

The Influence of the Russian Central Bank on the Russian Economy Under the Multiple G7 and EU Sanctions

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ABSTRACT: The sanctions from the EU and G7 have affected the Russian Federation since the 2022 Russia-Ukraine Conflict escalation. Especially the freezing of the foreign reserves was a major strike against the Russian financial stability. This article evaluates the role of the Russian central bank in mitigating these sanctions. Furthermore, the policy impacts of the Kremlin and the Finance Ministry have been elaborated. The author's thesis is that the Russian central bank has successfully managed the Russian economy through unprecedented sanctions. The qualitative data sources used in this research are secondary datasets and an interview with the governor of the Russian central bank. The study found that the Central Bank of Russia has adopted a high Key Interest Rate policy to fight higher inflation than officially communicated. The aim has been to contain a proliferating Money Supply M2, necessary to prevent economic downfall. All of this was caused by both the sanctions and the war economy. The Kremlin and Finance Ministry have been thwarting these efforts by an excessive military budget and privileged loans to war-related companies. Considering all of this, the thesis is true. The Russian central bank has kept its economy afloat with its monetary policies.

KEYWORDS: Economics, Monetary Economics, Russia-Ukraine Conflict, Central Bank of Russia, Sanction Packages.

■ Introduction

In 2014, Russia annexed Crimea, violating international law.¹ Consequently, Russia faced many sanctions coming from the EU (European Union) and the G7 countries (Germany, France, Italy, Japan, Canada, the USA, and the UK (United Kingdom)).^{1,2} This evolved even further when Russia invaded Ukraine in 2022, being the first major armed conflict in Europe since the Yugoslav war ended.¹ Hence, this was a present danger to amity and stability on the continent.¹ The G7 and the EU established a wide variety of financial and economic sanction packages against Russia in response to the invasion.² Since the beginning of the war in February 2022, a total of 18 sanction packages have been implemented.³ This really affects the economy, as one can see in the economic metrics of the Russian Federation.⁴⁻⁸ Furthermore, the Russian central bank had to intervene with a high Key Interest Rate to fight the extraordinary Inflation Rate.⁸ This, combined with other monetary policies, has made the central bank a key player in mitigating the impacts of the sanctions.

This research paper examines how the Russian central bank influences the Russian economy through the multiple US and EU sanctions. This study will focus on the financial sanctions affecting the central banks, for instance, the freezing of the foreign reserves of the Central Bank of Russia (CBR).^{2,9} Moreover, it will reflect on the counteractions and thus the effects the CBR has on the Russian economy. This research is based on an in-depth literature review. In addition, empirical qualitative secondary datasets, such as interviews, were used. Quantitative data were aggregated and then analyzed to create qualitative output. Combining these approaches, this paper

aims to have an empirical qualitative approach to elaborate on this current topic.

The Results and Discussion have been structured as follows: First, the different kinds of sanctions have been elaborated to enlighten on the wide variety of measures taken against Russia. Second, the impacts on the Russian economy have been expounded to better understand the effects these sanctions have on Russia. Third, the counteractions of the CBR against the sanctions adopted by the EU and G7 countries have been evaluated, looking at their effectiveness and possible antagonists.

The author argues that it will become impossible for the CBR to effectively mitigate the economic downfall if the Kremlin and the Finance Ministry continue to augment the Money Supply in the current way.

■ Methods

This research utilizes an organized and detailed approach to examine the relevant literature and qualitative data analysis of secondary data. To minimize biases and thus prevent subjective selection of results, a systematic approach has been applied. To explicitly search for adequate sources of information, keywords such as "Russia-Ukraine Conflict", "Inflation", "CBR", and "sanction packages" were utilized when using Google Scholar. First, a look at the *EU Sanctions Map* helped to better understand the scale of the sanctions properly.¹⁰ Regarding the timeline, no restrictions were placed. However, articles published starting in 2022 were preferred when talking about specific war-related topics. This was done to have current databases and include sanctions adopted after the invasion of Ukraine in 2022. In addition to articles from journals, articles from renowned sources such as the *Guardian* and others

have been used. Most of the sources from scientific journals have been picked before starting the writing process. On the contrary, articles from magazines have been consulted when questions came up during the writing process. For the data, Trading Economics was used to have reliable sources on the GDP, Inflation Rate, and Money Supply M2 of the Russian Federation.^{4,5,7} There was a second Inflation Rate mentioned in the paper, the observed Inflation Rate.¹¹ This was measured by a survey conducted by the Central Bank of Russia.¹¹ Money Supply M2 includes M1 (checking accounts, physical currency, and other demand deposits) combined with short-term time deposits in banks.⁷ Also, the *Center for European Policy Analysis (CEPA)* was used to get data on Russia's National Defense Budget.¹² In addition, Statista was consulted to find trustworthy data on the Key Interest Rate of Russia.⁸ An empirical qualitative approach was chosen because the author wanted to enlighten on this topic, rather in depth than in breadth. Furthermore, elaborating on the interconnection between specific economic metrics and expounding the influence of the CBR and other parties were the main reasons for choosing a qualitative approach.

■ Results and Discussion

Financial sanctions adopted by the EU and G7 countries:

Examining the *EU Sanctions Map*, Russia is the main target of European sanctions, having 59 different sanctions adopted against it, including 25 financial measures.¹⁰

Arguably, the most powerful was the freezing of the foreign reserve assets. It was referred to as “the most powerful weapon in the West’s financial arsenal”, according to the Wall Street Journal.¹³ Further elaborating, roughly 300 billion US dollars in Russian state assets have been frozen by the EU and G7, a total of 60% of all foreign reserve assets.^{14,15} Out of those, 200 billion Euros are being administered by Euroclear in Belgium.¹⁴ However, this interferes with the unspoken rule of not targeting the sovereign immunity of central banks, even though it has happened before (e.g., Iran).²

Another set of sanctions referred to the exclusion of several Russian banks from the SWIFT messaging system. Through this, they were cut off from the global financial network and not granted access to central banks' real-time gross settlement systems.² This started with the third sanctions package adopted against Russia, established after the first week of the war.³ Since the beginning of the war, a total of 18 sanction packages have been implemented.³

Also, the process of freezing the financial assets of sanctioned entities took place.² This included Russian officials, elites connected to the government, and their family members.² It is estimated that around 2000 companies and individuals are affected.¹⁴ Reportedly, the magnitude of this confiscation adds up to approximately 58 billion US dollars.¹⁴

The effects of the sanctions on the Russian economy:

To evaluate the impact of the sanctions on the Russian economy, two economic metrics have been chosen, the Gross Domestic Product (GDP)⁴ and the Inflation Rate.⁵ They have been picked for specific reasons. First, the GDP offers an in-

sight into the well-being of the economy. One could argue that the higher the GDP, the better the economy is working. On the other hand, the Inflation Rate shows the change in prices in a country. This can indicate economic booms or depressions, as well as a high or low Money Supply. There has been a limitation in using the GDP as an economic metric. This is why the production volumes were depicted after the GDP to better understand the state of the Russian economy.

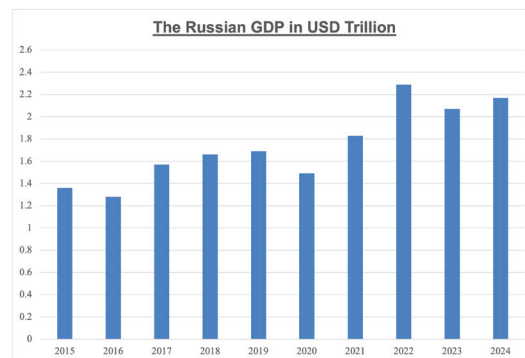


Figure 1: The Russian GDP in USD Trillion from 2015 to 2024. After several years of hardly any growth, the national GDP strongly increased in 2022. Figure created by author, data aggregated from Trading Economics.⁴

Both real and nominal GDP development for Russia suggest an economic boom, the nominal one being depicted in Figure 1.^{4,16} In the year 2022, the Russian GDP was the highest of the 10 year-period depicted above (2,29 trillion USD). The years after 2022, respectively 2023 and 2024, had a lower GDP than in 2022, still exceeding the 2 trillion-dollar mark.⁴ One may wonder how the Russian economy can boom on paper whilst being sanctioned by the G7 and the EU.² However, the GDP of these years is misleading. By further exploring this topic, one realizes that this does not mean that Russia is having a growth boom. “It means the Russian government is pouring money into the economy, particularly industries that support the war effort. Russia’s Ministry of Finance estimates that fiscal support alone amounted to 11 % of GDP in 2022–2024, representing a sharp break from earlier budget policy.”¹⁷ To further elaborate on the contraction of growth of the Russian economy, the production volumes of the first two quarters of 2022 have been compared with the same timespan the year before (2021). They are stated in the table below.¹⁸

Table 1: The production volumes of the Russian Federation during the first two quarters of 2022 compared with the year before.

Economic sector	Growth
Motor vehicles and (semi-)trailers	-62,2%
Tobacco goods	-32,3%
Ready-made metal products, except for machines and equipment (including construction structures)	-16,9%
Wood processing, wood production, and cork products	-14,6%
Computers and their components, computer peripherals, electronic and optical products	-12,0%
Textile products	-7,9%
Chemical industry	-7,7%
Metallurgical production	-6,4%
Clothing	-5,1%

In Table 1, the effects of the sanctions are clearly visible. As the sanctions were adopted in early 2022, the immense effects

the Russian economy had to face due to the measures against Russia are visible.² Regardless, three sectors had economic growth in the period between June 2021 and June 2022. The first one being extractive industries with a growth of 20,1%, followed by the production of medicine with a progression of 16,5%, and the production in the sector of services for extractive industries (8.1%).¹⁸ There is a significant reason why exactly these three sectors have grown. For instance, the extractive sector was pushed to increase production due to the Russian government's need for revenue to finance the war.¹⁹ It is logical that the growth in production in the sector of services for extractive industries goes hand in hand with this. Regarding the production of medicine, the Russian "Pharma 2030 Strategy" aims to double the national production of pharmaceutical goods.²⁰ Furthermore, Russia offered local pharmaceutical companies weighty government deals. Due to the foreign distributors not importing medicine into Russia, the domestic companies benefited from the war.²¹ Arguably, the rising demand for medication may be linked to war-related injuries.



Figure 2: The Inflation Rate from July 2020 to July 2025. After a steep increase in 2022, the Inflation Rate decreased, reaching a new low in April 2023. From then on, it gradually increased again up to roughly 10%. Figure created by author, data aggregated from Trading Economics.⁵

In Figure 2, the Inflation Rate of the Russian Federation is portrayed, which has been relatively high compared to the worldwide average.^{5,22} As mentioned before, Russia invaded Ukraine in February 2022, which was immediately answered by sanctions. The sanctions' impacts on the Russian economy can be perfectly seen in Figure 2 as the Inflation Rate went from 9,2% (February 2022) to 16,7% (March 2022).⁵ Furthermore, this was accompanied by an immense fall in the exchange rate of the Russian national currency, the Ruble. The Ruble devalued by 41,5% on the first market opening after the adoption of the sanctions.²³ This changed the exchange rate from Ruble to USD from 83,7 Ruble per Dollar to 119 Ruble per Dollar.²³ Even though the inflation rate fluctuates a lot, as one can see above, one can argue that the sanctions had an immediate impact on the Russian economy.⁵ However, one year after the adoption of the sanctions, the situation changed.⁵ From February 2023 to March 2023, the inflation rate declined from 11% to 3,5%, eventually being at a long-time low of 2,3% in April 2023.⁵ This happened due to the base effect, which refers to the influence of the high Inflation Rate in the same period the year before.²⁴ Thus, a basic mathematical phenomenon.

The role of the Russian Central Bank:

The Central Bank of Russia has played a central role in mitigating and responding to the impact of sanctions on the national economy.

As an attempt to cover the shortage in Russia's budget, the "printing press" was activated.²⁵ According to calculations, since the beginning of the war, the CBR has printed 8,2 trillion Rubles (equal to 103 billion USD).^{6,25}



Figure 3: The Russian Money Supply M2 in RUB Trillion from June 2020 to June 2025. The Money Supply M2 has continuously increased since June 2020, with a strong incline starting in 2022. Figure created by author, data aggregated from Trading Economics.⁷

In Figure 3, one can see the extent of the usage of the printing press.⁷ In the ten years depicted, the Money Supply M2 is continually increasing. However, the gradient surged drastically starting with the outbreak of the war.⁷ In January 2022, shortly before the beginning of the Russia-Ukraine Conflict, the Russian Money Supply amounted to 65,3 trillion Rubles.⁷ This number skyrocketed to 119 trillion Rubles in June 2025, almost doubling.⁷ Nevertheless, a high Money Supply is associated with increasing inflation.²⁶ Thus, it may seem counterintuitive to increase the Money Supply M2 when inflation is high.^{5,7} However, increasing the Money Supply M2 is caused by the National Defense Budget.



Figure 4: The Russian National Defense Budget as a percentage of the Total Federal Budget of Russia. Since 2022, the National Defense Budget of Russia has more than doubled as a percentage of the total household budget. Figure made by author, data aggregated from references 12, 27, 28, 29, 30, 31, 32, 33 (data on the absolute Russian National Defense Budget was put into relation with the Total Federal Budget of Russia in each year shown above).

As a matter of fact, Russia's National Defense Budget amounted to 13 trillion Rubles in January 2024.¹² Russia's Minister of Defense stated in December 2024 that 32,5% of the total federal budget of 40,6 trillion Rubles was used for

defense spending.²⁷ Furthermore, the amount needed in 2025 is estimated to be even higher.²⁷ According to the State Duma, the funding of army requirements as well as the supervision of society will represent more than 43% of the budget in 2025.²⁸ The need for money to finance the war may be the reason for adopting a high Money Supply policy. It seems as if the invasion of Ukraine is the main target of the Russian Federation, resulting in high inflation and economic decrease.

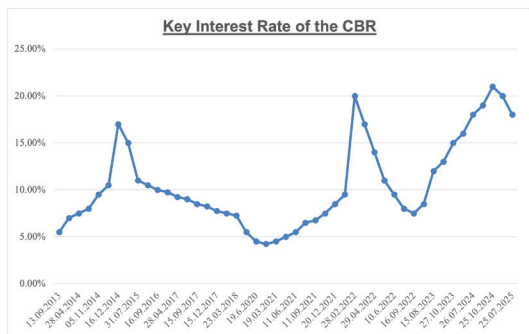


Figure 5: The CBR's Key Interest Rate from September 13, 2013, to July 25, 2025. The Key Interest Rate of the CBR shows three spikes. One in 2014, one in 2022, and one in 2024. Figure created by author, data aggregated from Statista.⁸

In Figure 5, the Key Interest Rate of the Central Bank of Russia is depicted.⁸ It shows how the Russia-Ukraine Conflict heavily impacted the regulation of the CBR's Key Interest Rate.⁸ To further elaborate, from February 11th, 2022, to February 28th, 2022, the Key Interest Rate was raised from 9,5% to 20%.⁸ As a matter of fact, Figure 5 displays two spikes of the key interest rate.⁸ The first took place during the initial days of the war in February 2022, when the sanctions kicked in, bringing the Ruble value to an all-time low.^{2,34} The second spike occurred gradually in 2023 and 2024, with a peak in October 2024.⁸ Now what is interesting about Figure 5 is that the CBR continually lowered the Key Interest Rate up until September 2022 (-12,5%).⁸ However, from this point on, a drastic increase took place, reaching 21% Key Interest Rate in October 2024.⁸ This was due to the rising inflation, as shown in Figure 2.^{5,35} At first, the Inflation Rate may not seem too high, being 9,4% in June 2025.⁸ Nevertheless, a survey conducted by the Central Bank of Russia shows a different perspective.¹¹ The respondents' perception is that the prices are growing 14-15% per annum.¹¹ What would speak in favor of this observed inflation is the history of the Key Interest Rate and Inflation Rate in Russia.¹¹ In fact, ever since the establishment of a Key Interest Rate in Russia, the Key Interest Rate never surpassed the Inflation Rate by more than 5-6% points.¹¹ Therefore, a 14-15% inflation would mean a maximum of 20-21% Key Interest Rate, which is what became reality.⁸ This would explain why the CBR significantly increased its Key Interest Rates, fighting a higher inflation than officially communicated.

The governor of the CBR, Elvira Nabiullina, stipulates in her press conference of April 25th, 2025: *"We will maintain tight monetary conditions for a long period. This is reflected in our forecast of the average key rate for this year that will be in the range of 19,5-21,5%. A high key rate will ensure a slowdown in current price growth to 4% by the end of this year and will help stabilize*

inflation at 4% in the future."³⁶ Through this, one can argue that inflation is a big problem as the Central Bank of Russia is willing to keep key interest rates at record high levels. This would once again support the hypothesis that the real inflation rate is moving around 14-15%.

Interestingly, the Money Supply's mean rate of change from September 2022 up until October 2024 increased immensely compared to the rest of the ten-year timespan.⁷ This is similar to the Key Interest Rate.⁸ The reason for the increase in the Key Interest Rates may be to lower the growing Money Supply M2. It is very likely that the Central Bank of Russia tries to fight the high Inflation Rate by trying to diminish the Money Supply M2. They are trying to do that by adopting high interest rates to reduce the amount of money in circulation. Regardless, this measure alone did not live up to its expectations.¹¹ The lack of efficiency of this measure is due to the powerful and influential antagonists of the CBR, the Finance Ministry of Russia, and the Kremlin.^{37,38} The Finance Ministry pours money into circulation through the creation and financing of military orders.³⁷ The hence created increase in Money Supply M2 causes the Inflation Rate to increase.³⁷ "The Central Bank tries to keep a lid on inflation caused by the Finance Ministry, but is unable to as it has no control over what the ministry does, and the ministry doesn't manage its expenses. Those figures are decided by war."³⁷ Regarding the other key player, the Kremlin, the influence is quite different.³⁸ In December 2021, shortly before the outbreak of the war, the Kremlin silently introduced a new policy.³⁸ The policy implements the legal obligation of banks to provide loans to war-related businesses at preferential terms decided by the Kremlin.³⁸ This counteracts the measures taken by the CBR to fight inflation.³⁸ When gradually increasing the Key Interest Rate to 21%, the market responded in two different ways.^{8,38} Money borrowed from regular companies decreased in line with economic theory.³⁸ However, war-related companies that continue to enjoy attractive terms backed by the state continue to engage in excessive borrowing.³⁸

It seems as if the Central Bank of Russia has its hands tied to some degree. The effects of fighting the economic degrowth and high inflation seem to be mitigated by the Kremlin itself and the Finance Ministry.

■ Conclusion

This study found that the Central Bank of Russia's influence on the Russian economy during the war sanctions has been considerably high. Regardless, the CBR faces challenges in lowering the Inflation Rate and bettering the national economy. This is due to the war policies adopted by the Kremlin and the Finance Ministry. The Russian economy struggled because of the adoption of sanctions from the EU and G7 countries. Especially the freezing of the foreign reserves was a major strike against the Central Bank of Russia as it limits its capabilities of stabilizing the Ruble exchange rate. The effects have been visible in Russia's economic metrics. For instance, the GDP only grew because of war-related spending, and the Inflation Rate skyrocketed as the Money Supply M2 augmented. Therefore, the Key Interest Rate had to be adjusted to a record 21%. The author finds that the CBR could have miti-

gated these outcomes if the Finance Ministry and the Kremlin had not interfered. Due to the war-related spending and state-backed privileged loans, the Money Supply M2 continuously soared. This drove inflation beyond official rates, hence inhibiting the room for maneuver of the CBR to cut the very high Key Interest Rate that is crowding out the non-war-related businesses. The author argues that it will become impossible for the CBR to effectively mitigate the economic downfall as long as the Kremlin and the Finance Ministry continue to augment the Money Supply in the current way. The sustainability of this internal conflict, and what economic or political breaking point it might create, are subjects for future research. The author particularly recommends further investigating the real inflation rate vs the officially communicated inflation. Another scope of research should cover the contraction of the non-military-related parts of the economy. Drawing on public choice theory of sanctions and grievance theory, the implications for household incomes and thus social/political stability.

■ Acknowledgments

I want to thank Dr. Iva Bimpli for her supervision throughout my research process. She helped me where necessary by offering helpful feedback and supervision of my paper, as well as guiding me throughout the process.

I also want to thank Daryn Howland, the teacher's assistant of Dr. Bimpli, for her continuous help via email and calls.

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