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# The Goal of Sanctions Shouldn't Be to Wreck Russia's Economy

By Emma Ashford
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In the course of 24 hours, the ruble dropped more than 10% against the dollar. This sudden collapse comes on the heels of a six-month period in which the ruble has lost 55% of its value. Unsurprisingly, many of the resulting headlines are self-congratulatory, describing a Western victory over Russia. But the collapse of the ruble owes far more to other factors - primarily the dramatic drop in the price of oil - than it does to sanctions, and may not help to solve the Ukraine crisis.

Although the ruble has been floundering for some time, the last two days have seen a sharp and unexpected drop in the Russian currency. The ruble has fallen over 20% against the dollar in the last month, but 11% of this drop occurred within in a single day. Following a 1am emergency meeting early morning Tuesday, the Russian Central Bank raised interest rates dramatically (from 10.5% to 17%) in an attempt to halt the ruble's slide. Despite this, the ruble continued to fall until around 4pm Moscow time, and has since stabilized at around 70 rubles to the dollar.

The ruble crisis is largely the result of falling oil prices on an economy that is almost entirely dependent on oil and gas exports. Sixty-eight percent of all Russian exports are natural resources, with crude oil alone making up 33% of Russian exports. The Russian government is heavily dependent on revenues from oil and gas, with the Russian budget for 2015 assuming oil prices of $100/barrel. With oil now trading at below $60 per barrel, Russia will have to dig deep into its reserve fund to finance government spending. OPEC's public announcement of their intention to maintain production levels means that the price of oil is unlikely to go up any time soon. Similar crises are entirely possible in other oil-dependent states such as Venezuela or Nigeria.

In the Russian case, sanctions have certainly worsened the crisis. In particular, they have succeeded in cutting off foreign financing to many Russian companies, making it more difficult for them to obtain loans to tide them through difficult periods. Indeed, part of the currency panic yesterday appears to have resulted from the Russian Central Bank's involvement in a massive 625 billion ruble bond issuance by oil giant Rosneft, which has been unable to raise money in more conventional ways due to sanctions.

Yet without the precipitous drop in oil prices, it is doubtful what impact sanctions would have had on the Russian economy. Commentary which ascribes Russia's economic collapse to

Western sanctions is therefore misleading. But worse still, such arguments completely miss the point of sanctions. The goal of sanctions is not punishment, but rather the use of economic means to coerce a state to alter their behavior. In the case of Russia, a combination of targeted sanctions aimed at major companies and individuals close to the Kremlin were supposed to persuade Vladimir Putin's government that Russian adventurism in Ukraine was unprofitable, encouraging them to back down. Instead, falling oil prices and sanctions are simply helping to undermine the economy for ordinary Russians, who see the price of imported goods rise and their savings disappear thanks to inflation.

Even an economic crisis this severe is unlikely to alter the Kremlin's stance on Ukraine. In his speech to the Federal Assembly just last week, Vladimir Putin compared Crimea to Jerusalem, claiming the territory is sacred to Russians. On Monday, Russian Foreign Minister Sergei Lavrov further noted that Russia may position nuclear weapons in Crimea, "now Crimea has become part of a state which possesses such weapons."

Putin's approval rating is still extremely high, at over 80%, and his stance on Ukraine is one key reason for this popularity. Instead of backing down, presenting a failure on the Ukraine to the Russian population, it is far more likely that the Kremlin will simply try to ride out the economic storm, hoping that oil prices will rise. Russia's leaders will blame the West for their economic woes, focusing attention on sanctions, rather than on the lack of diversification within the Russian economy and its overreliance on oil and gas revenues. In effect, sanctions allow Russian elites to shift blame for their own poor economic management to the West, solidifying, not undermining their rule.

Given this, it is baffling that the U.S. is now doubling down on sanctions, with last week's congressional bill imposing further sanctions on Russian companies, particularly on Rosboronexport, Russia's main arms exporter. The news that President Obama will, after much deliberation, sign the bill, may cause the ruble to slide still further.

Russia's 48-hour economic crisis has been dramatic, and the role of sanctions makes for a great narrative, even if much of the economic damage was actually done by falling oil prices. But before we pop the champagne corks to celebrate victory, we should remember that the goal of sanctions isn't to wreck the Russian economy. It's encouraging the Kremlin to back down so we can find a solution to the Ukrainian crisis. Unfortunately, that's unlikely to happen any time soon.

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