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Rallying ruble and the weaponization of finance

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EXECUTIVE SUMMARY

- Against initial expectations, comprehensive sanctions did not plunge Russia into a currency crisis. Unlike other emerging market currencies during times of stress, the Russian ruble experienced a short-lived depreciation. After plummeting in the early days of Moscow's invasion of Ukraine, the ruble has staged a remarkable comeback and has more than doubled against the US dollar from its March slump, becoming the best-performing emerging market currency so far this year.

- Several factors explain why Russia averted a currency crisis despite the freeze of most of its central bank reserves. The current account surplus soared to a record USD58bn in the first quarter of 2022, and could climb as high as USD250bn (in the absence of a comprehensive embargo on energy exports and a sanctions-induced compression of imports). The Russian authorities also took timely countermeasures to orchestrate an "FX intervention by delegation," including stringent capital controls, a temporary gold-fixing of the ruble and asking energy importers to switch payments to rubles–together with a steep policy rate rise to stabilize the ruble after it plummeted.

- However, the ruble's rapid ascent might have reached a turning point and could eventually backfire. Since the ruble trades in a very thin market (and mostly domestically, given the dramatic drop in demand outside Russia due to sanctions), its recent appreciation belies a struggling domestic economy, which is expected to slump into a severe recession this year–but it has real consequences. Since most energy exports remain FX-denominated, a stronger ruble hurts the government's budget balance by lowering the local currency value, which could be further impacted by the potential for EU tariffs on Russian energy exports during the phase-out of oil imports. Last week, the central bank responded with the third rate cut since April to tame the currency's appreciation. Going forward, the current upward pressure on the ruble is likely to subside over time as some of the Russian countermeasures expire, Russian energy exports become less competitive and the deteriorating economic outlook begins to weigh on the FX rate.

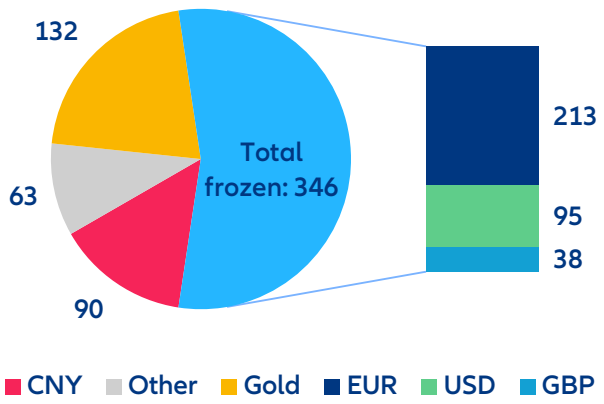
- Beyond the effects on Russia's currency, the "weaponization of finance" aimed a paralyzing Russia's economy could also have long-lasting consequences on the global financial system. While some of the sanctions, such as the freezing of almost two-thirds of Russia's FX reserves, were politically expeditious, they also raise questions about financial sovereignty in a strongly USD-dominated monetary system. We could reasonably see some countries start diversifying away from the US dollar and/or the Western-dominated global financial architecture over time, especially those that feel they could be targeted by

sanctions at some point. Furthermore, Russia's short-lived gold-fixing might serve as blueprint for a more serious attempt by countries that have sufficient gold reserves (or commodities exports) to depart from the current system of fiat currencies.

Russia has managed to avert a currency crisis despite heavy sanctions.

While the concept of the "weaponization of finance" is not new,[1] it reached an unprecedented scale in the wake of Russia's invasion of Ukraine. Overnight, about 55% of Russia's USD630bn of pre-war FX reserves (Figure 1) were frozen and therefore unable to be used, leaving the Central Bank of Russia (CBR) mostly with domestically held gold reserves. In addition, the exclusion of most Russian banks from the international SWIFT payment messaging system, which was eventually broadened to also include the termination of correspondent bank relationships, made it virtually impossible for Russian banks to transact with their Western peers (Annex, Table 1).[2] These financial sanctions were accompanied by export bans across different sectors, the blacklisting of certain supplies and targeted restrictions on economic activities by companies and individuals, including a partial embargo on energy exports. However, sanctions did not completely close Russia's external account. Key commodities-related companies and banks were not affected by the sanctions, which has allowed the gas and oil flows to continue, but also money inflows into Russia.

Figure 1: Russia - International reserves by currency (January 2022, USD bn)



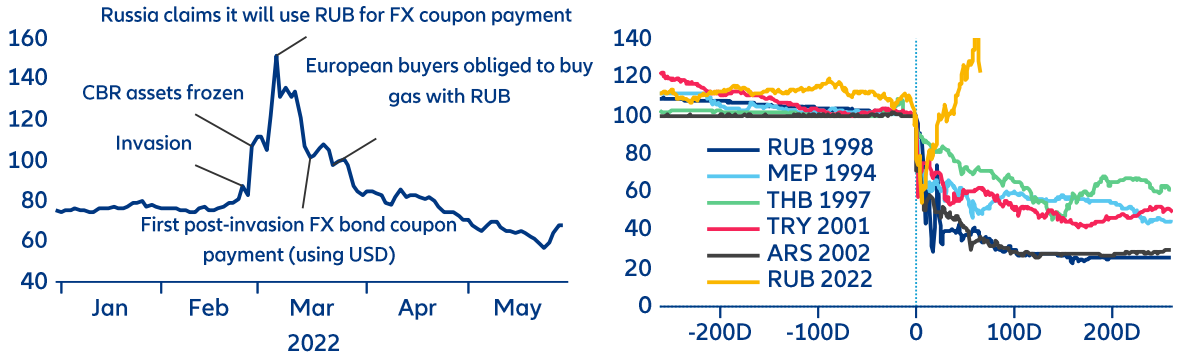
Sources: CBR, Allianz Research. "Other" composition is not known, but comprises inter alia SDRs and reserves held in "friendly" countries.

Sanctions seem to have been very effective at first. The ruble depreciated by up to 40% against major reserve currencies during the initial phase of the war in Ukraine (Figure 2); this development was expected, given past currency crises in emerging market economies (Annex, Table 1). However, after two months, the exchange rate volatility started declining, and the ruble broadly returned to pre-invasion levels – even though the CBR's hands were partially tied due to the freeze of FX reserves, which left it with a smaller margin for maneuver.

[1] Similar measures (albeit at varying degrees of severity) have already been taken against smaller and less developed economies, such as Afghanistan , Iran, Syria, and Venezuela. For instance, the US Administration recently proposed to use USD7bn in frozen Afghan assets to compensate victims of the 9/11 attacks and for relief efforts.
[2] This measure also had an indirect impact on transactions between entities between Russian banks and their counterparts registered in countries that did not impose financial sanctions on Russia.

Figure 2: Russia – FX development and comparison with historical sudden stop crises

FX Changes (RUB vs. USD) 1/ *Overview of past currency crises 2/*



Sources: Refinitiv, Allianz Research. Note: 1/ based on exchange rate to the U.S. dollar, 2/ 100 = day before the sharp depreciation started.

How has Russia managed to avoid a currency crisis? In response to the sanctions, the Russian authorities adopted a set of mutually reinforcing counter-measures. First, they imposed stringent capital controls (adding to slowing capital outflows due to trade sanctions on imports to Russia) by asking banks, exporters and households to cede most (80%[3]) of their FX holdings to the CBR. The aim of "rubelizing" the current account surplus was to prevent an excessive depreciation of the ruble while building – whenever possible – FX reserves that could substitute for the frozen ones.

The CBR also more than doubled (from 8.5% to 20%) the reference policy. Faced with comprehensive sanctions, monetary tightening was needed to discourage financial outflows (not covered by existing capital controls)–rather than reining in a surge of imported inflation (by reducing aggregate demand). Unlike during the last crisis in 1998 (and compared to other central banks during currency crises in the past), the CBR responded decisively and quickly.[4] Since then, the CBR has lowered the policy rate to 11%, with two subsequent rate cuts, the latest one on 26 May.

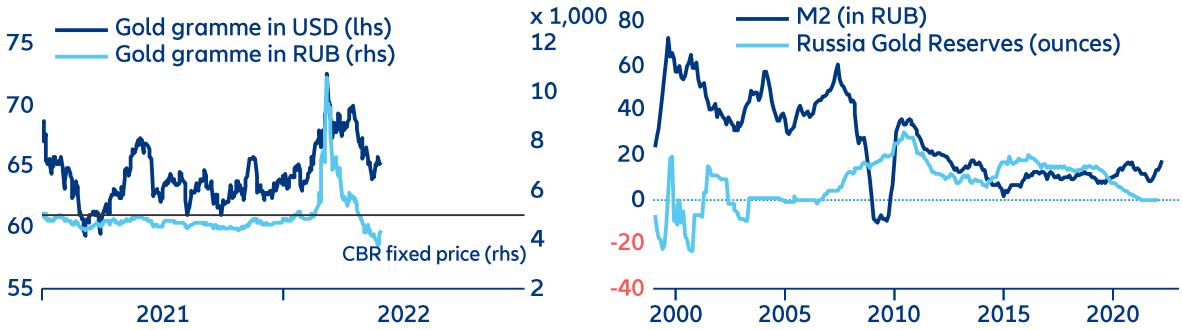
Although short-lived, fixing the currency to gold provided additional support for the ruble. Russia had increased its gold reserves significantly since 2005 but stopped buying gold after Q1 2020 when the ruble weakened and the gold price soared. At the onset of the invasion, the CBR announced that it would resume its gold purchases[5] to shore up its reserves in case monetization would be needed. However, it soon had to halt its purchases from banks, which had to satisfy increasing retail demand for gold amid a dramatically depreciating ruble. With domestic demand easing by the end of March, the CBR re-started its gold purchases from banks at a temporarily fixed price of 5,000 rubles per gram (which, at the prevailing RUBUSD exchange rate and international gold price was expensive, i.e., the fair value of the ruble in gold terms was lower; Figure 3). This arrangement (which was supposed to be in effect until end-June) was soon abandoned (on 08 April), and the price is again negotiated based on money

[3] This requirement has now been lowered to 50%, depending on the sector, as the main purpose has been achieved – and it has even resulted in stronger RUB than before sanctions were imposed.
[4] In other currency crises, many central banks responded too late in the effort to stem capital outflows draining their reserves (or worse yet, trying to defend a fixed exchange rate regime).
[5] An important element is that Russia is a key player in the gold mining industry so many of the purchases are actually national production.

demand. A closer analysis of Russian monetary aggregates and gold reserves suggests that it would have been challenging for the CBR to permanently install the gold-fixing of the ruble (Figure 3).

Figure 3: Russia–Gold-fixing of the exchange rate and monetary aggregates

Price of gold in US dollars and Russian ruble *Change in money supply and gold reserves*



Sources: CBR, Refinitiv, Allianz Research.

In a complementary move to support the gold-fixing, the Russian authorities have tried to re-denominate gas exports into rubles. Since lower money demand reduces the flow of FX revenues from energy exports to the central bank, Russia required customers from unfriendly countries to directly pay for their gas imports in rubles. In combination with the gold-backing of the ruble, the measure effectively pegged Russian gas exports to the gold price. This way, the CBR could also mitigate the freeze of its foreign-held reserves due to sanctions by effectively delegating an FX intervention to banks providing rubles to energy importers.

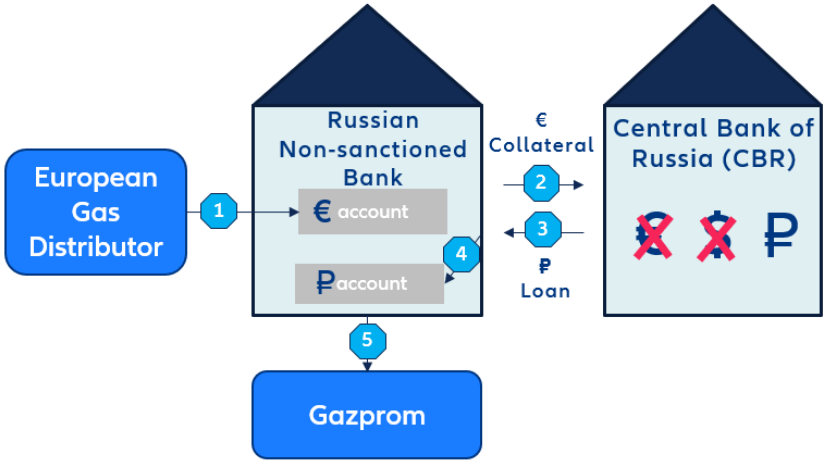
The "rubelization" of Russian gas has likely contributed to a recovering FX rate. While the mandatory payment rule was announced in April, the exact timing remained unclear until two weeks ago. However, the announcement itself already had an immediate impact on the currency. Since reaching its trough in April, the ruble has appreciated by more than 50% against the euro, thanks to rising external demand for rubles through energy trade, and the exchange rate now stands at pre-Ukraine war levels. Note that the Russian ruble has become the best-performing currency year-to-date against the USD (+30%).

Most European countries have adopted a payment solution that would allow them to meet the Russian demand without falling afoul of current financial sanctions. The current arrangement foresees hard currency payments of "unfriendly importers" being intermediated by Gazprombank (which, in turn, provides rubles to Gazprom)[6]. The European Commission issued a recommendation last week stating that such payment would not run afoul of current restrictions if "EU operators [...] make a clear statement that they consider their contractual obligations to be completed when they deposit EUR or USD with Gazprombank [rather than after the payment is converted into rubles]". At the same time, the EU operator should seek

[6] The CBR explains the procedure by which "unfriendly" foreign buyers should operate here. Relatedly, note that Gazprombank has a license and still operates in the EU and the UK through its London and Luxembourg subsidiaries.

confirmation from the Russian side that the payment is finalized as soon as the EUR / USD transfer is made; this implies also that no fee for the FX transaction is due from the EU operator (Figure 4). This way, importers steer clear of dealing in rubles, which would violate current sanctions.[7]

Figure 4: Proposed procedure by the CBR for RUB payments



Sources: Bruegel, CBR, Allianz Research

However, the first dominoes have already fallen in Russia's gas "rubelization" gambit. Almost one month after announcing that "unfriendly" countries would have to pay for imported gas in rubles, Russia's state-owned gas giant Gazprom cut off gas supplies to Poland and Bulgaria on 27 April after the countries refused to agree to new payment terms. Several weeks later, on 21 May, Finland was also cut off after applying for NATO membership. Refusing countries cited concerns that the "two-accounts payment arrangement" (via Gazprombank) proposed by the Russian central bank might still run afoul of current sanctions. Nevertheless, the combination of all three measures have amounted to a *de facto* "FX intervention by delegation" through Russian banks, satisfying the external demand for rubles (given the constrained firepower of the CBR).

Could the appreciation of the ruble backfire?

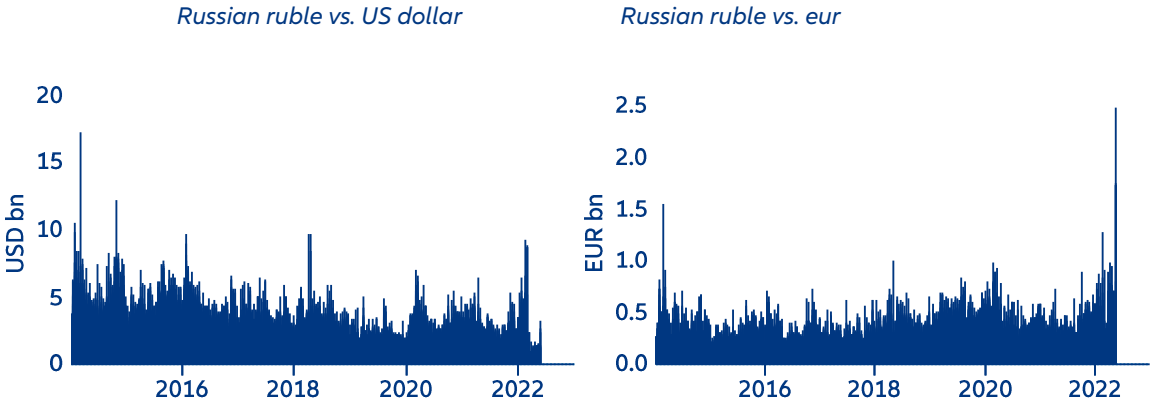
The recent ruble rally astonished financial analysts, who were speculating on further selling pressure. The ruble even strengthened briefly to 51 to the US dollar, a level last seen in 2015, having briefly slumped past 150 in early March. However, the liquidity of ruble trading has decreased dramatically, with a considerable amount of rubles changing hands at prices outside the CBR's official ruble fixing (Figures 5 and 6). Since the ruble trades in a very thin market (and mostly domestically given the dramatic drop in demand outside Russia due to sanctions), its indicative price could be misleading and belies a struggling domestic economy, which is expected to slump into a severe recession this year. Since most energy exports remain FX-denominated, a stronger ruble hurts the government's budget balance by lowering the local currency value. Given that the US sanctions' carve-out of coupon payments of Russian

[7] Outside considerations regarding sanction violations and gas imports from Russia could also cease because (1) EU countries stop their imports since the Russian move to require payments in rubles (even under the above procedure) constitutes a breach of contract or (2) Russia unilaterally cancels its gas exports as a retaliatory measure (which would also be a breach of contract).

government debt has expired, a deteriorating fiscal balance could provide incentives for Russia to default on its outstanding debt, especially given its rapidly declining dependence on international capital markets.

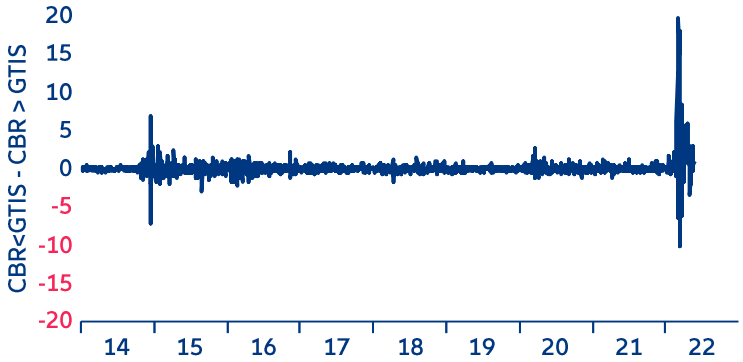
The CBR has stepped in to tame the recent appreciation of the ruble by loosening its monetary stance. Last Thursday, Russia's central bank slashed its main interest rate by 3pp to 11% (down from 14%) on the back of slowing inflation. The stronger ruble has made imports cheaper, helping to keep a lid on inflation, which has begun to ease in recent weeks. Annual inflation slowed to 17.5% as of 20 May, from 17.8% in April amid a noticeable decrease in inflationary expectations. The third rate cut since early April helps further unwind the initial rate hike to 20% at the end of February to stabilize the ruble after it plummeted during the initial phase of the war in Ukraine.

Figure 5: Russia – Volume of next-day settlements at official exchange rate fixing



Sources: Central Bank of Russia, Allianz Research

Figure 6: Differential between officially fixed (CBR) and traded RUBUSD exchange rate

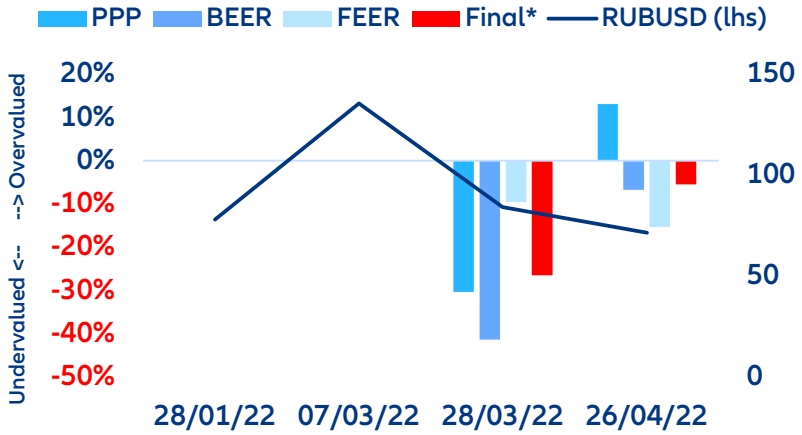


Sources: Central Bank of Russia (CBR), Global Trade Information Services, Refinitiv, Allianz Research

Our FX valuation models suggest that the ruble is now fairly valued (Figure 7). During the initial phase of the war in Ukraine, the steep depreciation of the ruble made it one of the most undervalued currencies. The subsequent strong nominal exchange rate appreciation has reversed this trend. Even though current sanctions prevent the normal interaction between

supply and demand and thus make it difficult to derive an accurate external assessment, we find that the recent recovery of the ruble exchange rate is broadly consistent with fundamentals, notably via terms of trade gains, boosted by high oil and gas prices. The large current account surplus (thanks to continued energy exports amid contracting imports due to trade sanctions) makes Russia a special case compared to past currency crises in EMs (when countries ran current account deficits before rebalancing to surpluses over time; Annex, Table 1).

Figure 7: FX internal valuation assessment of RUBUSD exchange rate

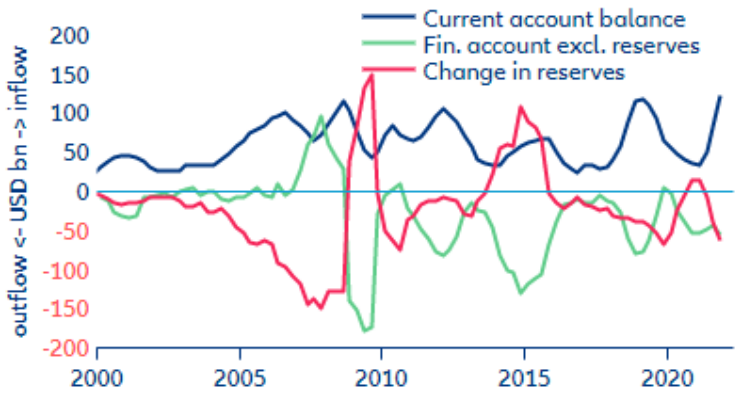


Sources: Refinitiv, Allianz Research. Note: Purchasing Power Parity (PPP): deviation of the real effective exchange rate (REER) from its long-term average; Behavioral Equilibrium Exchange Rate (BEER) model: takes into account key cyclical drivers, such as terms of trade and productivity, as well as fiscal variables, such as debt-to-GDP ratio, affecting changes in the REER; Fundamental Equilibrium Exchange Rate (FEER) model: links changes in REER to dynamics of balance of payments, which captures all the financial flows and transactions among residents and non-residents. The "Final" score is based on the weight of each model for the Russian ruble, obtained by root mean squared error (RMSE). This means that models with largest errors are penalized.

In the absence of a comprehensive embargo on Russia's oil and gas exports, a strong external balance will provide support for the ruble going forward (Figure 8). Russia's current account surplus has even increased, thanks to a partially unintended, sanctions-driven import contraction. Unlike in previous currency crises, Russia has been able to accumulate reserves through restricted but continued energy trade in combination with tight capital controls, while strong sanctions have led to an unavoidable reduction of imports (thus also taming imported inflation).[8] Russian hopes rest on increasing exports to non-Western countries (mainly China and India). With sanctions in place, Russian commodities trade at a discount as of today (even in ruble terms), which can be a price incentive. India is allegedly increasing its purchases, while China is considering the possibility, too. Other countries, although with a smaller weight on total oil consumption, could also follow, especially as looming food crisis risks threaten social stability (e.g. Pakistan).

Figure 8: Russia – Changes in the balance of payments and reserves

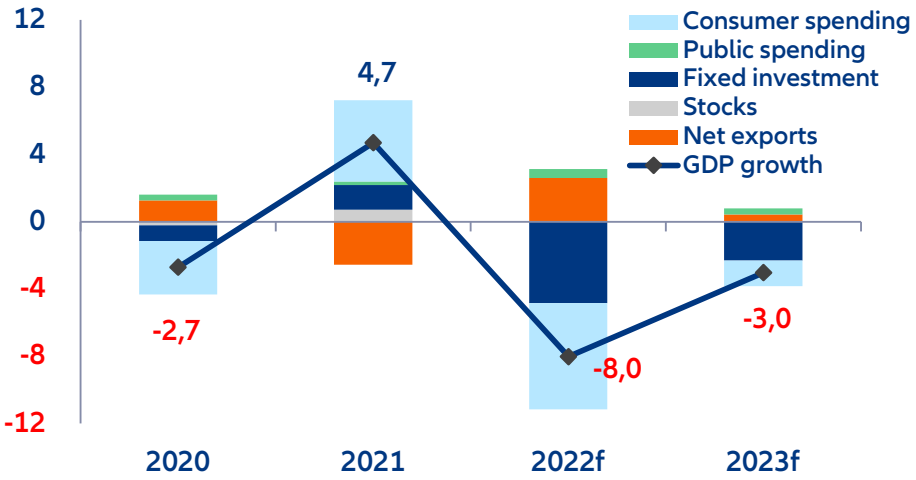
[8] Unlike of previous FX crisis, the case is not that many foreign items became unaffordable, but they became impossible to purchase.



Sources: Refinitiv, Allianz Research. Note: "Fin. Account"=financial account.

However, economic conditions in Russia have continued to worsen in recent weeks as the war in Ukraine drags on and the country's economic isolation grows due to an escalation of sanctions. We expect the Russian economy to experience a deep full-year recession in 2022 (-8% in 2022, followed by a further -3% decline in 2023; Figure 9). The next package of EU sanctions, including an oil embargo and cutting off Sberbank, Russia's top bank, from SWIFT, seems probable and will isolate the economy further. The potential for EU tariffs on Russian energy exports during the phase-out of oil imports could significantly affect government revenues. Soaring inflation and higher interest rates will adversely affect consumer spending, while an exodus of foreign capital combined with higher rates should hit investment activity. As restrictions remain in place, the current upward pressure on the ruble is likely to subside as energy exports become less competitive and the deteriorating economic outlook begins to weigh on the FX rate. In the event of a sudden re-opening of the capital account, the ruble could severely lose value.

Figure 9: Russia–Decomposition of real GDP growth

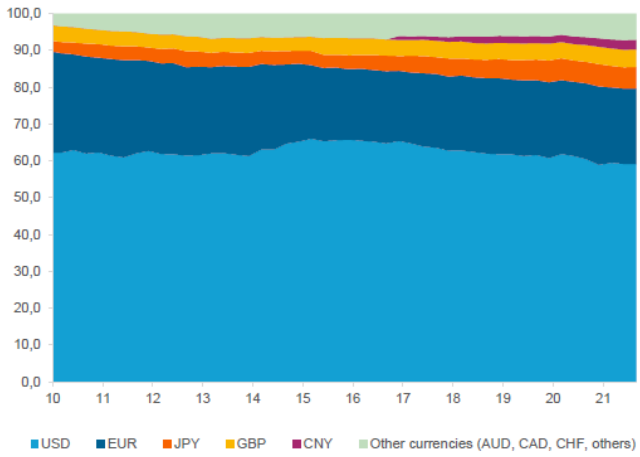


Sources: Refinitiv, Allianz Research estimates.

The scope of financial sanctions could have lasting implications on global economic policy.

The freezing of the FX reserves of a major economy is an unprecedented move and might be legally contestable – with the odds of a successful challenge being probably shorter in the EU than in the US.[9] They could also cause some central banks to insulate themselves from the political risk of financial sanctions by shifting reserve holdings away from the reach of US and EU policymakers and regulators. Political convictions aside, the fact that entities have lost access to their reserves – not being able to fulfill their obligations as lender of last resort and settlement agent for FX – raises questions for other countries that could be at risk of financial sanctions in the future.

Figure 10: Distribution of central bank reserves (by currency).



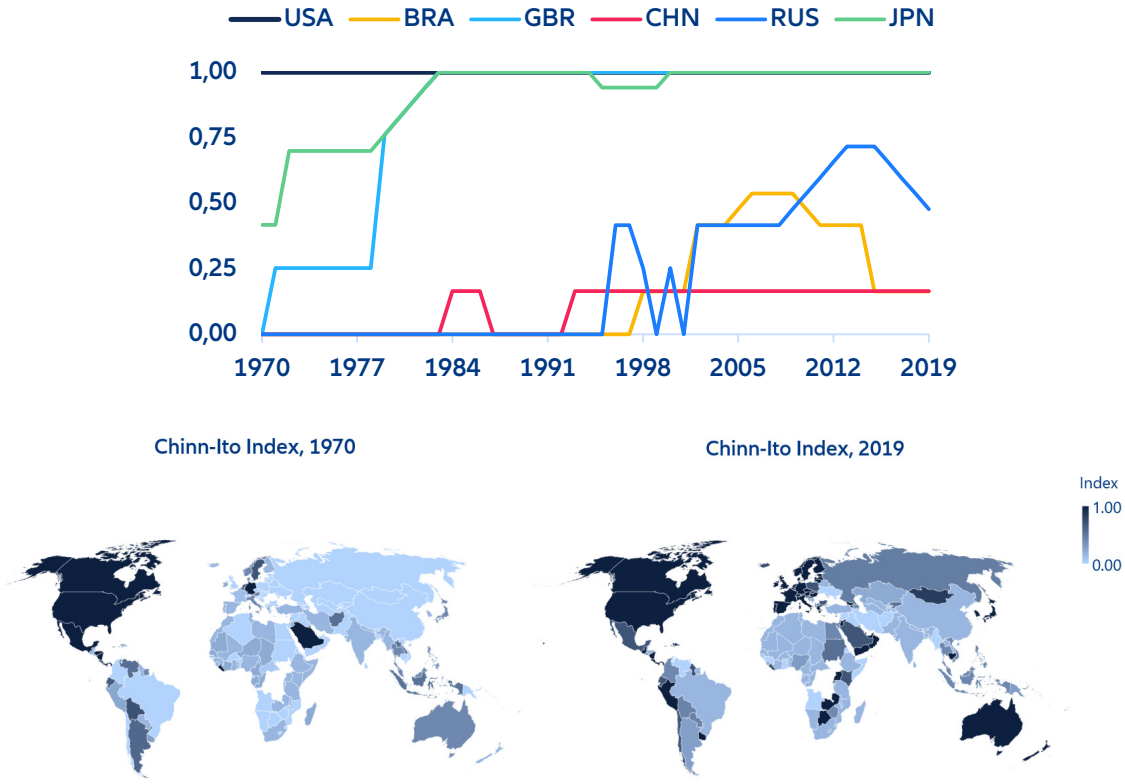
Sources: BIS, IMF, Allianz Research.

While the current developments are very unlikely to create near-term damage to the current USD-centric financial system (or the USD's dominant status), they play into the narrative of a potential transition towards a different monetary regime in the long run.

While its share in central banks' reserve assets has been declining over the last decade, the US dollar remains by far the dominant reserve currency globally (Figure 10). As the largest and most open economy with the largest financial system, the US is the world's foremost importer of capital (with two thirds of global assets denominated in US dollars). In addition, more than 40% of global trade is invoiced in US dollars (Figure 11). Even the euro is not a close substitute for the US dollar. Nonetheless, the emergence of China and the rapidly evolving financial system, including the digitalization of payment systems, beg the question of whether if the dominance of the US dollar and its anchoring role in the post-Bretton Woods monetary system could decline over time (Box 1).

[9] Unlike in the US, where sanctions are legally protected under a national security clause, in the EU, judges have jurisdiction over sanctions, which makes them more easily challengeable in court. In addition, the EU designs and approves sanctions, but it is up to national courts and governments to actually implement them. From 2008 to 2015, for instance, the EU lost about two-thirds of the legal challenges to its sanctions, according to a study requested by the European Parliament.

Figure 11: Financial openness



Sources: Australian Bureau of Statistics, GeoNames, Microsoft, Navinfo, OpenStreetMap, TomTom, Chinn and Ito (2021), Allianz Research. Note: Chinn-Ito index (1= fully open; 0 = fully closed). The upper charts indicate the evolution from 1970-2019 of a selection of countries, while the maps (lower charts) show the contrast between both dates of all reporting countries.

In particular, the following developments could risk providing an impulse for such a transition, due to a confluence of stalling globalization in favor of regionalization or bloc building and rising divergence between advanced and emerging market economies:

- *Geo-strategic onshoring and mercantilism.* After the Covid-19 crisis, the war in Ukraine has not only ruptured energy markets and raised commodity prices but also triggered a re-thinking about the vulnerability of global trade through efficient yet complex supply chain relationships. The painful lessons from the Covid-19 crisis of disrupted global supply chains have been amplified by the economic fallout of trade sanctions and Russian countermeasures. Going forward, "paused" globalization or even the risk of de-globalization could result in a challenging adjustment process for monetary policy to manage inflation dynamics in the face of negative supply side shocks and higher prices due to onshoring.

- *Emergence of regional blocs and divergence between advanced and emerging market economies.* The war in Ukraine has accentuated geo-political tensions, which might result in regionalization or bloc-building. A further deterioration of the US-China relations, including the recent rhetoric regarding the status of Taiwan, could

lead to a self-selection of countries that are strategically better positioned to protect their trade channel by aligning more closely with either the US or China.

- *Diversification of reserve currencies and side-stepping the US dollar*. Countries that are at risk of potential sanctions in the future (or perceived as such due to their geo-political ambitions) are likely to be concerned about the scale of sanctions imposed on Russia, especially with regard to the freezing of FX reserves held abroad. Diversifying reserve currencies – something which has already started (Arslanalp, Eichengreen, and Simpson-Bell, 2022) – and the development on alternative payment systems could evolve as a viable alternative as countries seek safeguards. This also includes, using local currencies in bilateral exchanges that do not include any of the reserve currencies' countries, which would take place mainly among large emerging market economies (e.g. the use of RUB and INR in India-Russia transactions), but also the invoicing of key global commodities in other currencies (e.g., rubelization of gas, petroyuan instead of petrodollar).

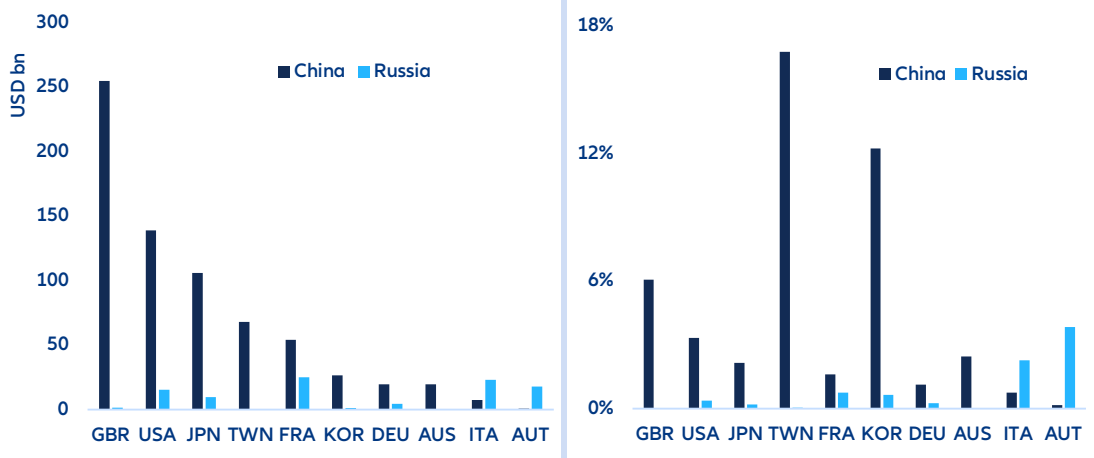
Overall, we think that the USD will continue to be the main global currency in the foreseeable future. However, its influence is likely to diminish over time in favor of alternative reserve assets, including cypto-assets, and beyond the scope of other major currencies in the SDR basket (Japanese yen, euro, pound sterling, and the Chinese yuan).

Box 1. The Chinese perspective: Declining exposure to weaponized finance

The sanctions imposed on Russia also offer lessons for China amid rising trade and geopolitical tensions with the US, especially in the context of Taiwan's future. In particular, two key questions arise: (1) would it be possible to coordinate effective financial sanctions from Western economies against China and (2) if so, how China could prepare itself for such an event.

Shutting China out from the global economy will certainly be much harder to coordinate and much more painful to implement, given its much larger relevance and interconnectedness in global investment, trade, and finance. Indeed, China represents 12% of global trade of goods and services (compared to less than 2% for Russia). Nearly USD1.3trn worth of Chinese inputs are used in the rest of the world, compared with less than USD400bn for inputs coming from Russia (a majority of which are commodities rather than manufactured intermediate goods). Bank exposures with China are also significantly larger (Figure 12). Finally, China's stock of outwards foreign direct investment amounts to 5% of the global total, compared with 1% for Russia.

Figure 12. Left: Bank exposure to China and Russia. Right: Share of claims from these two countries in total foreign claims (%)



Sources: BIS, Allianz Research

Despite limited room for maneuver over the medium term, China could try to strategically decouple and/or try to diversify its reserves. As of March 2022, China held more than USD1trn worth of US Treasuries , i.e. roughly 15% of foreign holdings or 5% of total outstanding. Rapidly unwinding this exposure without affecting market liquidity and valuation seems virtually impossible.

Structural reforms could help China accelerate the internationalization of the CNY from a very low base. Over the long run, China could challenge the overarching dominance of the USD as the CNY is very gradually being more widely adopted:

- *Financial transactions.* According to data from SWIFT, the share of transactions in CNY stood at 3.2% at the start of 2022, compared with 1.7% two years earlier.
- *Trade invoicing.* The share of China's total trade settled in CNY increased from 10% in 2012 (when data report started) to the peak of 30% in Q3 2015 before declining due to the 2015-16 CNY scares. The share has been rising over the past few years, from around 15% in 2017 to 21% at the end of 2021. China could take advantage of its key position in global trade and supply chains to increase the use of its currency.

- *Central bank reserves.* In terms of global allocated FX reserves, at the end of 2021, 2.8% consisted in CNY-denominated assets. The increase is worth noting, considering that CNY assets only consistently started to be included in FX reserves in Q4 2016 (with the currency's inclusion in the IMF SDR basket). The CNY's inclusion is already higher than for the CAD, AUD and CHF, but still far below the USD and the EUR (and half of the JPY).
- *Central bank currency swaps.* Since 2009, China has signed bilateral currency swap agreements with 32 counterparties. Further such agreements should continue to support China's trade and investment and the international use of the CNY.

Related to the internationalization of the CNY, China could aim to further develop its financial market infrastructure. Despite significant progress, it cannot be considered a serious alternative to the existing USD-centric global financial system. In 2015, China created a payment system (CIPS), but it remains small. The US equivalent (CHIPS) has nearly 10 times as many participants and processes 40 times as many transactions. CIPS also still relies on the interbank messaging system that is SWIFT. However, the use of CIPS is reportedly growing fast, and increased participation of foreign banks in CIPS could signal rising acceptance of China's alternative financial infrastructure. China could potentially leapfrog developments as a front-runner in the development of central bank digital currency (CBDC), which could replace some of the current infrastructure needs for more efficient cross-border bank transactions (and thus clearinghouses and SWIFT).

Overall, China's significance for the global economy and growing financial sector will make it less likely to become the target of weaponized finance. However**,** China would reasonably accelerate structural reforms to increase international use of the CNY and develop alternatives to the dominance of a USD-centric financial infrastructure. Over the long run, China's efforts could lead to the emergence of two competing financial blocks (one centered on the USD and the other on the CNY), overlapping if trade and investment linkages subsist, or decoupling in a negative scenario.

ANNEX

Table 1. Overview of key financial and trade sanctions imposed by Western countries on Russia

	United States	European Union	United Kingdom	Switzerland
Economic and financial	Freezing of FX reserves of the Russian Central Bank (targeting new debt, held in custody abroad)			
	Sanctioning the Russian central bank's gold reserves, worth around USD 130 billion			
	Removal of most Russian banks from SWIFT (blocks trade finance of Russian exports/imports) and restrictions on correspondent banking activities			
Banking Sector	Sberbank and Alfa Bank became subject to full blocking sanctions after being subject to lower-level US sanctions until the beginning of April.	Brussels expands financial sanctions to Sberbank, which leaves Gazprombank as the sole conduit for European energy payments.	Prevent banks from sterling and clearing payments through the UK	Swiss banks are prevented to accept deposits > 100'000 CHF from Russian nationals
	Cut off major Russian banks from US payment system (incl. Sberbank, VTB Bank)	Extension of the SWIFT ban on Sberbank, Credit Bank of Moscow, and Russian Agricultural Bank	Asset freezes against all Russian financial institutions, including the National Wealth Fund	Freezing of assets of listed persons and companies with immediate effect (in addition to bans on new business relationships)
Capital Markets	Debt/equity restrictions on Russian key financial institutions and SOEs	Preventing trade in investment services for securities and money-market instruments (since April 12th) A rating ban of Russian companies by EU credit rating agencies and the provision of rating services to Russian clients	Britain has revoked the Moscow Stock Exchange's (MOEX) status as a recognized stock exchange which impedes investors the access to certain tax benefits in future when trading securities on MOEX	No euro-denominated transferable securities can be sold to Russian persons or entities

Table 1. Overview of key financial and trade sanctions imposed by Western countries on Russia (continued)

	United States	European Union	United Kingdom	Switzerland
Trade and Investment	Revocation of Russia's MFN status (denying its normal WTO protections) allows G7 countries to place significantly higher tariffs on Russia's exports (e.g. Canada imposed a 35%-tariff)			
Energy	Ban on Russian oil and gas imports Restriction from raising money on the US market for two major gas and oil producers (supplemental to Gazprom)	Bans on European imports of Russian crude oil within six months and petroleum products by end-2022 (However, Hungary still being the main holdout) EU-wide import ban on coal	Phase out of imports of Russian oil, oil products and coal by the end of 2022	Adopting sanctions similar to the oil/gas equipment restrictions the EU imposed since 2014
Technology	Further focus on export controls by targeting the Russian marine, aerospace, the country's largest transportation as well as communications operator	Export ban on technologies critical to upgrading oil refineries as well as pharmaceutical companies	Suspension of dual-use export licenses and restrictions on trade by Russia's high-tech industries (e.g., natural resources and defense)	Export bans on goods and technology related to the aviation, space and refining sectors (in accordance with EU measures)
Industry	Further focus on export controls by targeting the Russian tech, marine, aerospace, and electronics sectors	Import bans on Russian luxury goods, iron and steel products (export on steel alone worth 3.3bn)	Ban on imports of Russian iron and steel products and exports to Russia of quantum technologies, advanced materials, and luxury goods	Prohibition of import, transport and purchase of iron and steel products (incl. the provision of technical or financial assistance

Table 2. Major EM currency crises: key macroeconomic indicators of domestic and external imbalances

	Current Account / GDP		CPI Inflation YoY		Sov. External Debt / GDP		Fiscal Balance	
	Pre-crisis	1 year after /1	Pre-crisis	1 year after	Pre-crisis	1 year after	Pre-crisis	1 year after
MEX 1994	-5.4 %	0.6 %	7.1 %	48.5 %	16 %	24 %	-2.4 %	-2.4 %
THA 1997	-7.0 %	10.0 %	4.6 %	10.6 %	11 %	23 %	-1.7 %	-9.0 %
RUS 1998	-1.9 %	8.9 %	7.9 %	126 %	33 %	69 %	-7.4 %	-3.6 %
TUR 2001	-4.1 %	2.6 %	36.2 %	73.7 %	16 %	20 %	-8.4 %	-11.7 %
ARG 2002	-2.5 %	0.8 %	-0.5 %	28.0 %	29 %	74 %	-5.3 %	-1.9 %
RUS 2022	6.9%	10.3%	8.7 %	19.0%	3.5 %	4.4%	0.7%	-2.0%

Table 3. Major EM currency crises: overview of policy responses

	FX Depreciation		FX Regime	Effective Policy Rate Change		Capital	Policy Response
	Early reaction /2	1 year after	Pre-crisis	1 month after	Maximum*	Controls 3/	
MEX 1994	-40 %	-55 %	USD peg	+20 pp	+55 pp	No	US bailout
THA 1997	-20 %	-38 %	USD peg	+3.5 pp	+7.5 pp	No	IMF credit
RUS 1998	-72 %	-75 %	USD peg	-	major hikes pre-crisis	Yes	IMF assistance**
TUR 2001	-42 %	-50 %	USD peg	+73 pp	+73 pp	No	IMF assistance
ARG 2002	-50 %	-70 %	USD peg	+2 pp	+70 pp	Yes	IMF halted support
RUS 2022	-45 %	-	Floating	+11.5 pp***	+11.5 pp	Yes	Sanctions, reserves freeze

*Sources: Refinitiv, Allianz Research. Note: crisis dates=Mexico 19/12/1994, Thailand 01/07/1997, Russia 13/08/1998 and 25/02/2022, Turkey 21/02/2001, Argentina 04/01/2002. As the fiscal balance variable is yearly, the pre-crisis value is taken of the year of the crisis it happened after 30/06, or the year before when it happened before 30/06. */ cumulative, **/ insufficient, ***/ The effective policy rate change is now only +2.5pp after the CBR's second rate cut to 11 percent, marking a further unwinding of a rise to 20 percent at the onset of the crisis to stabilize the currency. 1/ One year after for the case of Russia 2022 are Allianz Research estimates for 2022 year end. 2/ Early reaction accounts for the maximum dropdown experience within the month after the onset of the crisis. 3/ To have a standard measure, we assign "Yes" when the Chinn-Ito index (Figure 8) of capital openness decreased relative to the pre-crisis period.*

These assessments are, as always, subject to the disclaimer provided below.

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