



The Power of Economic Sanctions with Application to the case of Russia

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DEGREE THESIS	
Arcada	
Degree Programme:	International Business 2019
Identification number:	18650
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Title:	The Power of Economic Sanctions with Application to the case of Russia
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Commissioned by:	
Abstract:	
<p>Western countries-imposed sanctions on Russia as a result of its actions in Ukraine in 2014 after taking Crimea under Russian control. The USA and the EU implemented sanctions against Russia, which included travel bans, and asset freeze for government owned biggest banks, Several officials and some members of the ruling party of Russia, some of them are owners of the biggest gas, and oil companies, and these biggest banks of Russia, accordingly went under the sanctions too. But the thesis is more concentrated on Banking industry and financial sector, during the research more attention will be paid to find out the influence of sanctions on banking system. First step will be defining the sanctions concept and understanding the reasoning behind the sanctions, and secondly will be analyzed the state of banking sector before and after the imposition of sanctions. Research questions are: How effective sanctions are, what the state of credit institutions before the sanctions was, did sanctions affect the banking industry, what is the situation of banking sector after the imposition of sanctions.</p>	
Key words: Sanctions, Economic, Russia, Banking industry, ROE	
Keywords:	Sanctions , Economics , Russiaa , Banking Industry, ROE
Number of pages:	
Language:	English
Date of acceptance:	

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1 INTRODUCTION

1.1 Background Information

The European Union implemented restrictive measures on oligarchs who are close to President Putin, and frozen their assets in Europe, imposed travel bans for them and other individuals who are directly or indirectly related to the situation in Crimea.

The US and EU have imposed a list of economic sanctions against Russia. Firstly sanctions were imposed by USA in March 2014; they froze the assets of Russian ruling party members and close friends of Putin, and made travel restrictions for them, European Union also interrupted their activities in visa issues-discussion and it was suspended, all kind of diplomatic cooperation with Russia went down to a very minor level. (Tahir Ozturk, Oz Turk, June 2015)

USA added more sanctions in April and increased the ban restrictions on more people from Putin's circle, The EU added more sanctions and expanded the list of those who are somehow connected to annexation of Crimea. Firstly, EU restricted those officials from business activities in Europe and secondly added travel restrictions on officials directly or indirectly related to annexation of Crimea. (The Washington Post, Karen DeYoung & Michael Birnbaum, April 28, 2014)

The EU implemented different kind of sanctions

- Diplomatic pressure
- Individual restrictions and travel bans
- Economic sanctions to Russia
- Ban for cooperating with Crimea for any country

The G8 was converted to G7 after Russia's actions in Ukraine it was excluded from further participation in it and it was agreed by EU not to have this kind of diplomatic meetings with Russia anymore.

1.2 Individual restrictive measures

150 people and 38 entities are case to an asset freeze and travel restriction because their behavior threaten Ukraine's national principle, and independence. The prohibitive measures were introduced in March 2014. They were last extended in September 2017 until 15 March 2018.

The European Union, and The United States passionately condemned Russia's annexation of Crimea and does not admit it as a part of Russia. Since Russia didn't make any changes in its political behavior, the EU appointed the travel restrictions and finance freezes against people engaged in actions of annexation of Crimea on 17 March.

In attendance of Russian Federation behavior damaging the situation in Ukraine, the European Union appointed economic sanctions in July 2014 and added new sanctions in September 2014 again. In March 2015, the European Council associated the period of those economic restrictions to the complete fulfillment of agreements made in Minsk (*Council of the European Union, 21.11. 2017*).

1.3 Moscow responds to expanded sanctions

Putin's spokesman said on Thursday it was "Unacceptable" for the United States to impose sanctions on Russia and warned Moscow would respond in kind to U.S. measures meant to punish Putin's Allies. Spokesman Dmitry Pskov said the Kremlin was studying the list of 20 more Russians hit with U.S. visa bans, and asset freezes. "The appearance of some names on the list causes nothing but extreme perplexity," Pskov said. "But no matter what the names are, the practice of (issuing sanctions) lists is unacceptable for us. "In any case, Russian's reaction to these lists will be based on the principle of reciprocity and will not be long in coming" (*CBC News, 2014 Crimea Crisis leads to further sanctions, posted Mart 20, 2014*).

1.4 Research aim

There are different thoughts about the effectiveness of sanctions imposed on Russia. Some politicians claim that sanctions are not as productive as they are supposed to be, but no one denies that sanctions make financial pressure on Russia, and they are reasonable alternative to war. Thus, the research will concentrate more on financial institutions, especially on the banking industry of Russia.

The aim of the thesis research is to measure the influence of sanctions on the banking sector of Russia. To accomplish this aim following tasks should be decided:

- Define the structure of sanctions in general;
- To get real picture of the popular author and get their idea, whether the sanctions are affective or not;
- Detailed year to year analysis of the data of sanctioned and non-sanctions banks;
- Plan a reasonable and extensive assessment of the influence of sanctions on the banking industry by using (ROE) ratio formula.
- Develop methodological approaches to assess the liquidity state of the banking system, as one of the key indicators, after the imposition of sanctions;
- Build a model to assess the state of liquidity and return on equity of the banking system after the imposition of sanctions.
- Analyze the state of the Russian banking system before and after the Introduction of sanctions by using (ROE) model.

1.5 Research question

The main research questions are:

- How effective sanctions are in general?
- What was the situation of credit institutions before the sanctions?
- Did sanctions affect the banking industry in Russia?
- What is the situation of banking sector after the sanctions?

1.6 Information and empirical basis

The focus of the research is to determine the impact of sanctions on the banking system of Russia, by analyzing the state of banking system before the introduction of sanctions and after the sanctions. The study information will be acquired from published online sources, the materials of the Bank of Russia, the Federal Service for State Statistics of the Russian Federation, the Ministry of Economic Development of the Russian Federation, the official accounts of commercial banks, the resources of official Internet sites, with the support of secondary sources, such as academic and literary review , as well as personal observations of the author that will serve as an informational and empirical basis for thesis.

The purpose of thesis work is to determine the impact of sanctions on the banking system of Russia. There are limitations of acquiring the data of Russian banks, because it is not available in some cases. In the research we will concentrate on 7 sanction banks (Sberbank of Russia, VTB bank, Gazprom Banks, Bank of Moscow, Rosselhoz Bank, and SMP Bank) and 5 non sanction banks (Rosbank, UniCredit, Raiffeisen Bank, CitiBank, Bank of Saint Petersburg). In the study of the work, the following tasks will be solved: the identified concept and types of sanctions, the analyzed state of the Russian banking sector, prior to the adoption of sanctions and after, an economic study will conduct the impact of sanctions on Russia's banking sector through liquidity and return on equity(ROE).

2 METHODOLOGY

2.1 Research method

Research method means gathering information or materials that will be afterwards analyzed by the researcher (*Anselm Straus, Grounded theory research, 1987, p.20*).

Quantitative research is a type of research where related number of amounts went through some method and calculations give certain numerical data that determine the relationship between independent variables. (*Cambridge Dictionary Online*)

Qualitative research is a type of research that targets to get people's assumption and what they feel about it rather than information that can efficiently be demonstrated in numbers: (*Cambridge Dictionary, 2013*).

Secondary data is data, which is publicly available and analyzed by someone else, it refers to the data collected by someone else like published books, magazines, newspapers bank financial reports. (*Cambridge Dictionary Online*)

Primary Data refers to when data is collected by researcher himself by using interview method, questionnaire method, projective techniques and so on. (*USC Libraries Research guide 10.12.2019*)

Qualitative research will be mostly used in first part of thesis-chapter two, to answer the question if sanctions are effective in general, with support of quantitative financial data displayed in tables, that will show the change in cost for the sender of sanction countries, and success index of sanction itself.

The quantitative research will be conducted by making calculations on data available on the official bank pages and annual report received from Central bank of Russia and the banks under the sanctions and non-sanction banks. Empirical result for the chapter three and four is based on both, primary and secondary data.

ROE – Return on Equity formula will be used in the thesis to make important calculations that reveal the real situation of banking sector of Russia, because ROE is the most adequate formula that reveals the real usage of finance in difficult situations, if money is reinvested to the company for the further development, it shows that the shareholders believe in potential of the company, if money is taken out from the company and not reinvested in it, it shows pessimistic mood of the company shareholders for the company.

The thesis is divided into 8 chapters. First chapter consist of introduction, aim of the research, explains the purpose of the thesis, as well as the history of sanctions in general and background of the sanctions imposed against Russia. Chapter two consists of method that is used in the thesis and explanation about background of empirical data. Third chapter presents theoretical framework and some background of sanctions. Chapter four presents

the state of banking sector in Russia before the implication of sanctions. Chapter five focuses more on the sanctions against Russia and displays the chronology of sanctions. Chapter six consists of the discussion and calculations on what happened to banking system of Russia after the imposition of sanctions. Chapter seven consists of discussion and conclusion, and overall thoughts of the author. And the last part consists of list of references and bibliography used.

2.2 What is ROE

$$ROE = (Net\ Income / Shareholders'\ Equity) * 100\%$$

ROE gives an easy and measured assessment of returns of company by analyzing a company's return on equity to the corporation's median, something may be diagnosed regarding the corporation's position, ROE can also give idea about how smart corporations management uses the income they received.

A stable and growing ROE over time means a corporation is smart enough at generating profit from shareholder value, on the other hand a declining ROE can mean that management of company is executing bad decisions on reinvesting money in ineffective assets.

2.3 How ROE works

<p>More than 1 % = week effect on the ROE</p> $Return\ on\ Equity = \frac{Net\ Income}{Shareholders'\ Equity} \times 100$	<p>If there is a difference on return equity ratio average before and after the imposition of sanctions over 1 % positive, for both sanctioned and non-sanction banks, the effect is minor</p>
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<p>Less than 1 % = strong effect on ROE</p> $\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholders' Equity}} \times 100$	<p>If effect on return on equity average is below 1% negative, for both sanctioned and no-sanction banks, the effect is sensitive</p>
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Table 1. How ROE method will be used in thesis

Regarding the hypothesis presented in table 1. This is an attempt by the author to demonstrate (ROE) as a percentage, so that the reader can see the difference in average return on equity for sanctioned and non-sanction banks. it is chosen as an example and can be changed to other independent variables.

In the research process special attention will be paid to the debts of the banks, according to the results of the ROE model, the higher the financial leverage, the lower the return on equity is. For example, In addition, the higher the level of doubtful debt, the lower the value of profitability. In our case, when making calculations, the profitability index will decrease, if bank has loans from the Central Bank of Russia, because sanctions imposed on the bank, forces the bank to take loans from the central bank.

An increase in the level of doubtful debts affects the size of the bank's net profit, since due to non-receipt of money on loans the bank loses part of its income, and the loss of income is a decrease in profitability and ROE model displays it . Regarding the availability of loans from the Bank of Russia, we can assume that this is some indirect influence on the ROE and indicator of the weakness of the bank because of its need for state support. That's the reason thesis does not rely blindly on ROE, but also will pay attentions to the debts of the banks too.

Let us admit that two companies have the same sum of assets (1000 euros) and the same net income (120 euros) but different levels of debt: Company A has 500 euros in debt and therefore 500 euros in shareholders' equity (1000 - 500), while Company B has 200 euros in debt and 800 euros in shareholders' equity (1000 - 200). Company A shows a ROE of 24% (120/500) while Company B, with less debt, shows a ROE of 15% (120/800). Because ROE equals net income divided by the equity, company A, the higher-debt firm, shows the

highest return on equity. Company A looks very good if we look at ROE, but it has higher profitability when it just has more obligations in dept. So, higher ROE doesn't display the real picture, if you don't check the obligations of the company behind it, therefore, it can be future problem for the company A. (Hargrave Marshal, Corporate Finance & Accounting Jun 25.06.2019).

3 THEORETICAL FRAMEWORK

3.1 The concept and types of sanctions

Sanctions are one-sided or crowd methods to change behavior of individuals or government, kind of tool to stop a country from violating rules set by international community (Dajani, Daoudi 1983).

A different meaning of the sanctions that are presented in many other authors works, was that sanctions are more a kind of message to the rest of the world that such actions will be stopped by international community rather a real working tool that changes a country under the sanctions to change its behavior and act in favor of the senders of the sanctions.(Chan 2000, Lindsey 1986)

There is a known fact of sanctions imposed in old times, old Greece made an embargo for Megara region and their trade activities were blocked by the Greece a long time ago, but these kinds of sanctions were very few times at that time. More active embargos and sanctions took place in new history, most of them happened in between 1800 – 2000.

Mostly, the powerful and wealthy countries use these kinds of embargos and sanctions to target country to change their behavior or to get some beneficial position in certain cases; it can be import quotas, some tax cuts, and better conditions for the business in favor for the country that sends these sanctions. Weaker countries are forced to follow the rules set by the wealthy countries otherwise their economy suffers from the embargos and many kinds of restrictions that can be used against them.

The first recorded attempt to organize a "peaceful blockade" was carried out in 1827 during the struggle for the independence of Greece from Turkey. The French, Russian and English military forces blockaded the Greek coast to prevent military support for the forces of Turkey and Egypt. None of the organizing countries of the blockade was at war with Turkey, while the fleet was ordered not to open fire at the Turkish and Egyptian , however, the order was violated and, as a result, almost the entire fleet of Turkey and Egypt was sunk. Thus, the first attempt at a "peaceful blockade" failed.

After the first "peaceful blockade", another 21 similar blockades were organized. The main participants in the blockades were the largest and most developed countries in Europe, choosing smaller countries in Europe or developing countries in Latin America and Asia, for example, Portugal in 1831, the Netherlands in 1832–1833, and Brazil in 1862–1863, China in 1884–1885, Venezuela in 1902–1903 and other countries. Initiating countries included such countries as United Kingdom sent them 12 times, Italy and Germany 3 times, Russia sent them 2 times, Austria 2 times, France 11 times. In all these cases most of the countries acted as an individual actor, very few of them were made as a group action of sanctioning. (Kramarenko Kseniya, Hogan 1908)

Before the United Nations was created in 1945, no one controlled the sanctioning process and there were no rules and regulations regarding the sanctions. Any powerful country could send their sanctions, trade embargos, to a weaker country and make them suffer many years like in case of Libya when it was under the sanctions over 30 years, but later the UN took it under control and made clear in the legislation in which situation a country could be a subject for sanctioning, the circumstances in which the country could send legal sanctions was noted in legislation, otherwise the sender country could get the punishment from international community. The process of legislatively determining the conditions and penalties for sanctions means that all countries formally put the sanctioning in the list of instruments of political and economic influence. (Naumova Irina, 2018)

According to Huffbouer, progressive evolution of the sanctions started after World War 2. in the 1950s, sanctions were imposed 15 times, in the 1960s there was 20 cases of registered sanctions, in the 1970s. - 37 cases of sanctions were registered, as well as 23 times in the

1980s, additionally, there were 50 registered sanctions in the 1990s (Hufbauer, Schott, Elliott, 1990).

Types of Economic Sanctions:

- Banking Industry – Financial Transactions
- Basic Consumer Goods
- Petroleum - Oils Exports
- Weapons
- Raw Materials for Manufacturing
- Technology

3.2 Evolution of Sanctions

The imposition of economic sanctions has increased dramatically in the aftermath of World War 2. Including the eleven cases of sanctions imposed by the United Nations, often with participation of United States, Between 1900 to 1990, the majority of sanctions were imposed unilaterally, most frequently by the United States, but in the 1990s, a large fraction were imposed by intergovernmental coalitions. The countries of Western Europe, especially the United Kingdom, are playing a more active role, but these coalitions usually included, if they were not originated by, the United States. (*Hufbauer, Schott & Elliot, 1990, p 33; Elliot & Hufbauer, 1999, p. 404*).

The research reveals that the governments and coalitions use sanctions to try to change the strategic decisions of state and non-state bodies that intimidate their interests or disobey international law. Some researchers like Pape R. Say sanctions are very ineffective rarely successful in changing a target's behavior, while Hufbauer states sanctions are effective to some extent, and they have become more effective in last years and continue to be fundamental for the foreign policy. Sanctions have become the determined tool of the Western countries to respond to the challenges, including Russia's aggression in Ukraine.

However, sanctions have been a strong, and widely used method throughout the years, imposed by different governments and followed by various reasoning behind them. According to the graph by Lance Davis and Stanley Engelman (Davis & Engelman 2003), the average number of costs to the target and sender, the index of the success, and the average number of cases of sanctions, show the actual numbers behind the history of sanctioning.

3.3 How Effective Sanctions

The peculiarity of applying sanctions is that it is very rare when one type of sanction is used, often it is several types of sanctions. There is a very typical case when sanctioning is made as a group action it's believed that group actions are more affective. Accordingly, it's also problematic to a group-sender to have some mutual standard of sanctions because all these countries have different relations with target countries and some country might have a good business with a targeted country thus, it loses more than other actors.

Let us dwell in more detail on economic sanctions (trade and financial). Economic sanctions are prohibitive economic used by one side or group of sides against another side-the receiver of sanctions. With the aim of forcing a change in political course. (Naumova Irina 2019)

There have not been many examples very successful sanctions in, and that makes the research work a bit harder, because there is nothing to compare with. Examples of economic sanctions include sanctions against countries in South Africa, Libya and Iraq. All three examples had something in common, they were all controlled by dictators they were not very powerful in economic since, and the economy of these countries was very dependent from exports of the raw materials, Iraq is more likely good example in our case, because it was also very dependent on oil exports.

Economic sanctions against the countries of South Africa were introduced for almost 50 years - 1948- 1994. and were aimed at a complete change in the political regime of the countries of South Africa. The sanctions included a ban on issuing loans to sanctioned

countries by the Export-Import Bank, a ban on the purchase of South African gold and an oil embargo. As a result, sanctions included restrictions on importing and exporting raw materials, military equipment, agriculture and technology stuff, oil extracting equipment, military-industrial complex goods. The result of the application of sanctions was a change in the political regime of the country, the countries that initiated the sanctions, and in the process, more and more new countries joined the USA and achieved their original goals. But should be emphasized that sanctions lasted 50 years, which erodes the possibility of analyzing the real picture on how effective sanctions are.

Libya suffered from American sanctions for 30 years when in 1969 the USA directed sanctions against a certain industry (sectoral sanctions), namely, oil, however, all related infrastructure, equipment for extraction and oil refining, transportation, also fell under the influence. (*Hufbauer, Schott & Elliot, 1990*)

The result of the application of sanctions was a change in the political regime of Libya, but this also happened after a very long time, namely only in 2003, thus, economic sanctions against Libya lasted about 35 years.

Hoffbauer notes, Regarding the sanctions that took place in Iraq in 1990, actions were implemented on freeze foreign assets of the government, to impose an embargo on the products of the oil and military industries (to export products from other countries to Iraq), And ban on any activities including the banking operations. Nevertheless, finally the USA government had to admit that sanctions didn't give an expected result and George Bush decided to make more effective actions and started war against Saddam Hussein.

All these three cases demonstrate very clearly that the result of sanctions cannot be predicted beforehand, even though they look very similar to each other, and were under dictatorship, all three were very dependent on raw materials but still the sanctions didn't give expected result. Only after starting war and invading the country and killing Saddam Hussein, The USA could change political behavior of Iraq, which lasted a few years but now became even worth than it ever was.

Table 2. Cases of registered Economic Sanctions 1911-2000 source: Hufbauer & Scott & Elliot

Years	Cases of Economic Sanctions
1911-1915	1
1916-1920	2
1921-1925	2
1926-1930	0
1931-1935	3
1936-1940	3
1941-1945	1
1946-1950	8
1951-1955	5
1956-1960	10
1961-1965	15
1966-1970	5
1971-1975	13
1976-1980	24
1981-1985	8
1986-1990	15
1991-1995	34
1996-2000	20

Most of the researchers who investigated the all possible kind of sanctions agree that sanctions are not generally effective. Hufbauer notes, that only fifty percent of sanctions are effective when they are imposed against friendly countries, the percentage decreases to thirty percent in case when sanctions imposed against neutral countries, and it decreases to nineteen percent in case of enemy countries. His opponent Pape says that sanctions are literally waste of time and resources, and states that sanctions are not effective at all. In the article “Economic sanction and the paradox of sanctions: a post-random test of the Daniel Dresner (1999)

Pape shares his thoughts about Hufbauer’s investigation of sanctions mentioned in his book “Economic Sanctions Reconsidered”, in his book “Why economic sanctions don’t work” (1997), Pape states proves that only five out of forty cases of sanctions in Hufbauer’s book are effective to some extent.

Thus, according to the data of Pope R. A., less than 5% of all sanctions are effective, which generally allows us to conclude that they are ineffective. Regarding other cases, Pape gave the following comments: 6 cases cannot be classified as sanctions; 18 cases are examples of force impact than the sanctions themselves; for 8 cases, there is no reason to believe that the target country is really inferior under the pressure of sanctions; 3 cases are uncertain.

List of successful sanctions according to Hoffbauer (*See Table 3*).

Table 3.. Sussessful Sanctions

source: Hofbauer, Schott, Elliot

Target	amount of sanctions	success
Political reasons	43	51%
Changing ruling regime	80	31%
Stop War	19	21%
Destroying military potential	29	31%
Changing course of country politic	33	30%
Result	204	32,8%

The effectiveness of the sanctions lies in the fact that the initiating countries have implemented such an impact on the economic and political regime of the target country that it refuses or changes its political behavior. There are a lot of disputes whether sanctions are effective or not, it has not been clearly determined how effective the application of sanctions yet.

The dispute on how effective sanctions are in general is continuing from 1930th till now, and many authors like; Huffbouer, Elliot, Pape, Drezner are arguing about the reasoning behind the sanctions and their effectiveness for many years.

The success or failure of sanctions determined by these researchers follows below:

1. Disproportion of cooperation by the group of senders of the sanctions and minor effort to make real pressure on targeted country;

maintaining sanctions, lack of support from other states;

2. The effect of uniting the population of the target country and popular support of the government;

3. Wrong effect -When two superpower are interested in different result for certain country the result from sanctions changes very quickly, for instance when Soviet Union imposed sanctions in Yugoslavia, the United States started to help economically and militarily and expanded its influence in Yugoslavia and these sanctions gave kind of better position to Yugoslavia than before the sanctions.

Or in case of Cuba when United States imposed sanctions and all kind of embargoes against Cuba and Fidel Castro, Soviet Union started actively to expand their influence in Cuba started to cooperate with Cuba in agriculture, military and financially.

4. Minor Cooperation from allies, when needed making sanctions on certain country

All types of sanctions are characterized by the following parameters:

- Recurring costs for the initiating country
- The effect of sanctions on the target country
- International sanctioning

Hoffbauer, Schott and Elliot note that, in assessing the performance of sanctions the most crucial thing is the cost that country pays to achieve the expected result. It might look strange, but this is very important that there is the cost that must be paid to get the result. Otherwise, any country wishing to get a better position in certain business, would implement the sanctions on its neighbor or enemy country and it would lose the competitors, thus, understanding the fact that sanctioning without serious reason behind it can give side effect to the sender of the sanctions, countries will be more careful and will not play with sanctions.

In the book of "Economic Sanctions Reconsidered" Hoffbauer checked more than 200 cases of implementation of sanctions in the world and noted that usually there is very minor or no cost at all for the sender country if country is wealthy enough. Only 30 percent of sanctioning gave the expected result in history of sanctions. Hoffbauer demonstrated very useful method to assess the cost and success index of sanctions in his book.

Some of the results obtained by Hoffbauer, Schott and Elliott are presented in the table below (*See Table 4*).

Senders—Receivers	Years	The cost for senders	Sanctions effect	index of success
United Kingdom-Germany	1914-1918	4	7,1%	12
United Kingdom- Russia	1918-1920	3	4,1%	1
United Kingdom, UN- Iran	1951-1953	1	14,3%	12
UN-Laos	1956-1962	1	4,2%	9
UN-Cuba	1960	3	4,4%	1
UN-Indonesia	1963-1966	1	2,0%	8
China-Albania	1978-1983	2	3,3%	1
UN-Iran	1979-1981	3	3,8%	12
UN-Panama	1987-1990	3	6,0%	4
South Africa- Lesota	1982-1986	2	5,1%	16
India-Nepal	1989-1990	2	4,6%	9
Average		2	6,6%	7
Median		2	4,0%	8

Table 4. Success Index

source: Huffbauer, Schott, Elliott

The Success Index

Huffbauer presented the assessment of success index in his book “Economic Sanctions Reconsidered” (1985), it included direct and indirect cost for the sender country and displays in numbers, if the aim was achieved Huffbour measures the success index from 1 to 16 where 1 means not effective at all and 16 means very effective sanction.

He also measured the cost for the sender country, not only the success it was presented in a way that what amount of cost was given to achieve the successful result for the sender of the sanctions the values, were set in a way from 1 to 4:1 – where 1 displays minor cost and for demonstrates sensitive cost for the initiating country, 2 - low costs; 3 - average costs, 4 - significant costs.

4 THE STATE OF THE BANKING SYSTEM OF RUSSIA BEFORE THE SANCTIONS

4.1 Key numbers of banking sector

According to the Central bank of Russian data, from 2000 until the mid of 2013, the banking system of Russia shows dynamic growth, due to the following factors:

1. The weak financing and minor participation of investment in economy, and growing demand of financial inflows for small and medium-sized enterprises.
2. The weakening of national currency which is too dependent on the oil prices
3. The weak international inflows of finance

Nevertheless, at the beginning of 2014 the problems in Russian economy started to decline in liquidity ratios of banking sector, what was understandable due to economic problems that EU made to Russia in 2014. Before the sanctions there was some positive dynamics in GDP of Russia, it was slowly increasing from 70 to 80 percent in 2013. It is not very significant increase, if you compare it with GDPs of other big countries, but it was kind of positive dynamic for the Russian economy, if you compare it to the situation now. Regarding In the assets, the share of loans granted increased insignificantly from 54 % in 2009 to 56 % in 2013, and in the liabilities the share of the volume of borrowed funds from individuals and legal entities increased from 57 % in 2009 to 60% in 2013(*Central Bank of Russia 2009-2013*).

Table 5. Ratio of banking sector performance indicators to Russia's GDP and banking sector as-sets 2009–2013
source: Central Bank of Russia

index	2009	2010	2011	2012	2013
Assets to GDP, %	75,8%	73,0%	74,4%	79,6%	80,6%
Capital to banking sector assets %	15,7%	14,0%	12,6%	12,3%	12,3%
The volume of loans given	54,8%	53,7%	55,9%	56,0%	56,5%
The amount of funds raised from in-	25,4%	29,0%	28,5%	28,8%	29,5%
Amount of funds from legal entities,	32,5%	32,9%	33,6%	31,6%	31,0%

The decline in GDP growth began in 2011, right after the fall in economy GDP started to decline there was a loss in GDP for 3, 5% in just one-year time, 2010-2011. GDP fall was again in 2013, when it fell to 1, 3%. A decrease in fixed assets also fell from 6 to 1,4 percent at the end of 2013.

From 2011 to February 2014, the situation was relatively stable regarding currency and ruble position. However, from the middle of 2014, oil prices began to fall, respectively, the strongest weakening of the ruble exchange rate. (*Bloomberg.com, 10.12. 2013*)

More detailed description of the dynamics of the ruble against the US dollar is shown below (*See Figure 1*).

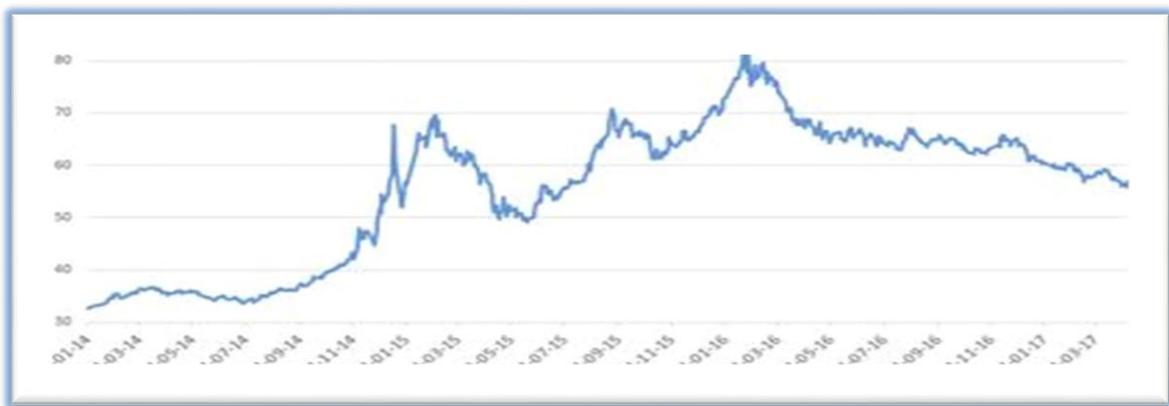


Figure 1.. Ruble to dollar exchange rate source: Central Bank of Russia

The central Bank of Russia tightened the rules and regulations, after the imposition of sanctions by Western countries, for the banks with small capital it gave negative reactions and a lot of them lost their accreditation from bank of Russia.

The dynamics of the number of credit organizations is presented in the figure below (*See Figure 2*).

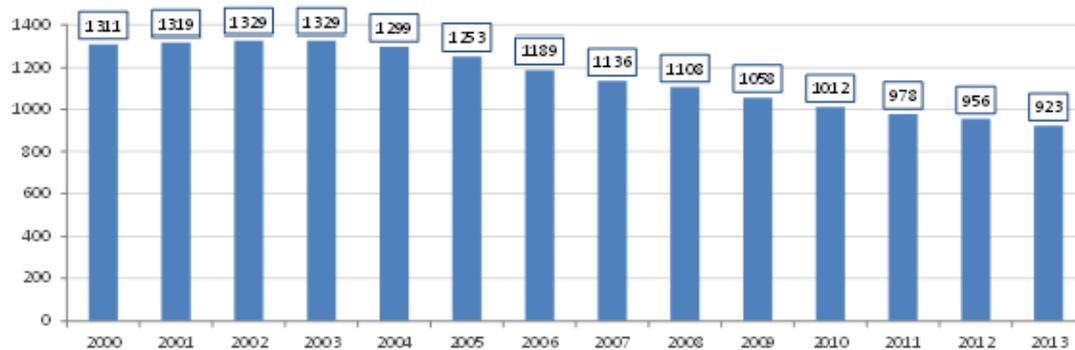


Figure 2. Dynamic of credit institutions in Russia 2000-2013 Source: Central Bank of Russia

4.2 Biggest banks ROE

The biggest banks of Russia showed strong profitability until 2013, before severely break down in 2014. In 31 December 2014, ten of the biggest banks went back to the similar situation that they had in 2008 after the world crisis. The weighted average return on equity (ROE) of biggest 10 banks of Russia plunged dramatically in 2014 to 3.7 percent, down from 16.8- 12.7 percent between 2010-2013. The 2014 ROE ratio is 700 basis points lower after excluding Sberbank, illustrating the predominance of the market leader on the Russian banking market. source: (Delotte FSI CIS Analysis Center February 2016)

The Dynamic of Sberbank key Figures given below (See table 6).

Table 6. Dynamic of Sberbank key figures over the past five-year Source: Financial reports of Sberbank

For the year RUB	2011	2012	2013	2014	2015	Change %
Operating income	733.7	915.3	1.094.8	1.300.7	1.429.8	9.9
Provision changes	1.2	21.5	133.5	357.0	473.1	32.5
Operating income	734.9	893.8	959.9	939.3	954.6	1.6
Operating Expenses	339.2	445.9	504.2	565.1	623.4	10.2
Profit before Tax	395.7	447.9	455.7	374.2	331.2	-11.5
Net Profit	315.9	347.9	262.0	290.3	222.9	-23.2

Financial ratio %	2011	2012	2013	2014	2015	Change
Profitability ratios						
Return on assets (ROA)	3.2	2.7	2.2	1.4	0.9	-0.5
Return on Equity (ROE)	28	24.2	20.8	14.8	10.2	-4.6
Spread	6.1	5.8	5.7	5.5	4.1	-1.4
Net interest margin	6.4	6.1	5.9	5.6	4.4	-1.2
Operating expenses to operat-	46.2	48.7	46.1	43.4	43.6	0.2
Loans and advances to Custom-	97.2	100.9	104.2	110.8	91.9	-18.9

Per share, RUB	14.60	16.03	16.78	13.45	10.36	-23.0
Basic and Diluted	0.9	2.1	2.6	3.2	0.5	-85.9
Dividends per share	58.7	75.2	87.5	94.0	110.5	17.6

In year to year finance reports, the biggest state owned bank of Russia -Sberbank displays overall situation in banking sector of Russia, as of 12.31.2014 Sberbank ROE is 14.8% in just one year it felt down to 10% in 2015, due to the ROE formula equations and calculations made, and checked year to year reports of the banks, it was possible to analyze the liquidity state of sanctioned and non-sanctions banks, and based on the ROE method the picture becomes more clear, and most stable and unstable banks were identified. For the period 2011-2015 based on results, non-sanction banks are more stable in liquidity sense and sanctioned banks are more vulnerable. ROE ratio of banks under the sanctions show positive dynamic until 2014 and demonstrate negative results after 2014. More examples will be presented in next section. Profitability indicators given below (*See Table 7*).

Table 7. Profitability indicators for group of banks *Source: Central Bank of Russia*

Group of banks	ROA		ROE	
	2012	2013	2012	2013
State banks	2,4%	2,2%	20,1%	18,3%
Banks with foreign capital	2,5%	1,8%	18,8%	13,3%
Biggest private banks	1,9%	1,5%	16,0%	12,5%
Medium and small banks	1,6%	1,7%	9,6%	10,6%

Anyways the overall picture of Russian banks and economy as whole, were in a good shape until 2014, (Year of imposition of sanctions) after 2014 appeared some problems and decline in economy the growing concentration of the banking system at the largest and often state-owned banks, the outflow of deposits, which led to stagnation of the banking system, began to manifest themselves.

5 SANCTIONS AGAINST RUSSIA

As a result, from the research above, sanctions took place many times in history and they were used as an alternative to the war, much has been written on the effectiveness of international sanctions and on their success in achieving political objectives. International sanctions against Russia – imposed in response to Russia’s illegal annexation of Crimea are supposed to make financial pressure on Russia and used as an alternative to war. Effectiveness of sanctions regarding Russian banking system will be measured during the research process.

Chronology of sanctions against Russia given bellow:

- **March 6, 2014:** The United States issue a restriction measures on travel for Russian officials to the United States. And freeze the U.S. assets of those threatening the security of Ukraine. The state Department prepares visa restrictions on several officials and individuals. (*Reuters and The Associated press*)
- **March 17, 2014:** The EU imposes travel restrictions and assets freezes on 21 individuals held responsible for the crisis, including the Speaker of the Crimean Parliament and several Russian MPs (OJEU, 2014). The scope of these penalties is the highest Russia has ever been issued since the fall of the Soviet Union in 1991 (Kataev,2014). The U.S. expands the list of sanctions against Russia and Ukrainian officials (*Reuters,2014*). Canada also imposes economic sanctions against Russian officials involved in the crisis (*PMOCSH, 2014*).
- **March 18,2014:** Japan freezes negotiations with Russia on matters regarding visa regulation, investments, military issues and space exploration (*Shankar, 2014*).

- **March 19, 2014:** Australia imposes travel bans and financial sanctions on 12 Russian individuals and officials. (*Daniel Hurst, 2014*).
- **March 20, 2014:** The United States expand the list of sanctions yet again, to include 20 members of Putin's clique and Bank Rosia, because of its support for officials involved in the Crimea crisis. (*JNM Journal, 2014*). The EU also expands the list of individuals targeted by sanctions up to 33 persons. The G8 forum, over which Russia was supposed to participate, is suspended (*CBC News, 2014*). Moldova also joins the European Union in sanctions with travel bans and asset freezes on Russian officials and accused them in human rights violations. (*Tele radio Moldova, 2014*)
- **April 11, 2014:** Norway, Montenegro, Iceland, Albania, and Ukraine impose similar restrictions regarding travel bans and asset freezes as those imposed by the Council of European Union on March 17 (*EU Council, 2014*).
- **April 28, 2014:** The U.S. usher in a new wave of penalties, freezing the assets of 7 Russian individuals and 17 companies associated with Vladimir Putin, including Putin's close adviser Sechin |Igor, and banning all kind of business transactions made by them. The European Union puts 15 further persons on its sanctions list (*DeYoung, Birnbaum, 2014*).
- **July 17, 2014:** American sanctions target Russian's, main oil producer - Rosneft, gas producer- Novatek and banks: Gazprombank and Vnesheconombank, closing possibility for long-term dollar funding (*Reuters 2014*).
- **July 24, 2014:** Canada figures more sanctions on Russia, putting restrictions on financial and energy companies which somehow involved in financing rebels in Crimea. (*CBC News, 2014*).

- **July 25, 2014:** The EU extends sanctions and puts another 15 persons and 18 companies to its list of restrictions (*OJEU, 2014*).
- **July 30, 2014:** The EU's list widens by another 8 individuals and 3 companies (*OJEU, 2014*).
- **July 31, 2014:** EU imposes more sanctions against the Russian financial institutions, energy and military sector, new individuals and companies added to the asset freezing process (*OJEU 2014*). These measures are meant to curtail the ability of Russian banks to raise money on Western markets and to limit the transfer of military or oil equipment to any Russian entity. The EU banks and companies are prohibited from cooperating with Russian biggest banks (Sberbank, VTB Bank, Gazprom bank, Vnesheconombank, Rosselkolkhozbank,). (*Lewis, Santa, 2014*)
- **August 5, 2014:** New sanctions issued by Japan include freezing the Russian assets of 2 companies and 40 individuals, held responsible in the Crimea crisis. (*Fackler, 2014*)
- **August 12, 2014:** Norway supports the European Union in restrictions on the import and export of arms and oil technology from and to Russian Federation (*Offshore Energy Today, 2014*).
- **August 14, 2014:** Switzerland tightens military embargo on Russia. Switzerland had suspended the training of Russian military specialists on its territory and supported 5 of the 6 versions of the EU sanctions list (87 individuals and 20 companies). Furthermore, Ukraine levels sanctions against 172 individuals and 65 entities involved in the crisis (*Radio free Europe, 2014*).
- **August 27, 2014:** The Swiss government decided to prohibit 5 Russian banks from issuing new long-term financial instruments, as well as banning business arrangements with 11 Russian organizations and expanded the military embargo (*McLucas, 2014*).

- **September 12, 2014:** The U.S. imposes new sanctions against Sberbank- Russia's largest bank, and Rostec - a state corporation that specializes in the industrial and defense sector. American companies are also restricted from trading with 5 Russian oil and gas companies: Gazprom, Gazprom Nefs, Lukoil, Surgutneftegas, and Rosneft. (*Mohammed, Trott, 2014*).
- **September 24, 2014:** New Japanese sanctions restrict the activities of Russian banks in Japan and tighten control on arms export (*BBC News, 2014*).
- **December 18, 2014:** The EU details further measures to be taken regarding Crimea, EU entities are restricted from purchasing real estate in Crimea and Sevastopol (*RT, 2014*).
- **December 19, 2014:** The U.S. Issues embargo on Crimea and levels new sanctions on Eastern Ukrainian separatist leaders. (*The New York times, Peter Baker, 2014*)
- **February 9, 2014:** The Foreign Affairs Council added more restrictions on the Crimea crisis, but delayed the implementation of these measures until February 16, due to the diplomatic debates in Minsk (*Council of the EU, 2015*).

A brief description of Russian banks under the sanctions is given below:

- **Sberbank of Russia**— Is one of the biggest and most popular banks in Russia, mostly owned by the government and offers different kind of banking services, it is present in most post-soviet countries like Azerbaijan , Kazakhstan, Georgia, and some European countries like Poland, Austria, Germany, Ukraine and Switzerland. (*Sberbank.com, Press releases, 01.22.2019*).
- **VTB Bank** — is the second largest Russian commercial bank with state participation. VTB Bank mostly operates in Russia and works with Government based companies (*Vtb.com, Press-Center 30.10.2019*)

- **Vnesheconombank** — Group of Companies owned by state, Vnesheconombank Group of state-owned Companies, corporation involved in many government projects in the creation, and provision of conditions for economic growth and investment promotion. (*SWFI Sovereign Wealth Fund Institute 09.3.2015*)
- **Gazprom Bank** — is a gas based bank owned by Gazprom it's well known bank in Russia, it offers huge variety of banking services it is present in all big cities of Russia and in all post-soviet countries, in addition, Gazprom bank participates in the capital of three foreign banks (*Gazprombank.ru accessed 11.12.2019*).
- **Bank of Moscow** — is a Russian commercial bank working with legal entities and individuals. The Bank includes 267 separate divisions and has more than nine million individuals and 114 thousand legal entities of customers. (*Mkb.ru, general information*)
- **Rosselkhoz Bank** — is a fully state-owned Russian bank (100% of the shares are owned by the Russian government). The bank was created by order of the President of the Russian Federation V.V. Putin in 2000 to service producers in the agricultural sector of Russia and as of 2014 the bank issued more than 2.3 trillion-ruble loans to agricultural companies. The Bank has 76 regional branches throughout almost the entire territory of Russia. (*Bloomberg.com, RosselkhozBank profile*)
- **VTB 24** — is one of the biggest Russian banks and daughter of VTB. The bank's branch network includes more than 1060 branches all over the Russia. Regarding the amount of deposits, and loans given to individuals and companies, the bank takes the second place in Russia, and the bank takes the second place regarding the issuance of mortgage loans and auto loans. (*Emis.com EMIS, Bank VTB 24*)

- **AB Russia**— is a private Russian bank that provides a full range of banking services for individuals and corporate clients. The territorial structure of the bank is represented in 25 biggest cities of the Russian Federation. (*Alfabank.com, Corporate Profile*)
- **SMP Bank** — is a Russian bank, according to the results of 2014 presented in Central bank of Russia, occupies 26th place in Russia regarding net assets. The bank has about 100 offices in more than 40 biggest cities of Russia. SMP Bank is the parent bank of a financial group including, in addition to the rehabilitated Mosoblbank, Finansbusinessbank, Inresbank, also a leasing company and an insurer SMP Insurance; (*Reuters, Bonds News April 29, 2014*)
- **Sobinbank** — is one of the biggest commercial banks owned by Bank of Russia. The bank's service network consists of 24 branches. Since July 2014, the bank has closed all Moscow and several regional branches, sanctions are indicated as the reasons behind it. (*Melissa Akin, Reuters, 10.16.2018*)

Next banks are not subject of the thesis work because VTB 24, is a daughter company of VTB, due to this it was excluded, Sobin bank and Vnechekonombank was excluded from the research work due to a lack of needed data online.

There were some thought and disputes from well-known author who investigated sanctions, the background of sanction was introduced, sanction banks were identified that will be analyzed in the research, and overall picture of Russian banking sector before the imposition of sanctions was analyzed and presented in first part of the research. Next one will be more about getting the real numbers from calculation of bank data and ROE ratios of sanctioned and non-sanction banks.

For the reason, to assess the differences between banks under the sanctions and non-sectional banks, will be used data of next five banks: UniCredit Bank, Raiffeisen bank, Rosbank, Saint Petersburg Bank, Citibank. All non-sanctioned banks are large banks that are

in the top 30 in terms of assets, and are also quite popular in Russia, some of these banks are banks with foreign capital (more than 50% of the bank's charter capital belongs to a foreign company, a bank), such as JSC "UniCredit Bank", JSC "Raiffeisen bank," PJSC "Rosbank", JSC "Nordea Bank" and JSC CB Citibank.

Next banks are not subject of the thesis work, because VTB 24, is a daughter company of VTB, AB Bank, Vnechekonombank and SobinBank was excluded from the research work due to a lack of needed data online.

A brief description of banks not under the sanctions is given below:

- **UniCredit** is a leading European Commercial bank originally from Italy, successfully operating in 17 countries and it has 147 000 employees all over the world, over 8500 branches and with international network spanning in about 50 markets. (*UniCreditbank.ru, Bank profile*)
- **Raiffeisen Bank** is global bank that operates as a corporate and investment bank. Raiffeisen offers corporate, and trade financing, investment banking, leasing services, and custody services. Raiffeisen has branches in Austria and Central and Eastern Europe. (*Rbinternational.com, Raiffeisen Bank International profile, December 2018*)
- **Rosbank** is a global bank and daughter of Societe Generale. It provides big variety of services to individual and companies. Rosbank has three million individual clients, about hundred thousand corporate clients. (*Rosbank.ru, Company profile, accessed 11.12.2019*)
- **Citibank** is one of the biggest banks by capital in Russia. Services that Citibank of Russia offer to the clients cover all kind of cash administration, retail banking products, some insurance services, liquidity management, trade services, lending, commerce finance, treasury services, corporate finance, issuer services. (*Citigroup.com, Corporate profile, accessed 10.12.2019*)

- **Bank of Saint Petersburg** is the biggest privately-owned universal bank in Russia and plays a significant and positive role in the development of the Russian banking system. Bank Saint Petersburg is the 15th biggest bank regarding the assets and the 15th largest by retail deposits among Russian banks. Bank of Saint Petersburg is the largest Russian regional bank with a strong and positive brand that has won the trust and support of its customers: today, the Bank provides services to two million individuals and fifty thousand companies. (*Bsbp.ru, Bank of Saint Petersburg, profile, 2019*)

The second part of the work will inspect the state of the banking system of Russia after the imposition of sanctions (2014–2015), for sanctioned and selected non-sanctioned banks separately, there will more detailed assessment of the effect on liquidity ratios from sanctions and on the Russian banking sector state after the imposition of sanctions , the data will be analyzed and presented in tables and figure, in order for assessing the influence of factors, including sanctions on the liquidity of the banking sector.

6 THE STATE OF BANKING SYSTEM OF RUSSIA AFTER THE SANCTIONS

The economic situation in banking sector of Russia in 2014-2015 was difficult, but the banking sector wasn't the only suffering area, all the economic sectors are interconnected. The significant influence of geopolitical problems and a slowdown in Russia's GDP growth rates led the Russian economy to the phase of an economic crisis , which led economy to negative GDP growth rate, weakening of the ruble more than two times, inflation growth, outflow of private capital from Russia and other problems.

The GDP growth rate in 2014 amounted to 0.6%, and at the end of 2015 it turned out to be negative, thus, Russia's GDP decreased by 3.7%. In 2015, consumer inflation at the end of the year amounted to 12.9%, whereas it was 11.4% in 2014. Real incomes of the population at the end of 2014 decreased by 0.7%, and at the end of 2015 fell by another 4.0% For 2014–2015 the ruble weakened amid falling prices for crude oil.

A big impact on Russian economy had the oil price that was continuously falling after 2014 , all plans of the Russian government for the future was made in a way that the oil

price will not go lower than 100 per barrel but went down from 115 to 50 right after the sanctions in 2014. In January of 2016 a barrel of oil was 27 dollars per barrel; it was 20 only in time of Boris Yeltsin when Russian had the worst economic situation ever. Nowadays the oil price a bit up and floating between 40-60 dollars per barrel. Some countries like Turkey for example don't extract and don't export oil and their economy is mostly based on tourism, but in case of Russia one half of Russian economy is based on the income they get from oil exports. (Dreyer, Popescu 2014) To see the dynamic of crude oil price (*See figure 4*).

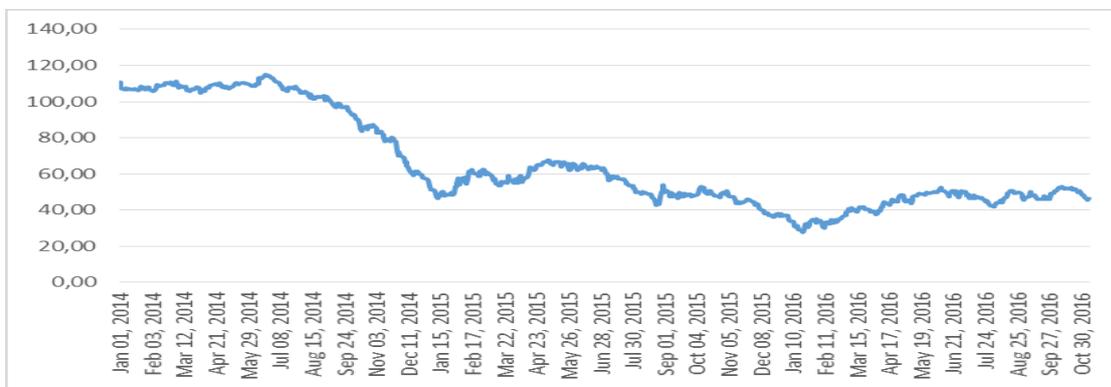


Figure 3. Evolution of Brent oil price (USD/bbl.) Source: Investing.com (2016).

Supplementary to the Russian economy is directly related to the oil prices, because the ruble falls exactly at the same time whenever oil price dropped. Additionally, when Russia got sanctions from Europe and USA the economy got into the sensitive decrease. All these factors made private sector and investors to take out their money out from Russian banks. (Reuters, 2015)

Should be noted that it is problematic to single out the effect of sanctions because the sanctions were imposed almost at the same time when Russian economy was suffering from oil price fall, and with currency fall and problems in the economy, accordingly, during the sanctions all banks asked the Central Bank of Russia for help, with the exception of banks with foreign capital.

Table 8. Return on Equity of Banks Under the Sanction Source: own calculations from information of annual reports of banks in table 7.

Return on Equity (ROE)	2012	2013	2014	2015
Sberbank of Russia	24.2%	20.2%	14.8%	10.2%
VTB Bank	16.8%	12 %	14.2%	0.01%
Gazprombank	21.22%	18.02%	11.72%	10.60%
Bank of Moscow	18.2%	20.1%	10.1%	2.1%
Rosselkhoz Bank	16.1%	18.0%	13.0%	11.7%
SMP Bank	16.60%	17.27%	11.10%	2.20%

Table 9. Return on Equity of none Sanction Banks Source: Own Calculations relied on information from annual reports of banks in table 10.

Return on Equity (ROE)	2012	2013	2014	2015
Rosbank	4.22%	1.22%	3.0%	5.5%
UniCredit	9.5%	13.2%	8.1%	16.42%
CitiBank	6.9%	4.41%	6.60%	6.14%
Bank of Petersburg	9.9%	15.2%	14.0%	9.5%
Raiffeisen Bank	6.54%	5.41%	3.49%	3.89%

6.1 Sberbank ROE – Return on Equity

Sberbank is one of the Russian biggest banks that display overall situation in banking sector of Russia, as of 12.31.2014 Sberbank ROE is 14.8% in just one year it felt down to 10% in 2015

6.2 Gazprom bank ROE -Return on Equity

As of 12.31.2014. Net income was 5.53 billion in dollars, and shareholders' equity 30.05B so ROE was 11.72%, in 2015 in August Net income was 2.16 and shareholders' equity 19.94, ROE was 9.60%, as of 06.30.2016 the ROE was already 6.62%

Sanction Banks	2012	2013	2014	2015	Year to year difference	
					2012-2013	2014-2015
Sberbank of Russia	24.2%	20.2%	14.8%	10.2%	Negative 4%	Negative 4,6%
VTB Bank	16.8%	12 %	14.2%	0.01%	Negative 4,8%	Negative 14.1%
Gazprombank	21.22%	18.02%	11.72%	10.60%	Negative 3,22%	Negative 1,12%
Bank of Moscow	18.2%	20.1%	10.1%	2.1%	Negative 1.9%	Negative 8%
Rosselkhoz Bank	16.1%	18.0%	13.0%	11.7%	Positive 2%	Negative 1.3%
SMP Ban	16.60%	17.27%	11.10%	2.20%	Positive 0.67 %	Negative 8.9%
Non-Sanction Banks	2012	2013	2014	2015	2012-2013	2014-2015
Rosbank	4.22%	1.22%	3.0%	5.5%	Pegative 3%	Positive 2.5%
UniCredit Bank	9.5%	13.2%	8.1%	16.42%	Positive 3.7%	Positive 8,32 %
CitiBank	6.9%	4.41%	6.60%	6.14%	Negative 2.49%	Negative 0.46%
Bank Of Snt.Petersburg	9.9%	15.2%	14.0%	9.5%	Positive 5.3%	Negative 4.5%
Raiffeisen Bank	6.54%	5.41%	3.49%	3.89%	Negative 1.13%	Positive 0.4%

Figure 4. Year to year difference source: Own calculations based on ROE of Banks

According to the results (See figure 4.) All sanction banks worsened in 2014-2015 and show negative dynamic, whereas non sanction banks show mostly positive dynamic for the same period, there is negative dynamics of Reiffeisen Bank 0.4 % 2014-2015, but it is very minor, and was even more before the sanctions, so it could be assumed that this difference is normal for this bank. Bank of Saint Petersburg shows also a negative dynamic after the sanctions period, but it is considered minor because this bank had increase in ROE in 2014 and it had 9.9% in 2012 too , this can be also assumed that this is a typical dynamic for this banks activities and not related to sanction period.

As for the results of financial activities, there are differences for sanctioned and non-sanctioned banks. Almost all banks in 2015 showed a deterioration in financial performance, however, among sanction banks, all banks worsened, and among non-sanctioned banks there were those that ended the year with a positive increase in profit.

In 2015, all banks showed an increase in interest income and expenses, while at the same time interest expenses increased more than income. Note that interest income is income

from paid placement of own funds and borrowed resources of the bank. And interest expenses are expenses on attracted resources, that is, payment for the use of attracted resources in the form of interest payments. The main factor in the growth of this type of expenses was the increase in the key rate of the Russian Federation at the end of 2014. As a result, the interest income of commercial banks grew 2 times or more than interest income, although interest rates on both loans and deposits increased.

Fee and commission income and expenses of banks remained virtually unchanged; in 2015, it showed similar trends in previous years - 2013–2014. - a similar increase or decrease in income and expenses. Fee and commission income - income for the provision of non-credit services received by the bank in the form of a commission. Commission expenses are expenses related to the payment of commissions for cash management services and certain types of operations, for example, with foreign currency or securities.

The dynamics of the ROE indicator for sanctions and non-sanctions banks is presented in the figure below

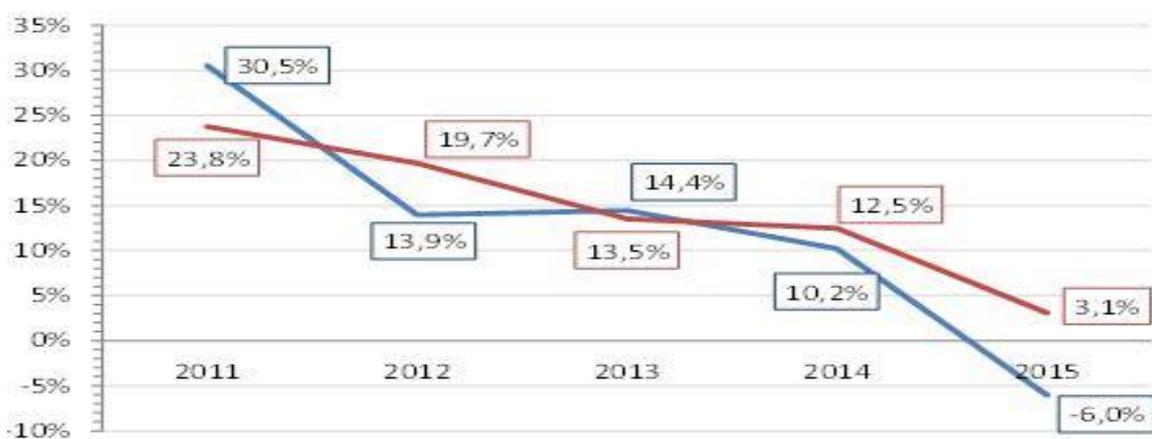


Figure 5. ROE Indicator Source: Bloomberg (2014).

According to the results presented above, sanctions gave negative effect on the ROE of state-owned banks, while for private banks the effect of sanctions was negligible. Bank of Russia gave huge amount of credits to the banks under the sanctions to keep them floating whereas the private bank tried to keep themselves distanced from the credits of Bank of

Russia. It is problematic to point out the effect of sanctions, because sanctioned were imposed at the same time when Russian economy was in bad shape, there was a fall in oil price and national currency was suffering from oil price fall. Sanctioned banks return on equity ratio average turned negative in 2015, it amounted to -6.0% for sanction banks, while the unauthorized ROE remained positive for non-sanction banks and amounted to 3.1% .

7 DISCUSSION AND CONCLUSION

The research aim was to define the structure of sanctions in general, to get real picture of the popular author and get their idea, whether the sanctions are affective or not, detailed year to year analysis of the data of sanctioned and non-sanctions banks, plan a reasonable and extensive assessment of the influence of sanctions on the banking industry by using (ROE) ratio formula, develop methodological approaches to assess the liquidity state of the banking system, as one of the key indicators and conduct a comprehensive assessment of the impact of sanctions on the banking system of Russia by analyzing changes in the balance sheets, profitability ratios and indicators of the standards of sanctioned and non-sanctioned banks, develop methodological approaches to assess the liquidity state of the banking system, as one of the key indicators, after the imposition of sanctions, build a model to assess the state of liquidity and return on equity of the banking system after the imposition of sanctions, analyze the state of the Russian banking system before and after the Introduction of sanctions by using (ROE) model.

The main purpose of the thesis was to determine the impact of sanctions on the banking system of Russia. In the route of work, all the aim set were determined: the concept and types of sanctions were figured out, ways to determine the effectiveness of the impact of sanctions were investigated, the condition of the Russian banking sector was inspected, and the impact of sanctions on the Russian banking part was carried out through indicators of liquidity and return on equity (ROE) method. (*See table 1*).

Regarding the hypothesis presented in table 1. Whether the difference on return equity ratio average, before and after the imposition of sanctions over 1 % positive side, for both sanctioned and non-sanction banks, or effect on return on equity average is below 1% negative side, for both sanctioned and no-sanction banks, the effect is sensitive. (See table 7 and 8) All sanction banks worsened in 2014-2015 and show negative dynamic, whereas non sanction banks show mostly positive dynamic for the same period, there is negative dynamics of Reiffeisen Bank 0.4 % 2014-2015, but it is very minor, and was even more before the sanctions, so it could be assumed that this difference is normal for this bank. Bank of Saint Petersburg shows also a negative dynamic after the sanctions period, but it is considered minor, because this bank had increase in ROE in 2014 and it had 9.9% in 2012 too , this can be also assumed that this is a typical dynamic for this banks activities and not related to sanction period. In just one year after the implementation of sanction the average ROE of banks under the sanction turned out to be negative and amounted to -6.0%, while the unauthorized ROE remained positive and amounted to 3.1%. Overall picture is so that, sanctions have a negative effect on the ROE of state banks, which are under the sanctions, while for private banks the effect of sanctions was minor.

Overall picture of Russian economy after the imposition of sanctions is as follows- Russian economy is very dependent from oil price, and national plans for the future was made according to the idea that oil price will not go lower than 100 dollars per barrel, but was it by coincidence or not, the oil price went as low as 45 dollars per barrel right after Russia's annexation of Crimea, and national currency of Russia which is very sensitive to oil prices went down when ruble was one euro — 42 rubles at the beginning of the 2013, in the middle of 2015 it was one euro — 82 rubles, and was one euro — 90 rubles sometimes and it stays at least one euro — 70 rubles after 2014 till now. National currency felt as low as twice, for the Russia , that imports everything except oil gas and military stuff, it was total disaster, because whatever was bought from outside the Russia any raw materials any industrial goods, like anything in a literal sense, lost the value twice, it was all bought by giving euros or dollar, not the Russian ruble, but they had to sell it for ruble in Russia, it is not very profitable for the business, or they could keep it, but it would lose the value anyway by depreciation or whatever. Thus, it is obvious that Russia's economy got into real trouble as whole.

The effectiveness of the sanctions lies in the fact that the initiating countries have chosen and implemented such an impact on the economic and political regime of the target country that it refuses or significantly changes its political behavior. The first question – how effective sanctions in general are – of the research is based mostly on contradictions of Hufbauer, who claims that 30 percent of sanctions are effective to some extent, and his opponent Pape R. States that less than 5% of all sanctions are effective, which generally allows us to conclude that they are ineffective.

From all the 115 cases that were investigated in research, the median cost index of sanctions is 2 - insignificant costs, and the success index - 7, which characterizes the average efficiency of sanctions. The effect of the sanctions imposed as a percentage of the GDP of the target country is on average 6.6%. Thus, the authors concluded that for the most part, sanctions are characterized by relatively low costs for the initiating countries, however, and do not bring completely desired results.

Regarding the second question - what was the situation of credit institutions before the sanctions. According to the numbers of the Central Bank of Russia the overall situation before the sanctions was positive for credit organizations in Russia. The situation started to change in at the end of 2014 inter banking activities slowed down as well as international banking cooperation on long term financing

largest and often state-owned banks, and outflow deposits, starting to show stagnation of the banking system.

Regarding the question three- did sanctions affect the banking industry in Russia? The GDP growth rate in amounted to 0.6% in 2014, at the end of 2015 it was negative, Russia's GDP decreased by 3.7%. Consumer inflation at the end of 2015 amounted to 12.9%, against 11.4% in 2014. Real cash incomes of the population at the end of 2014 decreased by 0.7%, and at the end of 2015 fell by another 4.0% For 2014–2015 ruble weakened twice 2014–2015.

Regarding question four- what is the situation of banking sector after the sanctions? Despite the overall similarities, sanctions and non-sanction banks still have some differences in the dynamics of changes in indicators, sanction banks showed worse financial results com-

pared to non-sanction banks, both in terms of profit and profitability. In addition, all sanctioned banks showed loss in liquidity ratios in 2014, while non-sanctioned banks showed good dynamics, and sanctions did not significantly affect the dynamics of liquidity ratios of such banks. In general, studying the impact of sanctions on the banking system of Russia has many prospects for further research.

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