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U.S. Sanctions on Russia More Shock Than Substance

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The U.S. Treasury Department

As separatist insurgents and the Ukrainian army approach a final stand in war-torn eastern Ukraine, the U.S. struck Russia with its harshest round of sanctions yet, striving to demonstrate a willingness to take action without sinking the Russian, U.S. and world economies.

Though the air filled with talk of heightened risk premiums and stocks tumbled 2.3 percent, many analysts said the sanctions were more bark than bite.

"This third wave [of sanctions] is unlikely to shave even 0.1 to 0.2 percent off GDP," said Maxim Osadchy, head of analysis at Corporate Finance Bank. "Translate that into money, and it is laughable — some $2 billion to $4 billion."

The most conspicuous names on the new sanctions list, published late Wednesday on the U.S.

Treasury department's website, were a foursome of Russia's biggest banks and energy companies: Novatek, Russia's largest independent gas producer; state-owned oil and gas giant Rosneft; state development bank Vneshekonombank, or VEB; and Gazprombank, Russia's third-largest bank by assets.

Unlike the eight defense companies that were also blacklisted, the measures against the four companies are light: they will not be able to raise new debt in dollars with a maturity period longer than 90 days, but they can continue to work with U.S. companies and individuals.

Their aim is "to maximize negative headlines and maximize the pressure on Russia," rather than lay waste to the Russian economy, said Chris Weafer, a senior partner with investment consultancy Macro Advisory.

If the U.S. had truly wanted to disrupt businesses, they could have chosen one of Russia's two major commercial banks — VTB and Sberbank — who both have significant activities abroad, or specifically prohibited U.S. companies from working with Rosneft or Novatek, he said.

The U.S. government framed the decision in a similar way: U.S. Treasury Secretary Jack Lew said in a statement that the sanctions were intended "to increase pressure on the Russian government to end its destabilizing actions in Ukraine while minimizing costs to the global economy."

Russian stocks were hit on Thursday, but are still some 15 percent higher than during the depths of the crisis in March. The ruble-denominated MICEX closed 2.3 percent down, while the dollar-traded RTS index was down 3.8 percent.

Shares in Rosneft lost 4.3 percent over the course of the day, while analysts said oil-trading operations at the company would continue unscathed and Morgan Stanley said it would move ahead with plans to sell its oil trading desk to the company.

Novatek, after dipping to a 9 percent loss during the day, was down 5.5 percent at the end of trading.

Novatek in a statement e-mailed Thursday said that none of its operations, business activities or plans — including a vital liquefied natural gas project on the Yamal peninsula — would be impeded. "Among Novatek's shareholders there are American citizens and major U.S. investment funds and banks," the statement said.

Gazprombank, in a similar vein, said in a statement on its website that the limitations "do not impact Gazprombank's activity."

Only Rosneft CEO Igor Sechin came out in fierce opposition of the sanctions, which he described as "ungrounded, subjective and illegal."

"This decision will also do damage to [Rosneft's] American shareholders and American banks who cooperate on loan contracts," Sechin said Thursday, ITAR-Tass reported.

In the short term, the measures are unlikely to have any drastic impact on the Russian economy, analysts said. One banking source predicted that the sanctions would turn a hoped-for quickening of economic growth into a mild recession in the second half of this year, while

Macro Advisory has left its forecast of 0.8 percent GDP growth for the year unchanged.

"In the short term there will be little impact, because Russia is in a very favorable position," Weafer said. Oil prices remain high due to the conflict in the Middle East and the domestic value of the state's dollar-denominated revenues have risen with the ruble devaluation, leaving the Russian budget high and dry with a comfortable surplus.

What the measures will do, however, is raise flags for risk analysts worldwide, hiking up the cost of borrowing not only for the targeted companies, but for Russian enterprises of all colors who are already suffering from limited access to capital markets this year.

According to Reuters data, the four sanctions-hit companies have a total of $32.39 billion in outstanding syndicated loans involving U.S. companies on course to mature over the next few years. Unless tensions cool, the companies will struggle to refinance the debt on international markets.

Even more fatally, the sanctions will sustain and deepen the uncertainty that has scared international investors away from the Russian market since the annexation of Crimea in March.

"The longer this cloud, this perception of risk, hangs over Russia, the longer it will be before we can return to normal investment flows and normal business, and Russia needs that to push growth into the 3 to 4 percent category," Weafer said.

In this respect, everything hangs on developments in the coming weeks. Under significant pressure from the U.S., the European Union has agreed to further sanctions, although the specific names to be added to the list will be not be determined until the end of July.

And if Russia remains unfazed by the limited impact of this round and continues with its current policy in Ukraine, more could follow.

"These sanctions are not strong enough to stop Russia in Ukraine, so we should expect another — fourth — wave," Osadchy said.

See also:

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