continue to serve several important functions. The first, though often overlooked, is their signaling function, conveying moral and political condemnation of unlawful actions. This message is inherent to any sanction and, beyond its symbolic nature, helps coordinate shared moral evaluations and inform decision-making across political, institutional, and even individual levels, regardless of its economic impact. Beyond signaling, it is worth recalling that sanctions remain the only instrument available to the international community short of military confrontation.

At the same time, sanctions also have a more practical dimension: they aim to limit the target's economic and military capacity. The sanctions on Russia pursue three principal goals:

1. Curtail revenue flows, particularly from fossil fuel exports, which remain the main engine of the Russian economy.
2. 2. Constrain military production directly, beyond the budgetary pressure and the availability of economic means, by restricting access to critical technologies and components (e.g., microelectronics, machine tools, dual-use inputs) for which Russia is dependent on Western countries.
3. 3. Limit financial flexibility and policy space through restrictions on market access and the freezing of central bank assets.

2. Measuring Impact: Data Gaps and Divergent Assessments

Evaluating the effectiveness of sanctions is complicated by data opacity and the manipulation of official statistics. Because of this lack of transparency, assessments of sanctions' impact often depend on interpretation, and different analysts may reach different conclusions based on the same or limited evidence. This problem is particularly evident in the case of Russia's reported GDP growth and inflation figures.

As discussed at the conference, and echoing a long-standing debate, while official data suggest modest growth, this "growth" largely reflects military spending rather than productive investment, a phenomenon referred to by Vassily Astrov as military Keynesianism. Yet, when we turn to the fundamental drivers of sustainable growth identified by economic theory — capital (including human capital), labor, and productivity or technological progress — they all point in the opposite direction, suggesting that current expansion is neither broad-based nor sustainable over time.

Evaluating sanctions' effectiveness requires more than comparing GDP growth before and after their introduction. A more meaningful assessment would be against the (unobservable) counterfactual—what Russia's economy would look like without sanctions. When adjusting for inflation and war-related spending, most indicators point to stagnation rather than genuine growth. This interpretation is also consistent with the more recent rhetoric from Russian officials.[1]

As for inflation, the gap between reported inflation and the central bank's policy rate has been interpreted by some as an excessive and even harmful overreaction by the Russian central bank. Yet, considering the demonstrated competence and crisis-management experience of its leadership, a more plausible interpretation is that the bank is reacting to underlying inflationary pressures that are likely about twice as high as the official figures indicate. This interpretation is supported by alternative data sources, such as a Romir survey of consumer prices[2] showing inflation in fast-moving goods far above official levels, as well as by anecdotal evidence reported by Benjamin Quénelle and others about the noticeable rise in everyday prices. A higher true inflation rate would also imply that official real growth figures are overstated, and that the apparent macroeconomic stability in Russia conceals significant underlying fragility.

3. Assessing Key Objectives of Sanctions

Leaving aside these broader disputes over macroeconomic trends, which may be shaped by other concurrent developments, we can turn to assessing the impact of sanctions more narrowly, through their three principal objectives.

3.1. Oil and Gas Revenues

Russia's fossil fuel revenues have fallen substantially, though not decisively. Between 2022 and 2024, the country is estimated to have lost around 100 billion USD in oil and gas income, and while it is certainly preferable that Russia has 100 billion less rather than more, several hundred billion dollars in energy revenues continue to flow into the country each year. The EU's gradual shift away from Russian energy, most recently targeting LNG in the 19th sanctions package,[3] has helped, but leakages persist. To increase effectiveness, enforcement needs to be stepped up, in particular against the so-called shadow fleet and other schemes using falsified contracts and front companies to hide traders' identities. Moreover, coordination with India and China, now major importers of Russian crude, is essential. In engaging with these

[1] Maxim Reshetnikov, Russia's Minister of Economic Development, warned on 19 June 2025 at the St. Petersburg International Economic Forum that the Russian economy is "on the brink of going into a recession." This is a remarkable statement for a country that is known to not admit any weaknesses at all.

[2] See the report "The Russian Economy in the Fog of War", https://www.hhs.se/contentassets/6ea0c24bc4c04e3283a487f33b6dd9ec/site-report-on-the-russian-economy.pdf

[3] At the time of writing, this is still at the stage of proposal.

countries, a strategy based on incentives rather than coercion would be more sustainable because it leverages the economic self-interest of major buyers. The aim is not to reduce China's or India's oil imports from Russia, but to lower the price they pay. This aligns with their own priorities and limits Russia's revenue without confrontation. Incentives could take the form of preferential access to Western technologies, markets, or financial channels for countries that respect the price cap, adapted, of course, to the distinct economic and political contexts of China and India.

3.2. Export Controls and Technology Access

Export control measures have been partly successful but face systematic circumvention, often through intermediary countries and private firms. The recent scandal with a Swedish ball bearing producer exemplifies how dual-use components and even war-critical goods manufactured in the West still reach Russia.[4] Stronger enforcement and corporate due diligence are needed to close these loopholes.

Even where such measures fall short, the detours and evasive strategies they trigger are far from costless. Trade costs have roughly doubled for Russian exports and tripled for imports, import substitution is not able to compensate for pre-war levels of demand, and substitutes from other trade partners, chiefly China, cannot match Western standards in terms of quality and reliability. These constraints are eroding productivity and fueling persistent inflationary pressures.

3.3. Financial Pressure Points

Russia's fiscal space is shrinking. The 2025 budget proposal reveals growing deficits, higher taxes, and reliance on opaque financing. Official reserves that are not frozen are nearly depleted, and the National Wealth Fund (NWF), increasingly used as a buffer, has lost most of its liquid assets. Gold holdings fell from over 500 tons in 2023 to about 164 tons in early 2025. While access to global financial markets and external borrowing is severely limited by sanctions, the government has turned to domestic borrowing and off-budget schemes, primarily through state-directed loans to the military sector.[5] This mechanism hides true war costs while increasing systemic risks in the banking system.

4. Russia's War Economy and Financial Stability Risks

Russia's economic woes are not caused by sanctions alone, but to the interaction between external restrictions and the fiscal strain of turning the country into a war economy. Russia has effectively transformed into a war economy, where resources, credit, and labor are redirected toward the military sector. Official figures understate this shift. While the reported defense budget as a share of GDP seems comparable to peacetime levels in some European countries,

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[4] https://www.business-humanrights.org/en/latest-news/russia-imports-tens-of-mln-of-dollars-worth-of-swedish-skf-products-critical-to-its-war-industry-customs-data-show-incl-co-comments/?utm_source=chatgpt.com

[5] See the report "Financing the Russian War Economy", https://www.hhs.se/contentassets/2ca16d102eed4a1c8ff24b59c9db7c25/site-russian-economy-spring-2025-update.pdf

the real military burden may be nearly double due to hidden financing through the bank sector. New legislation obliges banks to lend to defense-related firms on state-defined terms, often below market rates. These loans, explicitly or implicitly state-guaranteed, amount to an estimated 21,3% of 2023 GDP according to a report by Craig Kennedy[6], almost twice the official defense budget. This arrangement creates moral hazard, as banks assume that non-performing loans will eventually be absorbed by the state.

By 2024, cumulative corporate credit expansion linked to war production reached 35 trillion rubles. If all off-budget spending were recorded, Russia's true fiscal deficit would be around 5.5% of GDP in 2023 and 6.2% in 2024. Given the uncertainty of GDP data and the importance of short-term fiscal imbalances, a more informative metric is military spending as a share of total public expenditure, which in 2024 reached record high 41% (without accounting for the "hidden" component). This figure illustrates the extent to which resource reallocation has intensified, and the resulting pressure. Although an autocratic regime may find it easier to reallocate resources from more productive and welfare-enhancing uses—such as education, healthcare, pensions, or investment—toward the military, even autocracies face budget constraints. This strategy is becoming increasingly painful: with declining revenues and frozen reserves, Russia's ability to sustain wartime spending is eroding.

To the general risk of unsustainable state expenditures, this off-budget schemes add other systemic risks, and the threat of undermining the stability of the financial sector. The rapid growth of state-directed credit has driven up inflation, asset bubbles, and systemic vulnerabilities. Housing prices and deposit rates are rising, while the financial system becomes increasingly exposed to high-risk loans. Should confidence in the government's capacity to backstop banks falter, a banking crisis could ensue, raising the question of whether the Central Bank of Russia could effectively manage such a scenario. Currently visible patterns in credit expansion, high inflation, and elevated asset prices, mirror pre-crisis signals in other countries. An important caveat is that, in earlier episodes, such crises were mitigated through access to international lending institutions, a channel now effectively closed to Russia.

5. Interpreting the Broader Economic Picture

While Russia's short-term resilience is real, it rests on unsustainable foundations. High military expenditure crowds out civilian investment, credit rationing stifles private enterprise, and import substitution raises production costs. On average, affected firms, including in the defense sector, report a 14% decline in output.[7]

Fiscal tightening in the next budget proposal, through VAT increases and reduced eligibility for simplified tax regimes, signals growing strain. The government's willingness to shift the financial burden to citizens marks a political gamble: public patience may wane as living standards fall and hidden inflation persists.

[6] "*Russia's Hidden War Debt: How Forced Bank Lending Props Up Putin's War Machine*," Navigating Russia Substack, February 14, 2025, https://navigatingrussia.substack.com/p/russias-hidden-war-debt-full-report.
[7] https://conference.nber.org/conf_papers/f224547.pdf

6. The Way Forward: Strengthening Sanctions and Supporting Ukraine

The policy discussion converged on two complementary imperatives: making sanctions more effective and ensuring adequate support for Ukraine. Wars are ultimately determined by the balance of strength between the two sides; constraining Russia through sanctions represents only one half of the equation, while empowering Ukraine constitutes the other essential component.

Strengthening the impact of sanctions requires:

- Closing remaining circumvention channels for war-critical goods through targeted secondary sanctions and stricter corporate compliance.
- Broadening coordination with non-Western buyers of Russian commodities.
- Increasing transparency in enforcement and monitoring.
- Communicating clearly the purpose and progress of sanctions to maintain political support.

Sanctions alone cannot end the war. To shift the balance, Ukraine needs stable, large-scale, and predictable funding. Beyond survival assistance, the goal must be victory and reconstruction. The frozen Russian assets, estimated at around €300 billion (including €200 billion held in Euroclear), represent a critical opportunity.

While critics have warned that confiscating Russian assets could undermine Europe's reputation as a safe and predictable investment environment, freezing these assets did not destabilize the euro or Europe's financial system. Therefore a more positive opinion in the ongoing debate is that further use of them is therefore unlikely to pose systemic risks; on the contrary, it could strengthen the credibility of European institutions in the face of autocrats and kleptocrats seeking safe havens.

6.1. Legal and Financial Framework for Using Frozen Assets

Confiscation raises less legal issues if kept under the doctrine of countermeasures, which requires reversibility once the offending state complies with international law. After more than three years of war, Russia's return to lawful behavior seems remote, and yet consensus on confiscation remains elusive.

A financially equivalent alternative exists:

- Western partners can borrow funds to create a Ukraine Reconstruction and Victory Fund.
- The returns generated by frozen assets, under legally sound and contract-compliant arrangements, would cover the interest payments on this borrowing.
- This mechanism avoids direct confiscation and maintains compliance with international law while delivering immediate resources to Ukraine.

For example, if borrowing occurs at a 3 percent interest rate, a fund of around €200 billion could be established, four times the size of the $50 billion fund launched in 2024. Depending on the assumptions regarding borrowing conditions and the investment horizon, the fund's potential size could even exceed the total value of frozen assets. Future war reparations from Russia could then be used to repay the principal, provided that Ukraine, the lawful recipient of such reparations, agrees to the arrangement. Bonds could be issued with maturities aligned to the expected timeline of reparations, thereby integrating the financial and legal frameworks.

This model ensures that the measure remains reversible under specific conditions, namely, the payment of war reparations once active hostilities cease, which is consistent with the legal logic of countermeasures, yet provides immediate liquidity for Ukraine. Should Russia eventually pay reparations, the frozen assets could be used to repay the bonds; if not, the freeze would remain indefinitely.

6.2. Beyond Funding: Integration as a Long-Term Goal

While financial support is crucial, the ultimate driver of sustainable growth for Ukraine will be economic and institutional integration with the European Union.
As past enlargements show, most notably for the case of Poland, lasting prosperity stems not only from funds and various support instruments but from market access, regulatory convergence, and political anchoring.
Ukraine's path to recovery must therefore combine short-term financing with medium- and long-term integration commitments.

Conclusion

Sanctions against Russia have achieved partial success: they constrain war financing, degrade technological capacity, and send a strong moral signal. Yet their effectiveness is undermined by evasion, opaque data, and limited coordination, and most importantly by Russia's adaptation. This, though, has a limit. Russia's apparent economic resilience conceals deep structural weaknesses, rising fiscal stress, and growing financial risks.

The next phase must link tighter enforcement with strategic financing for Ukraine. Leveraging frozen Russian assets through innovative legal and financial instruments offers a pragmatic and principled path forward, one that both sustains Ukraine and reinforces the integrity of the international order. Europe cannot afford to fund Ukraine's survival in trickles; it must fund its victory.