

# RISKS OF PAYMENT SYSTEMS IN THE CONTEXT OF RUSSIA'S MILITARY AGGRESSION AGAINST UKRAINE AND INTERNATIONAL SANCTIONS AGAINST RUSSIA

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## Abstract

*Russia wants to include Ukraine in its territory for several reasons: they share a common history and culture, the multiple natural resources that Ukraine possesses (including oil and gas), the large population of this country and its vast territory. Ukraine has long been considered an independent country since the fall of the Union of Soviet Socialist Republics in 1991. Tensions began to emerge in 2014, when Russia invaded and annexed Ukraine's Crimean Peninsula (mainly for the natural resources available in the area, but also in response to the pro-European Euro Maidan protests that led to the change of government that year). Later, in 2022, the Russian Federation deployed large-scale military forces on the territory of Ukraine. With this action, Russia began an invasion of the entire country of Ukraine. These acts generated disapproving responses from the entire global community due to their violent nature, and due to the impact they generated in the West. A lot of Ukrainians took refuge in neighbouring countries, generating a humanitarian and political crisis. The response of the European Union, the United States of America and Great Britain came very quickly to the aggressions generated by Russia; thus, a package of sanctions was implemented targeting: Russian oligarchs, annexed regions, certain banks, entities, individuals, but also certain goods or services provided by/for natural or legal persons from Russia, thereby wanting to decrease the power economic of Russia. In this article, we will analyse the effects of these sanctions and the risks generated by their implementation in international payment transfer operations.*

*The purpose of this research is to analyse the impact of risks on payment systems in the context of the international sanctions imposed on Russia as a result of the war against Ukraine.*

**Keywords:** *international sanctions, risks, payment systems, international transactions, the implementation of measures.*

## 1. Introduction

The use of payment and settlement systems has acquired an increased share of the total payments made, which is caused by the increase in the volume and value of commercial and financial transactions carried out in the monetary and foreign exchange markets. This is mainly due to the development of international trade, along with the increase in the degree of globalization and the development of mechanisms that allow the free movement of capital.<sup>1</sup>

International payment systems therefore allow individuals and legal entities around the globe to send and receive money in various currencies and various intermediaries act as mediators for the creditor and debtor, maintaining confidentiality and objectively applying legal rules regarding: maintaining accounts banking, fraud detection protocols and attempts to circumvent international rules, as well as using technical mechanisms to ensure that the payment has been processed in the correct currency. In this way, they provide an efficient option for companies to carry out their business without the latter devoting other resources to processing payments apart from the fees or charges requested.

One of the first measures taken by the European Union, immediately after the start of the war by Russia, was the exclusion of seven banks (VTB, Bank Otrkitie, Novikombank, Promsvyazbank, Bank Rossiya, Sovcombank and VEB) from the SWIFT system due to their links with the Russian state, public banks already being subject to sanctions following the annexation of Crimea by Russia in 2014. The numerous sanctions packages imposed also

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<sup>1</sup> Sisteme de plăți, available at <https://www.bnr.ro/Sisteme-de-plati-304-Mobile.aspx>, last time consulted on February 27, 2023.

sanctioned entities based in this country that supported Russia's aggressive military and industrial actions against Ukraine or that are owned by the sanctioned individuals, subjecting them to export/import restrictions. Many sanctioned companies could no longer enter into economic relations with other companies located in the countries that applied the sanctions, so the banks or intermediate institutions of these transactions have the obligation, if they encounter situations where the clients try to evade the sanctions, to apply the legal rules and return the funds or freeze them depending on the sanctions applicable on a case-by-case basis.

It is obvious that a large part of the difficulty in maintaining economic relations globally is generated by the sanctioning of certain Russian banks and their exclusion from the SWIFT system - the Global Interbank Financial Telecommunications Society of international payments, but also by the rigorous review by financial or banking institutions, which thoroughly check each transaction which they mediate through this payment system and which involves Russian entities/banks/individuals. This delaying payments of raw materials, payment of wages to sea crews in Russia and Ukraine and further destabilizing the supply chain through delays.

The prohibition of the operations carried out by certain banks in the SWIFT system stops its possibility to trade on the international market. Thus, it cannot fulfil its contractual obligations, receive payments for exports on behalf of its customers, or provide credit for imports.

Although, after the settlement of international sanctions in 2014, once Russia annexed Crimea, Russia developed and implemented its own payment systems, for example MIR - under the authority of the Russian Central Bank, they cannot ensure its total autonomy from the SWIFT payment system.

In 2020, international payment systems and SWIFT were used five times as much as MIR was used, thus being necessary for the processing of international transactions by banks and even for individuals to be able to use their credit cards within Russia.<sup>2</sup>

In addition to sanctioning individuals, entities or banks, some of the toughest sanctions on Russia have been on exporting and importing certain goods or obtaining certain services from the West.

Among the most effective sanctions imposed were: refusal of exports of developed/sensitive technology with potential military use produced in the countries of the European Union/ Great Britain/ United States of America to Russia, limitation of exports of goods that could be used in the defence, aviation and maritime sectors. Also, the export sanctions that have really affected the Russian economy also target: the construction of machines, the pharmaceutical industry and the one producing medical equipment.

Moreover, the ban on the provision of certain services to Russian companies is aimed at limiting their profitability and limiting their integration into the international business environment. Thus, the provision of the following services to Russian companies was prohibited, according to Article 5n of Regulation (EU) no. 833/2014 of the Council of July 31, 2014 regarding restrictive measures in view of Russia's actions to destabilize the situation in Ukraine amended and supplemented<sup>3</sup>: market research, technical analysis, advertising, accounting, auditing services, as well as legal, IT or tax or business/public relations consulting services. The provision of architectural and engineering services was also prohibited.

## 2. Contents

### 2.1. Risk management of intermediating international transactions with Russia by financial institutions

Financial institutions must implement programs to eliminate the risks of evasion of laws with regard to the international sanctions that they are obliged to apply. Such programs are called compliance programs and use an effective approach to ensure compliance with international norms in terms of controlling and assuring conformity with sanctions in the transactions they intermediate, but also regarding the necessary controls that have to be performed for the goods that are exported if the transactions are processed. Thus, financial institutions are forced to develop, implement, and constantly update their compliance program. In developing this package of internal procedures, the size of the respective institution, the variety of the range of products

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<sup>2</sup> C. Miller, *How sanction-proof is the Russian economy?* in Econofact, available at <https://econofact.org/how-sanction-proof-is-the-russian-economy>, last time consulted on March 18, 2023.

<sup>3</sup> Council Regulation (EU) no. 833/2014 of 31<sup>st</sup> of July 2014 concerning restrictive measures in view of Russia's actions destabilizing the situation in Ukraine, available at <http://data.europa.eu/eli/reg/2014/833/oj>, last time consulted on February 27, 2023.

and services offered, the number of clients it has, but also the number of geographical locations in which it works, so to speak, whether or not it is a multinational institution.

Therefore, compliance programs include and detail the following aspects:

- management's commitment in ensuring compliance and conformation with international norms;
- the degree of risk to which the institution is subject;
- periodic assessment of the risks to which the institution is subject and the method of carrying out this assessment;
- how internal controls are carried out, ensuring quality control and auditing;
- ways to test and train staff so that they are able to identify and report any transactions that appear to generate compliance risks;
- types of controls that the financial institution should carry out automatically for each transaction it mediates according to the risks it faces, the number of customers and the multitude of locations where it operates.

**Regarding the risks of payment systems, today, based on the geo-political situation caused by the Russo-Ukrainian conflict, we can mention the following categories:**

### 2.1.1. Cyber risk

With the beginning of military aggression in Ukraine, Russian cybercrime groups have launched multiple threats to the global digital system, being adaptable, constantly acting towards their goals and determined to exploit unilaterally, in their favor computer systems and, in particular, international payment systems. Cyber infrastructure is a very important area today (especially in the processing of international payments). The most important parts of the cyber ecosystem are: internet, hardware and software technologies, which are globally linked to each other, but also from the actions and decisions taken by those who use them, making it possible to create, process, store or transmit data or, even, international payment messages.

Cybercrime, in our case, is the area that sums up the crimes of individuals who carry out attacks on payment systems networks, on internal systems used by financial institutions, but also on the infrastructures necessary for carrying out the economic activities. Cyber vulnerabilities are becoming increasingly risky, and can be attacked at any time, and the fact that payment system technology is constantly evolving leads to more security risks. Among the targets of cybercriminals are the entities in the financial services sector, themselves, or the technical tools used by these to transmit payment messages. Cyber-attacks include: identity theft, phishing (which helps attackers steal confidential details from users' computers when they are accessing spam e-mail), Distributed Denial-of-Service (hackers use a network of many unknown computers that attack a particular target in order to overload it so that it can no longer be used), malware attacks (software programs for cyber-attacks, which are installed on computers via viruses) or ransomware (a type of malware that blocks data from computers or user servers until payment is received for data unlocking, which is basically a call for rewards).

*"In this case, persistent advanced threats (PAT) are known, which refer to the moment when an opponent possesses sophisticated levels of expertise and sufficient resources to achieve his goals, using multiple attack vectors by selecting the target, target research, command and control, extracting data, disseminated information and exploiting information."*<sup>4</sup>

A study by the Deloitte EMEA Center for Regulatory Strategy discusses the need for European banks to implement rigorous ways to combat cyber risk. The study analyzes the ability of regulators to function optimally and to carry out the necessary controls in a technologically complex, constantly evolving environment while the regulatory framework is also always changing. Thus, the emphasis is on the stability of banks (authorities place more emphasis on the end result and on the implications that a cyber-attack can have on the stability of a bank). Furthermore, it is concluded that cyber risk is part of the systemic risk category, given that cyber risks are a danger to the stability of banks, means that it can also generate the risk of contamination of other banks or financial institutions, this leads regulatory authorities to focus on the risks posed by connections with financial market infrastructures or on links with third-party service providers. As necessary measures to increase the resilience of financial institutions to cyber risks, the following were mentioned: regulation, and implementation,

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<sup>4</sup> C.-A. Gabriel, *Modul în care războiul dintre Rusia și Ucraina poate modifica ecosistemul de criminalitate cibernetică*, „Carol I” National Defense University Bulletin, pp. 23-24, 2022, available at <https://revista.unap.ro/index.php/revista/article/view/1600/1550>, last time consulted on March 20, 2023.

at international level, of a regulatory and supervisory framework, which should be outlined on certain basic standards that will have to be met by all financial institutions.<sup>5</sup>

In an attempt to harmonize the relevant legislation at the end of 2020, The European Commission and the European External Action Service (EEAS) have presented a new European Union cyber security strategy to increase Europe's resilience to cyber risks. This strategy consists of proposals on implementation methods, regulatory instruments, but also on investment and policy. Subsequently, in March 2021, the Council adopted conclusions on the European Union's strategy on cybersecurity, and the ministers of the European Union agreed that the key objective must be to achieve strategic autonomy, but still maintaining an open economy, thus, referring to the ability of the states to make autonomous decisions in this field. On the other hand, two legislative proposals are being developed and discussed at European Union level, to address current and future risks in this area: a directive to ensure the best protection of networks and information systems and another one referring to the resilience of critical entities.<sup>6</sup>

### **2.1.2. Risk of circumvention of sanctions and avoidance of controls carried out by financial institutions intermediating payments which involve Russian individuals/entities**

The Bureau of Industry and Security (BIS) of the US Department of Commerce, US Department of Justice (DOJ) and The Office of Foreign Assets Control (OFAC) of the US Department of the Treasury (OFAC) have recently issued a compliance note to alert the private sector and the public regarding the attempts of Russian sanctioned persons/entities to evade the application of sanctions intended to ensure the reduction of goods or funds destined for the Russian military or industrial sector and their attempts to evade controls regarding the exports/imports of goods. Thus, this document details how Russia uses intermediaries and transshipment points to circumvent sanctions, providing common red signals, which financial institutions must take into account, and showing a potential risk.<sup>7</sup>

These red signals detailed in the compliance note referred to above and which financial institutions must take into account in the case of intermediation of transactions with any connection with Russia are highlighted in the scheme below:

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<sup>5</sup> A. Ionescu, D. Goranitis - *Riscul cibernetic și reglementările bancare în Europa, O nouă paradigmă pentru bănci*, (Deloitte Romania, 2018 - deloitte.com), available at <https://www2.deloitte.com/ro/ro/pages/risk/articles/riscul-cibernetice-si-reglementarile-bancare-in-europa.html>, last time consulted on March 26, 2023.

<sup>6</sup> Europa, C. (2023) *Securitatea cibernetică: în ce fel combate UE amenințările cibernetică*, available at <https://www.consilium.europa.eu/ro/policies/cybersecurity/>, last time consulted on March 26, 2023

<sup>7</sup> Publication of Tri-Seal Compliance Note: Cracking Down on Third-Party Intermediaries Used to Evade Russia-Related Sanctions and Export Controls. (2023, January 3), available at [https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20230302\\_33](https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20230302_33), last time consulted on March 12, 2023.

the use of shell companies (to hide the source of funds and the involvement of Russia/Belarus)

- this problem has been identified on a large scale and is unavoidable for all international companies in ensuring the compliance of transactions with the legal norms established at the international level; in response, many international firms have implemented customer awareness programs to find out the real beneficiaries

a customer's reluctance to provide additional information about the end user of the goods/funds transferred

- the end user of the goods, as opposed to their buyer, is the one who uses them in the end. Although the buyer is usually the end user, when trying to hide the true destination of the goods, there may be differences and the end user may be asking another buyer to pay for the goods to hide his identity

last minute changes to shipping instructions that appear contrary to customer history and/or business practice

- these changes attempt to mislead those who check the transport documents or the route of the goods

using personal e-mails in business communications and not the official ones of the company involved in the transaction

- this tactic is also used to hide the true identity of the companies involved in the transaction in communications

operating businesses using registered offices of other entities in the same group

- the scope of this tactic is to hide the true location of the entity involved in the transaction

last minute changes in the export route of goods that were previously intended to be shipped to Russia/Belarus

- in this way, transshipment of goods that were initially shipped to certain ports as a final destination can occur to illegally re-transport the goods involved in the transaction to their real final destination (which is a sanctioned country: Russia/ Belarus)
- the locations where transshipments to Russia/Belarus can take place could be located in China and other countries close to Russia geo-politically, such as: Armenia, Turkey, Hungary or Uzbekistan etc.

transactions involving legal entities that cannot be found on the internet, in reliable sources (on official, business websites or various databases)

- thus, as there is no information available regarding these entities, no information can be found on the sector of activity, on the registered office, or regarding the associates, shareholders, or the persons that have the control in the respective entity

cyber risks

- cyber risks require increased attention as they are an increasingly used means of evading the imposed sanctions
- financial institutions must implement programs that ensure adequate control of these risks and plans to ensure the continuity of the activities undertaken

Best practices in the face of such risks may include:

Knowledge of identity of new clients and existing ones, of activities in which they engage and verification of information which clients offer in different Know Your Customer questionnaire	Verifying the possible existence of an intermediary in the transaction and knowing the final end user of the goods	Performing all due diligence in managing the risk of the transaction, by verifying the parties, intermediaries, goods involved
Implementation of diversified employee training programs according to the position they occupy	Declaring all incidents as soon as possible and implementation of mechanism which can prove that the required actions and measures have been taken in order to prevent such incidents from repeating	Ensuring access to IT platforms and databases that contain up-to-date information about sanctions implemented
Continuous consultation of guidelines and recommendations developed by international organizations responsible for issuing regulations in the field	Verification of all documents provided by customers regarding the transactions carried out	Writing up-to-date internal policies and in accordance with international regulations that the financial institution must comply with

The European Banking Authority has stressed the importance of financial institutions in ensuring that the transactions they process comply with the sanctions imposed by the European Union against Russia/Belarus following the invasion of Ukraine. The European Banking Authority has also advised financial institutions to consider the economic, reputational and legislative impact of the violation of international sanctions and the non-application of the rules implemented by the European Union.

Some of the measures adopted by the European Banking Authority to ensure the implementation of the imposed sanctions are the following:

- working with various authorities in the Member States to ensure the implementation of the laws and compliance of the measures taken by the financial institutions for the application of the rules imposed by the Council of the European Union against the countries of Russia/Belarus;
- receiving and organizing by category questions on the scope of the regulations, on the sanctions imposed and sending them to the European Commission, which is competent to issue answers on the interpretation of regulations drawn up by the Council of the European Union;
- ensuring the controls and monitoring of financial institutions;
- assessment of the level of implementation of the sanctions imposed;
- issuing information on the decisions taken, the risks involved.<sup>8</sup>

### 2.1.3. Operational risk

Operational risk in payment systems can be characterized as the risk caused by inadequate processes, errors in internal systems, errors generated by employees or arising from external events related to elements of the payment systems.

The importance given to operational risk has also become increasingly important for payment, clearing and settlement systems. They are made up of networks of interdependent elements, such as operators, participants and billing agencies. Operational errors in any element involved can disrupt the system as a whole and negatively affect financial stability. Although the financial market is always changing, through well-defined methodologies, attempts are being made to minimize the risk, through activities such as: a solid and well-established corporate governance, internal controls and the assurance of quality control and auditing, policies and procedures completed on time, the employment of diligent and professional people, as well as the adoption and implementation of solid emergency plans.<sup>9</sup>

Operational errors may also affect the financial institution that brokered the transaction, both from an economic point of view (fines being imposed for non-compliance with the applicable legal rules) and reputational, or may also lead to the sanctioning of that institution with the prohibition of carrying out certain activities.

With the implementation of the vast packages of sanctions regarding the Countries Russia/Belarus, as well as regarding various physical or legal persons that supported the conduct of military aggression in Ukraine, the operational risks in the case of institutions that mediate transactions through international payment systems have also increased, caused by: the very rapid change of the legislation in the field, the large volume of transactions to be verified, the lack of skilled labor in the field and technical limitations of the software used.

The measurement of losses can be defined as proportionate to the ratio cause-effect, which are determined by internal controls. The outcome depends on how this risk is managed and how many risk mitigation measures are put in place to mitigate this impact. The management of this risk must take into account both the current gaps and the anticipations of the gaps that will follow in the financial environment and in the evolution of the payment systems. Examples of measures taken to reduce operational risk can be:

- rigorous analysis of the activity and the tools used, in order to ensure that the operational standards are met, but also of the reinforced programs of actions to be undertaken in the event of operational errors;
- outsourcing processes or functions can reduce certain risks in the market;
- investing in better risk management tools and applications;

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<sup>8</sup> EBA calls on financial institutions to ensure compliance with sanctions against Russia following the invasion of Ukraine and to facilitate access to basic payment accounts for refugees, European Banking Authority, (2022, July 1), available at <https://www.eba.europa.eu/eba-calls-financial-institutions-ensure-compliance-sanctions-against-russia-following-invasion>, last time consulted on March 12, 2023.

<sup>9</sup> K. McPhail, *Managing Operational Risk in Payment, Clearing, and Settlement Systems Working Paper*, Bank of Canada, 2003, available at <https://www.bankofcanada.ca/wp-content/uploads/2010/02/wp03-2.pdf>, last time consulted on March 26, 2023.

- a greater tolerance can be established in the level of operational risk and more budgeting amounts can be allocated to protect the financial institution from operational events that cause pecuniary sanctions;
- investment in network elements used to ensure that no serious operational events occur, at network or application level;
- investments in the development of plans that contain emergency measures to mitigate the effects if operational risks occur;
- training of employees in order to reduce the likelihood of human error;
- internal quality controls and internal audit can provide a timely verification of human or system errors and remove potentially serious consequences;
- robust and tested plans on how to keep the business going, can mitigate the consequences generated by operational risks, they are used in the event of unpredictable events occurring and which cannot be fully solved without extraordinary measures;
- the legal norms in the field, at international level, but also the requirements within each legislation, however, require assurances that the financial institutions have a minimum level of capital to cover various claims generated from the application of sanctions.<sup>10</sup>

#### 2.1.4. Liquidity risk

First of all, there is a need for liquidity at the level of banks, in order to settle payments and complete transfer. Liquidity can be obtained from the central bank or commercial banks through the money market.

As far as liquidity is concerned, it always generates certain costs, as it is low in the market and banks have to optimize their use of this type of resources. There is, however, a free source in terms of liquidity, being generated through the payment system itself, through the payments it is made by using it. Therefore, the faster the liquidity circulates from one bank to another, the more the need for liquidity in the system is covered and the need to receive it from the outside decreases. On the other hand, in addition to the costs generated by the acquisition of liquidity, costs resulting from settlement delays are also generated. Some of the payments made through payment systems are urgent and need priority processing and settlement, thus generating more costs for banks that do not settle on time, (by deteriorating the customer service, causing those companies to choose another bank in the future as an intermediary) or explicit (penalties agreed with customers to cover the damage). Liquidity risk generates a possible loss that may occur when liquid assets are insufficient or quick access to credit is blocked, the bank is not being able to fulfill its obligations to settlement of payments. The liquidity risk sums up: change risk (resulting from constant changes in the liquidity needs of a bank or financial institution, because under certain circumstances they do not are able to settle the payments made, having no liquid assets and having to postpone the processing of the payment), the risk of availability (this occurs when a bank can no longer access liquidity in the market and can no longer make the payments it is obliged to make), the risk of foreclosure (for example, in the inability of a bank to meet its obligations to repay payments which also blocks the execution of transfers of other parties involved in the transaction, the blockage occurs due to insufficient liquidity of a part involved in the transaction, to prevent blockages, they can split payments or compensate for delays).<sup>11</sup>

With the sanctioning of Russia, which is the eleventh largest economy globally, there have been many payment interruptions, which has many difficulties with the West through exports and imports of goods and raw materials, but also through bank exposure or because of their dollar bonds about \$33 billion owned by it. Although some of Russia's ties to the West have been hidden due to previous sanctions imposed after the Crimea annexation, and the impact of recently blocked payments is hard to calculate, however, there have already been liquidity gaps in the market because investors they gave up their Russian assets, and went to those denominated in dollars/euros. Signs of are-tightening of the E-Union's debt can be identified, and on the other hand, the US Treasuries, although they are on the most liquidating market at the international level, have shown some signs

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<sup>10</sup> *Ibidem*.

<sup>11</sup> H. Leinonen, *Liquidity, risks and speed in payment and settlement systems-a simulation approach*, Bank of Finland Studies (Helsinki 2005), available at <https://publications.bof.fi/bitstream/handle/10024/45674/118263.pdf?sequence=1>, last time consulted on March 27, 2023.

of tension. Moreover, there are forecasts that estimate that markets are in danger of experiencing a greater turnaround and a greater drop in liquidity in the near future, with the risk of default.<sup>12</sup>

## 2.2. The global economic situation. Economic implications. Risks and possible solutions

The banning of a large number of banks in a given country has the capacity to freeze the sectors of that state's economy involved in international trade.<sup>13</sup> The sanctioning of the largest Russian banks, had an important economic impact on the economy of this state, thus, the power of the ruble decreased considerably, and inflation increased.<sup>14</sup>

However, it has been proven over time that international sanctions also pose risks to the states that impose them or to the global economy. The pressure put on the Russian financial system and on the economy of this country has the capacity to also affect the energy supply to the Member States of the European Union, or the international exports of goods. Thus, there were price increases in various sectors at global level, which were added to the price increases generated by the economic repercussions of the pandemic caused by COVID-19 in the sector: energy, food, petroleum products. These increases, in turn, generate price increases in all sectors of the economy and cause inflation to rise globally.<sup>15</sup>

The sanctions against Russia may, however, also lead to the failure to comply with the obligations it has assumed in the West, which may also have repercussions on the lenders who lent this state and are likely to produce a liquidity crisis in the European or American banking market, with Russian entities having quite high debts.

As regards the risk of the food crisis, the European Union has a multitude of policy instruments to address the crisis: *'These include agricultural, trade, environmental, aid, energy, fiscal and external policies. However, in the complex interaction of local and global, agricultural and non-agricultural markets, seemingly simple solutions can have significant undesirable consequences and political compromises must be taken into account.'*<sup>16</sup> In this respect, agricultural policy refers to the adjustment of production. On the other hand, energy policies interfere with food security by means of the link between the food and energy systems, the latter being essential in order to be able to produce basic groceries particularly through agriculture. Fiscal policy is designed to discourage inefficient consumption of resources such as food or energy waste, and trade policy can help to allocate effectively key factors for agricultural production, such as fertilizers. Policies should lead to: reducing rigidities in production, trade and consumption processes, to help increase production in countries that are dependent on imports to ensure the need for food. The European Commission has calculated that around 25 million tons of wheat are needed just to be able to cover basic food needs worldwide in the short term.

In the spring of 2022, Russia blocked Ukraine's ports with the start of the war and 20 million tons of grain remained blocked. One of the most important measures taken by the European Union was to help Ukrainian exporters start transporting again. That is why the Member States, together with their partners, have launched the 'solidarity lanes' program to transport food by land in order to compensate for at least part of the loss brought about by the lack of maritime transport. Through this program, by March 2023, around 29 million tons of agricultural products had been exported. By means of this alternative, that is, by land transport, a large part of these goods was directed outside the Ukrainian territory and it was possible to release part of the available storage capacity for the new harvest. However, because this program was not sufficient to compensate for the losses caused by the difficulty in maritime transport caused by the Russian army in Ukraine, the European Union has announced another EUR 1 billion with the aim of expanding export capacity through the program. Work has also been done to restore maritime transport routes. In July 2022, the United Nations together with Turkey

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<sup>12</sup> T. Alloway, *How Russian Liquidity Risk Can Become a Global Credit Risk* (Bloomberg, 2023) available at <https://www.bloomberg.com/news/articles/2022-03-03/how-russian-liquidity-risk-can-become-a-global-credit-risk>, last time consulted on March 27, 2023.

<sup>13</sup> A. Rebucci, K. Komro, E.D. Lemon, M.D. Livingston, R.A. Spencer, B. Woods-Jaeger, *Swift sanction on Russia: How it works and likely impacts*, Econofact, available at <https://econofact.org/swift-sanction-on-russia-how-it-works-and-likely-impacts>, last time consulted on March 18, 2023.

<sup>14</sup> Statista, *Russia inflation monthly 2023*, available at <https://www.statista.com/statistics/276323/monthly-inflation-rate-in-russia/>, last time consulted on March 18, 2023.

<sup>15</sup> D. DeSilver, *Research from 44 countries shows levels of rising inflation across the world*, World Economic Forum, available at <https://www.weforum.org/agenda/2022/06/inflation-stats-usa-and-world/>, last time consulted on March 19, 2023.

<sup>16</sup> G. Zachmann, P. Weil, S. von Cramon-Taubadel, *A European policy mix to address food insecurity linked to Russia's war*, Bruegel, available at <https://www.bruegel.org/policy-brief/european-policy-mix-address-food-insecurity-linked-russias-war>, last time consulted on March 19, 2023.



agreed on an agreement for the implementation of a safe corridor in the Black Sea. The ports of Chornomorsk, Odessa and Yuzhny/Pivdennyi can be used again.<sup>17</sup>

### 2.2.1. Impact of international sanctions on Russia's economy

Although, at the beginning of the military aggression and with the Russian invasion of Ukraine, it was hoped that international sanctions would seriously destabilize the Russian economy, however, the effects did not occur so quickly, the Russian economy having results beyond expectations, although numerous economic and logistical challenges were generated for this country.

Among the economic effects of international sanctions, those that have had the greatest impact are the following: massive losses of funds for the financial sector, the cessation of production in factories due to the lack of raw materials from countries of the European Union or from Great Britain or America, the sale of much smaller quantities of Russian oil, below the market price. Moreover, the closure of most multinational companies in this country, such as Renault Group, Siemens, Whirlpool, Société Générale, PWC, Honeywell, Accenture, etc. it has had significant effects on the economy, but also on the increase in the unemployment rate.

Russian oil exports to the European Union were not sanctioned until December, 2022 and were an important source of revenue. As of the last part of 2022, however, there is evidence that this state's economy is beginning to deteriorate more rapidly. Last November, Russia's central bank estimated a faster contraction of the economy in Q4 of 2022 (7.1%) compared to the previous quarters of the same year (about 4%).

In January 2023, Russia's budget deficit reached 1.76 trillion rubles (in dollar equivalent – 25 billion), a significant contribution to its deepening being the decrease in revenues oil and gas tax by 46% compared to the previous year and, respectively, the increase of expenses due by the scrap by 59%. To cover the deficit, 3.6 tons of gold and 2.3 billion Chinese yuan were sold from the Sovereign Fund (NWF) in January this year, assets amounting to 38.5 billion rubles (543 million dollars).

Although the European Union has not yet been able to stop imports of Russian oil, it nevertheless imposed a maximum price level for Russian oil products in February 2023. The Council thus set two price caps below, or at the level of which, oil products of Russian origin, or exported from Russia, are exempt from the prohibitions of: providing maritime transport for these products to other countries, as well as technical assistance services, brokering or financing, or financial advisory services, necessary to be able to organize the maritime transport of these products.<sup>18</sup> Moreover, the economic effort to sustain a war, involving the mobilization of civilian labor for military purposes, has created negative effects from an economic point of view.<sup>19</sup>

As for Russia's billion-dollar reserves, maintained by the Central Bank of Russia in various currencies (such as the dollar, the euro, the British pound and the yuan), but also the amount of gold held by it abroad, in order to be able to intervene in the currency markets, supporting the ruble in case of volatility, they were lost because the sanctions imposed by America, The European Union or The United Kingdom against it sought to deny access to these reserves. Russia's Central Bank has been banned from using emergency reserves to save the economy from economic pressure from the west. The coordinated action of the US, EU and UK banned the Russian bank from selling foreign currencies from its reserves.

An infographic of the Council of the European Union made in March 2023 specifies the estimates regarding the impact of international sanctions on Russia's economy in 2022, as well as the forecasts made regarding the country's economy for the current year. These estimates and forecasts have been made by world institutions such as the World Bank, the International Monetary Fund, the Organization for Economic Co-operation and Development, etc.

Firstly, all these three major institutions: the World Bank, the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD) agreed that 2022 was a difficult year for the Russian economy. Estimates showed that in 2022 Russia's gross domestic product (GDP) fell by a value in the range of 2.2% - 3.9%. According to the Government Statistics Agency Rosstat, the Russian economy contracted

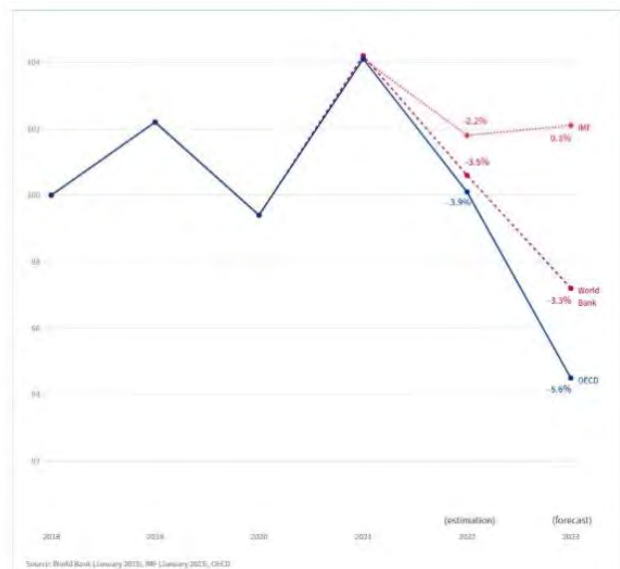
<sup>17</sup> C. Europa, *Food for the world*, available at <https://www.consilium.europa.eu/en/food-for-the-world-eu-countries-mitigate-impact-russia-war/>, last time consulted on March 18, 2023.

<sup>18</sup> C. Europa, *HAD agrees on level of price caps for Russian petroleum products*, available at <https://www.consilium.europa.eu/en/press/press-releases/2023/02/04/eu-agrees-on-level-of-price-caps-for-russian-petroleum-products/>, last time consulted on March 2, 2023.

<sup>19</sup> Congressional Research Service, *The Economic Impact of Russia Sanctions*, available at <https://crsreports.congress.gov/product/pdf/IF/IF12092>, last time consulted on March 23.

by only 2.1% in 2022 despite Western sanctions. The country's economy is projected to remain declining in the current year 2023 as well, with decreases in the range of 3.3% to 5.6% in the GDP level specified in the reporting. Indeed, however, the IMF expects in their reports an increase in 2023 of up to 0.3% in the level of GDP.

**GDP of Russia – evolution from 2018 to 2023**  
(Base 100 in 2018)



Graph: EC

Secondly, the estimates of the aforementioned institutions demonstrate the increase in the inflation rate in Russia in 2022, its value approaching 14%. The forecasts for the current year, 2023, specify values ranging from 5% (IMF) to 6.8% (OECD).

On the other hand, in terms of imports and exports, the IMF estimates that during the last year, imports to Russia decreased by about 19 percent, and exports by about 15 percent compared to the previous year. Imports are expected to have a slight increase of about 5% this year compared to last year, and exports will continue to fall by at least 3%. As for the statistics carried out by the World Bank, imports into Russia last year decreased by almost 21% compared to the previous year, and exports by about 12%. This year, the World Bank forecasts an increase in imports by about 3% compared to last year, and a continuous decrease in costs by another 9 percentage points.<sup>20</sup>

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<sup>20</sup> C. Europa, *Infographic - Impact of sanctions on the Russian economy*, available at <https://www.consilium.europa.eu/en/infographics/impact-sanctions-russian-economy/>, last consulted on March 25, 2023.

<sup>21</sup> C. Europa, *op.cit.*, *HAD agrees on level of price caps for Russian petroleum products*.

### 3. Conclusions

The war between Russia and Ukraine has generated strong shocks on the economy around the world, especially through the rise in the price of gas, food and inflation. All the more so, as the global community was barely trying to recover from the economic problems generated by the COVID-19 pandemic, and the conflict affected global supply chains as well as energy prices. According to the Council of Europe, the impact of the war was felt massively on the energy and food markets. Through the Versailles Declaration, adopted in March 2022, the leaders of the 27 EU member states agreed to eliminate the EU's dependence on Russian fossil fuels as soon as possible. On 30-31 May 2022, the European Council agreed to ban almost 90% of all Russian oil imports by the end of 2022 – with a temporary exception for crude oil delivered through pipelines. Fatih Birol, executive director of the International Energy Agency, said the bloc's countries still import 30 billion cubic meters of gas from Russia, although this import **represents less than a third compared to pre-war purchases**<sup>22</sup>.

Also, negative effects on the global economy have been generated due to the sudden cessation of certain economic relations with Russia, due to the international sanctions imposed against it.

Most international organizations, as well as most countries in Europe and America, have provided support to Ukraine. Moreover, the financial aid for Ukraine was soon to emerge because of the impact of this war on international affairs. For example, the International Monetary Fund reached a preliminary agreement on a loan of around EUR 20 billion, and the World Bank which also offered a package 'Financing recovery from the economic emergency situation in Ukraine'. The reason for this funding lies in the current and future impact of the war on the world's stock market return.

Moreover, the European Union, the United States of America, the United Nations, but also several states that wanted to sanction (independently of these international bodies) the actions taken by Russia against the territorial integrity of Ukraine, such as: Canada, Australia, Great Britain, France, Ukraine, etc. imposed numerous packages of international sanctions against it and the individuals / legal entities that had a role in these actions.

With all the sanctions imposed on Russia and the macroeconomic indicators of the Russian economy for 2022 have exceeded the most optimistic expectations. According to the report "The 2022 Russian Economic Anomaly: How It Works, and Where It Is Headed", one of the authors, Oleg Itskhoki, a professor at UCLA, describes a standard chain of events under the conditions of a typical financial crisis. An unfavorable event such as the fall in exports causes a sudden outflow of capital from the country and a depreciation of the national currency. The attempt of the population to protect their economies leads to a liquidity crisis and, implicitly, to a crisis of the financial system. The sudden contraction of the loan generates the stoppage of the production, the companies being in the situation of non-observance of the contracts. The current account deficit obliges the state and economic agents to reduce their debts and reduce expenses, which leads to a new contraction of economic activity, a decrease in demand and an increase in unemployment. Although it was semi-isolated from the rest of the world, the gains in commodity exports at the end of the year reached a record \$580 billion (compared to a ten-year average of \$420 billion). The state did not impose austerity measures, on the contrary, the additional expenditures of the state exceeded 4% of GDP. Although production has declined, economic agents have fulfilled their contractual obligations. Therefore, in addition to the interruption of imports, the strongest shock was the outflow of capital, which amounted to USD 250 billion, or 14% of GDP. However, a large influx of exports has helped to mitigate its effects on the economy. Overfunding has benefited those who have received government support and state-sponsored contracts. The ruble was stronger in 2022 due to the large surplus. As a result, imports became more accessible to enterprises despite the change in their structure, while the appreciation of the ruble did not translate into higher prices: in rubles, prices were even lower than last year, despite a measured increase in dollars.<sup>23</sup>

Although these international sanctions have been implemented and must be respected and applied, however, certain economic relations with Russia must have continuity, because you cannot suddenly break any ties with this country, which was an exporter of energy, petroleum products and food products into the world.

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<sup>22</sup> ANALIZĂ Un an de război în Ucraina: Cum au evoluat economiile invadatorilor din Rusia și a țării atacate, Ucraina/ Efectele sancțiunilor occidentale și peisajul economiei românești, vecină cu un război, economed.ro, available at <https://economed.ro/analiza-un-an-de-razboi-in-ucraina--au-evoluat-economiile-invadatorilor-din-rusia-si-a-tarii-atacate-ucraina-efectele-sanctiunilor-occidentale-si-peisajul-economiei-romanesti-vecina-cu-un-razbo.html#.ZCHrcpBzIU>, last time consulted March 24, 2023.

<sup>23</sup> Russia's 2022 economic anomaly, Wilson Center, available at <https://www.wilsoncenter.org/blog-post/russias-2022-economic-anomaly>, last time consulted March 24, 2023.

Also, the packages of sanctions that are progressively imposed on this state, because only in this way they can be proportionate and continuous, must be applied immediately and there must be no undue delay in their implementation by the financial or banking institutions that process various payment messages.

The rapid development of the IT infrastructure of electronic payment systems, the multiplicity of the number of transactions processed, as well as the continuous regulation of international sanctions that have immediate applicability, generate the increase in cases of cybercrime, incidents or circumvention of legal norms by sanctioned persons. Incidents over payment systems can cause considerable damage and lead to failure to meet the purpose of international regulations. As regards the security issues of international electronic payment systems, they are of particular importance in bridging the risks of breaches of international sanctions.

The organizational and legal measures by which the risks can be reduced in the transactions carried out through electronic payment systems can be the following: knowledge of the customers' identity, of the activities in which they are involved and the verification of the information they offer, checking the possibility of an intermediary in the transaction and knowing the end user of the goods, ensuring the access of the employees to its platforms or various databases, the use of cyber threat detection systems, employee training, both on the need to comply with the transactions with the regulations in force, but also on the vigilance necessary not to become victims of cyber-attacks, ensuring an optimal level of protection of customers' personal data, but also the declaration of all incidents as soon as possible.

Thus, it is the duty of the financial and banking institutions to mediate these essential transactions, but also to stop any attempt to circumvent the international sanctions imposed. These risks can and must be managed through robust compliance policies, vigilance, and the use of the necessary and sufficient software tools and databases to ensure compliance of each individual transaction.

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