Zentrum für Osteuropa- und internationale Studien
Centre for East European and International Studies

**Zentrum für Osteuropa- und internationale Studien (ZOiS) gGmbH**
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## Prolonged Crisis Management has Helped Prepare Russia's Economy for Sanctions

*A new ZOiS Report investigates how through a specific type of management, the Russian economy has been able to adapt to the sanctions imposed on the country since its full-scale invasion of Ukraine. The authorities' approach is largely informed by the experience of recurring crises over the last 15 years, leading to a habit of ad hoc management practices.*

A coalition of Western nations imposed a raft of sanctions on Russia after its full-scale attack on Ukraine in February 2022. Yet Russia's economy has been remarkably resistant to these punitive measures, with GDP estimated to have grown by over 2 % in 2023. 'The assumption that this is mainly due to oil revenues is a misconception,' ZOiS researcher Alexandra Prokopenko states. Drawing on data from the Russian Federal State Statistics Service (Rosstat), the Bank of Russia, media sources, and interviews with financial sector leaders, she has analysed how four crises from 2008 to 2023 have fostered an ad-hoc management style in Russia's financial sector.

**Crises and management**

Over the last 15 years Russia has endured multiple crises, many with geopolitical repercussions. This period has been marked by the economic leadership of Elvira Nabiullina and Anton Siluanov, who currently serve as Central Bank governor and finance minister, respectively. The succession of crises instilled a specific mindset in them. The perpetual need to address challenges that stem from factors beyond their control, such as policies unrelated to monetary and fiscal matters, has kept them in a state of perpetual readiness for the unexpected. Their approaches have been geared to preventing crises within the financial sector from spilling over into the real economy and adopting a conservative fiscal policy, which relies on the accumulation of large reserves.

The Lehman Brothers collapse in 2008 and the ensuing global financial crisis triggered Russia's first major crisis under then prime minister Putin. Plummeting oil prices led to significant private-sector outflows and a considerable decline in reserves. Emergency measures taken by the country's economic leaders and a focus on maintaining reserves led to subsequent GDP growth up to the year 2013.

In 2014–2015, Russia was struck by a commodities market downturn coupled with sanctions over the annexation of Crimea and the war in eastern Ukraine. Plunging oil prices, currency depreciation, and inflation had a devastating impact on a budget heavily reliant on oil revenues. Crisis management in this case consisted in prioritising immediate response over long-term reforms.

The Covid-19 pandemic was a dual shock for the economy, which was hit by quarantine restrictions and reduced energy demand. The government provided huge financial support to the economy, and the Bank of Russia adopted a soft monetary stance. Government support in the form of tax breaks and loans kept businesses afloat in another example of Russia's resilience amid crises.

Despite a flourishing economy in early 2022, the full-scale war against Ukraine and related sanctions altered Russia's economic landscape. Restrictions on capital flows from Russia, the closure of the stock exchange, and a 20% interest rate restricted economic activity but stabilised the financial system in spring 2022. Adaptation measures helped the economy to regain a fragile stability.

**Enough to avoid decline, too little to foster growth**

Russia's economic management, geared towards countering crises, prioritises a conservative approach over creating an appetite for investment. Accustomed to dealing with crisis and shocks, Russia's financial leadership relies even in peacetime on ad hoc crisis management, which comes at the expense of institutional development. However, as Prokopenko concludes, 'this constant state of preparedness fosters a dependency on manual intervention, hindering institutional growth and long-term economic stability. While effective in crisis response, this approach may undermine the necessity for robust institutions essential for sustained economic growth.'

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