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The US imposes sanctions on Gazprombank

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On 21 November, the United States further tightened financial restrictions on Russia. This time, Gazprombank, along with its Swiss-based subsidiaries and over 50 smaller Russian banks involved in facilitating Russian foreign trade, was added to the US sanctions list. The restrictions also targeted over 40 Russian securities registries. The US warned that any foreign entities cooperating with Russia's SPFS interbank communication system (an equivalent of SWIFT) could face secondary sanctions. Additionally, eleven managers from the Central Bank of Russia (CBR) and four executives from foreign subsidiaries of Sberbank and VTB were placed on individual sanctions lists.

The restrictions have been expanded as part of continuing economic pressure on Russia. For over a year, the US administration has regularly implemented new measures targeting Russia's financial sector to disrupt the channels facilitating international cooperation, impair the operations of Russia's military and defence industry, and prevent the circumvention of sanctions. The banks on the US sanctions list will be disconnected from the dollar-based financial system, and any entity cooperating with them may be subject to secondary sanctions and thus face similar restrictions.

Commentary

- **The most significant aspect of the restrictions is the imposition of sanctions on Gazprombank**, Russia's third-largest bank in terms of assets. Gazprombank handles major international transactions, including for companies from the gas, oil, nuclear energy, metallurgical, and defence sectors. The bank's ownership structure is non-transparent, though it is primarily linked to Yuri Kovalchuk, a close associate and banker of Vladimir Putin.

- **The imposition of sanctions on regional banks poses a significant challenge for Russia**, as these banks have handled operations linked to the import of goods for the defence sector. As a result of the latest expansion of US restrictions, UnionPay bank cards issued by Gazprombank and Primsotsbank (both added to US sanctions lists) are no longer accepted abroad, including in Hungary and Turkey. Consequently, these banks are now compelled to establish alternative channels for managing cross-border transactions, such as relying on other Russian banks, intermediaries from third countries, settlements in non-Western currencies, cryptocurrencies, or gold. All this will increase the costs of both imports and exports of goods and extend delivery times.

- **Gazprombank could potentially be replaced by Western banks still operating in the Russian market.** For now, it is still possible to handle large international transactions via banks that have not withdrawn from the country, such as Austria's Raiffeisen Bank (ranked 13th among Russia's largest banks in terms of assets), Italy's UniCredit (18th), or Hungary's OTP Bank (24th). However, these institutions also risk being subject to US sanctions, since Washington has already warned that they might be cut off from the American financial system. In 2022, all Western banks announced their intention to withdraw from Russia; however, in practice, only some have fully severed ties with this market.

- **The US decision will affect Russian gas exports to Europe and Turkey.** Since mid-2022, Gazprombank has been designated to handle Gazprom's gas contracts with EU countries. Now that the bank has been subjected to US sanctions, it is essential to establish new channels to facilitate payments for gas deliveries, which necessitates isolating the entities involved in these transactions from the Western financial system. However, this move would require consent from European partners. Furthermore, the need to establish new settlement mechanisms opens the door to renegotiating existing contracts, and this may lead to reduced purchase volumes and changes in delivery arrangements. The related issues will particularly affect recipients of Russian gas supplied via TurkStream, such as Hungary and Turkey, which are seeking interim solutions to maintain supply stability. Turkey's Energy Minister, Alparslan Bayraktar, has responded to the sanctions by appealing to the US to revise the restrictions imposed on Gazprombank.
- **The restrictions imposed on Gazprombank complicate the prospects for continuing gas transit through Ukraine.** With less than a month remaining before the transit contract expires, it still remains uncertain whether Russian gas will continue to be transported via the Ukrainian system and, if so, on what terms (see '*Game over? The future of Russian gas transit through Ukraine*'). The imposition of restrictions on Gazprombank creates additional challenges for all entities interested in participating in transit beyond 2024, since both end consumers and traders potentially involved in the transportation and resale of Russian gas will risk being subject to secondary sanctions.
- **Financial sanctions are among the most effective measures, with a particularly strong impact on the Russian economy.** Challenges with cross-border transactions have reduced the inflow of foreign currency into Russia, leading to a further weakening of the rouble; its current exchange rate stands at approximately 105 roubles to the dollar, compared to 91 roubles to the dollar in September. This depreciation further raises import costs and exacerbates inflationary pressure, which the Central Bank of Russia (CBR) has struggled to contain for over a year.
- **The key to the effectiveness of US capital restrictions is their consistent tightening.** However, it is uncertain whether this policy will be continued by the new US administration. Limiting Russia's ability to export gas to Europe, and thus enhancing the competitiveness of US energy exports, fits well with the priorities declared by the incoming Donald Trump administration. Should the EU decide to join the efforts to maximise financial pressure on Russia, it would significantly contribute to weakening the Russian economy.