

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

**Economic sanctions and related consequences:
Case study of Russia**

Vsevolod Syskin

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

Vsevolod Syskin

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Thesis title

Economic sanctions and related consequences: case study of Russia

Objectives of thesis

Russian economy has undergone the significant turmoil both in terms of a transition process, entering the WTO and recent events connected to Crimea and sanctions. In this light it becomes interesting to investigate whether the imposed against Russia sanctions have had a significant effect on the Russian economic performance.

The main aim of the Bachelor thesis is thus to compare macroeconomic situation in Russia before and after the imposition of economic sanctions.

To achieve this goal the following research questions will be raised and gradually answered:

- Was there any dramatic change in Russian GDP before and after 2014?
- What are the most important changes that have happened in the structure of Russian foreign trade (commodity composition and traded volumes)?
- What countries were the main Russian foreign trade partners before 2014 and what has changed after?
- Is there any positive dynamics in Russian macroeconomic indicators after 2014?

Methodology

Descriptive analysis, thematic analysis and synthesis along with comparative techniques will be applied in the present Bachelor thesis.

The proposed extent of the thesis

40

Keywords

Economic sanctions, Russia, GDP, Foreign trade, Macroeconomic indicators

Recommended information sources

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The Bachelor Thesis Supervisor

Mgr. Elena Kuzmenko, Ph.D.

Supervising department

Department of Economics

Electronic approval: 9. 3. 2020

prof. Ing. Miroslav Svatoš, CSc.

Head of department

Electronic approval: 9. 3. 2020

Ing. Martin Pelikán, Ph.D.

Dean

Prague on 09. 03. 2020

Declaration

I declare that I have worked on my bachelor thesis titled "Economic sanctions and related consequences: Case study of Russia " by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 19.03.20

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Economic sanctions and related consequences:

Case study of Russia

Abstract

Russian economy has undergone the significant turmoil both in terms of a transition process, entering the WTO and recent events connected to Crimea and sanctions. In this light it becomes interesting to investigate whether the imposed against Russia sanctions have had a significant effect on Russian economic performance. In literature review will be identified the meaning of sanctions their history and how the world history faced with sanctions. As well as will be explained the history of sanctions in Russian history their reasons and consequences.

Literature review of research demonstrates the basic concept of sanctions and main macroeconomic indicators, which would be investigated in the practical part.

In the practical part of the Bachelor thesis is thus to compare the macroeconomic situation in Russia before and after the imposition of economic sanctions. For achievement goals and answers of the thesis the following methodology will be applied: Descriptive analysis, thematic analysis and synthesis along with comparative techniques will be used in the present Bachelor thesis. To accomplish the goals of the research will be investigated macroeconomic indicators before and after the imposition of economic sanctions (2014).

Keywords: Economic sanctions, Russia, GDP, Foreign trade, Macroeconomic indicators.

Ekonomické sankce a související důsledky:

Případová studie Ruska

Abstrakt

Ruská ekonomika prošla významnými nepokoji, a to nejen z hlediska transformačního procesu a vstupu do Světové obchodní organizace (WTO), ale také z pohledu nedávného dění s souvisejícími událostmi na Krymu a sankcemi. Z tohoto důvodu je zajímavé zkoumat, zda uložené sankce proti Rusku měly významný dopad na ruskou ekonomickou výkonnost. V přehledu literatury bude identifikován význam sankcí, jejich historie, následně bude vysvětleno, jak světová historie čelí sankcím. Rovněž budou vysvětleny dějiny sankcí v ruské historii, jejich důvody a důsledky.

Literární rešerše popisuje základní pojetí sankcí a hlavní makroekonomické ukazatele, které jsou znázorněny v praktické části. Praktická část této bakalářské práce je tedy porovnávání situace v Rusku před a po uložení ekonomických sankcí.

Pro dosažení cílů práce bude použita následující metodika: v bakalářské práci bude použita popisná analýza, tematická analýza a syntéza spolu s použitím komparativních technik. Pro docílení výzkumu budou zkoumány makroekonomické ukazatele před a po ukončení ekonomických sankcí v roce 2014.

Klíčová slova: Ekonomické sankce, Rusko, hrubý domácí produkt, zahraniční obchod, makroekonomické ukazatele.

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List of abbreviations

EU-European Union

EUR-European Monetary Unit

US-United States of America

G7-The Group of Seven

GDP-Gross Domestic Product

B.C-Before Christ

A.D-Anno Domini

USSR-The Union of Soviet Socialist Republics

USD-United States Dollar

RUB-Russian Rouble

WTO-World Trade Organization

1 Introduction

At the present time, in the global economy it's impossible to imagine a state which is not involved in the system of world relations and economic relations. Observing international rules and agreements every state act primarily in its own interest. Any cooperation leads to the strengthening of national economies and their key sectors. However, excessive integration directly affects the state of the country's economy in cases where some states impose restrictions on others.

In 2014, after the events in the Crimea and the Donbas, Russia was subjected to economic and political sanctions. The initiator of their introduction was the United States and EU countries under their pressure, as well as G7 countries and partner countries of the US and the EU. The problem of sanctions is one of the urgent at the moment because Russia has to change the structure of the economy and the direction of foreign policy.

The research describes general aspects of sanctions, macroeconomic situation, and its related indicators. In that economic sanctions were imposed in 2014, thesis includes economic indicators before and after imposition of sanctions. The practical part of the research would be present the comparison of the macroeconomic situation in the Russian Federation before and after the imposition of sanctions.

The aim of the paper to identify is there any dramatic changes in macroeconomic indicators and in the Russian economy at all.

To accomplish the goals of the research the following macro indicators will be analyzed:

- GDP Nominal (Current USD)
- Exchange Rate USD/RUB
- Inflation rate
- Unemployment rate
- Foreign trade (Import, Export, Trade balance)

2 Objectives and Methodology

2.1 Objectives

The main aim of the Bachelor thesis is thus to compare macroeconomic situation in Russia before and after the imposition of economic sanctions.

To achieve this goal the following research questions will be raised and gradually answered:

- Was there any dramatic change in Russian GDP before and after 2014?
- What are the most important changes that have happened in the structure of Russian foreign trade (commodity composition and traded volumes)?
- What countries were the main Russian foreign trade partners before 2014 and what has changed after?
- Is there any positive dynamics in Russian macroeconomic indicators after 2014?

2.2 Methodology

For achievement goals and answers of research questions the following methodology will be applied:

Descriptive analysis, thematic analysis and synthesis along with comparative techniques will be applied in the present Bachelor thesis.

In order to compare macroeconomic situation in Russia before and after the imposition of economic sanctions (2014) it was decided to focus on analyzes on the period from 2010 to 2018.

To analyze macroeconomic situation the following macro indicators can be used:

- GDP Nominal
- Exchange Rate USD/RUB
- Inflation rate
- Unemployment rate
- Foreign Trade (Import, Export, Trade balance)

3 Literature review

3.1 History of sanctions

Economic sanctions took a well-known place in our modern and ancient history. Imposition of sanction it was a political answer to argument between countries, but the root of the sanctions always altered. The aim of sanctions today and the aim of sanctions in time of the Roman Empire has a familiar core is to change behavior or policy of aimed country. The outcome of sanctions is changed, nowadays economic sanctions is kind of retaining verge between military actions and politics negotiations, consequently sanctions grow into effective idea to stay away from physically actions among countries. (Hossein G. Askari, 2003)

The first cases of economic sanctions were mentioned in history, it's The Megarian Decree. Usually, the Megarian Decree is note as a first officially model of economic sanctions. The Athenian Pericles announced to the Megarian Decree limitation of using Megara's products. The dispute of interest became into the Peloponnesian war. The result of the Athenian Sanctions on Megara commerce had impact on people in Megara. The Athenian Pericles didn't expect that trade ban, would be a tool to accompany cataclysm to Athens or to start deep a clash. (Hossein G. Askari, 2003)

Sieges are known as an initial scheme of economic sanctions in sanctions history. The goal of sieges was to famish deposited people. The idea of sieges were depletion of food resources or others important supplies, it made a people less powerful and was consequences of weak protection. One of the earliest siege is the Roman siege of Jerusalem in A.D 72, also one of well-known siege is the Baghdad siege. In 1257, the Mongol commander committed a warning to the Caliph Mustasim in Baghdad asking him payment for homage. (Hossein G. Askari, 2003)

At the time of Napoleonic wars economic sanctions were a useful tool in a war and political disputes. During the war between France and Britain were some examples of economic sanctions, the British had a strong sea influence, imposed economic sanctions on the country with she had a conflicts or political arguments. The twenty year's old conflict between Britain and France during the Napoleonic wars is a very prominent example of economic factors affecting the fortunes of both countries. In the beginning of the nineteenth century, France's economy was heavily influenced by trade, mostly conducted with the Americas through the Atlantic coast. In addition to the hostilities which broke out during the start of the Napoleonic wars between France and Santo Domingo, Britain being a powerful nation with superior sea power, was able to cut off France's ability to trade, imposing a complete blockade and bringing

trade to a full halt. Economic restrictions posed by one country upon another have increasingly become a softer and less intrusive solution to conflicts of different magnitudes. “Sanctions” have not only been used as a practical way to add more pressure on a foe, but also a way to impose one’s agenda without physically intervening into a country’s affairs, which could result in a greater loss for both sides. (Hossein G. Askari, 2003)

3.2 Economic sanctions and their types

A sanction is a punishment imposed on another country or on person of country. It’s a tool for reaching goal domestic and foreign purposes. Countries use a variety of sanctions, but some of the sanctions use extensively more than others, the main goal of sanctions is to gain a difference in conduct. (Connolly. R 2018)

Sanctions can be used in different approaches: (Investopedia,2019)

- Tariffs-fines set on commodity from another country.
- Quotas- a limitation on commodity that can be transported or imported from country to country.
- Embargoes- country exclude a commerce and trade deals with another country.
- Non-tariff Barriers or Non-tariff Measures-barriers that reduce imports or exports of commodity and services, for example: Import Ban.
- Asset freezes-blocking assets purchased by a country or person.

Types of Sanction

Sanctions can be classified by couple forms. One of the forms how to characterize them is by amount of country imposing the sanctions. A “unilateral” it’s when one country is implementing the sanction. A “multilateral” sanction it’s when more than one country or group is exercising it. Multilateral sanctions less risky than “unilateral” because the risk distributes among many countries, not only one. Unilateral sanctions are riskier, but the outcome can be more effective if the country’s economic is strong. (Nureeva. R 2017)

Also sanctions can be classified by the category of trade they limit. Import sanctions arrest commodities which moving out the country, although export sanctions block commodities moving into a country. These two approaches are different and the output will depend on country’s economic. Obstructing the commodities and services from incoming usually has less

effect than obstructing commodities and services from that country. Export sanctions can be consequences of substitution arrested commodities for something else. The way how export sanctions can be effectively work is the blocking of perceptive commodities from introducing the objective country. It will be more difficult for the aimed country to produce this kind of commodity inside the country. Ban for country's export through an import sanctions can be as a result that the aimed country will gain economic problems. (Investopedia,2019)

Targeted sanctions

The target of sanctions is to pull country's behaviour, there is big variety how they are aligned. Goal of the sanctions can be a whole country or specific industry, for example embargo on export (e.g. Russian Federation on EU). In case of specific industry, on the sale of dairy products. The aim of sanctions can be people or some powerful individuals, the role of these sanctions describes financial problems for a specific amount of people not for the all people in the country. (Connolly. R 2018)

3.3 Macroeconomic indicators

3.3.1 Unemployment rate

The unemployment rate calculates the percentage of those people who have desire to work and do not have jobs. (MAITAH, 2007)

Types of unemployment

- Frictional unemployment. The Frictional Unemployment describes quick terms of unemployment that are requirement to meet jobs and workers. A lot of this quick term unemployment is willing.
- Structural unemployment. It describes a situation when people don't work for a long time, in most cases because of searching competent jobs. Young generation and few groups are influenced by structural unemployment.
- Cyclical unemployment. It happens in time of heavy economy progress or during economy reduction.
- Seasonal unemployment. Workers lose their positions with a change off season. Surf coach works in the summer, not in the winter. (MAITAH, 2007)

Frictional unemployment is related to job search. Obviously, finding a job takes time and effort, so a person who is waiting or looking for work has been unemployed for some time. A feature of frictional unemployment is that ready-made specialists with a certain level of professional training and qualifications are looking for work. Therefore, the main reason for this type of unemployment is the imperfection of information (information about the availability of jobs). A person who has lost his job today usually cannot find another job tomorrow. (Froyen,2004)

Frictional unemployed include:

- Termination from work by order of the administration.
- Resigned of their own free will.
- Pending restoration to their previous work.
- Finding a job but not yet embarking on it.
- Seasonal workers.
- People who first appeared on the labor market and have the level of professional training and qualification required in the economy.

Frictional unemployment is not only an inevitable phenomenon, because it is associated with natural trends in the movement of labor, people will always change jobs, trying to find a job that best suits their preferences and qualifications, but also desirable, as it contributes to a more rational placement labor force and higher productivity. Favorite work is always more productive and creative than the one that a person forces himself to perform. (Froyen,2004)

Structural unemployment is longer and more expensive than frictional unemployment, since it is almost impossible to find work in new industries without special retraining and retraining. However, like frictional, structural unemployment is an inevitable and natural phenomenon even in highly developed economies, since the structure of demand for products of different industries is constantly changing and the sectoral structure of the economy is constantly changing in connection with scientific and technological progress, and therefore in the economy structural changes are constantly taking place and will always occur, provoking structural unemployment. Therefore, if in the economy there is only frictional and structural unemployment, then this corresponds to the state of full employment, and the actual output in

this case is equal to potential. Structural unemployment is caused by structural changes in the economy, which are associated with:

- with changes in the structure of demand for products of different industries and
- with a change in the sectoral structure of the economy, the cause of which is scientific and technological progress.

The structure of demand is constantly changing. Demand for the products of some sectors is increasing, which leads to an increase in demand for labor, while demand for the products of other sectors is falling, which leads to a reduction in employment, layoffs and growth in unemployment. Over time, the industrial structure of production also changes: some industries become obsolete and disappear, such as the production of steam locomotives, carriages, kerosene lamps and black and white televisions, while others appear, such as the production of personal computers, video recorders, pagers, and mobile phones. The set of professions required in the economy is changing. (Froyen,2004)

Economic active population the population of a country that has desires and can potentially have an independent source of livelihood, this category includes people aged 15 to 72 years.

Main causes of unemployment:

- Minimum revenue
- Labor federations
- Effectiveness of revenue
- Public strategy

The costs of unemployment:

- Deficit of marketable skills and ambition.
- Loss of revenue
- Growth in health risks (particularly for long term unemployed)
- Decline in lifestyle principles.

3.3.2 Gross Domestic Product

Gross Domestic Product or **GDP** is the main, most comprehensive official indicator of social welfare. It gives an idea of the general material welfare of the nation, since the higher the level of production, the higher the welfare of the country. (Atwater, 2013)

It is widely used for international comparisons of the relative levels of economic development of different countries and regions of the world. Gross Domestic Product is an indicator of the product produced, which represents the value of the final goods and services produced. This means that the cost of intermediate goods and services used in the production process (such as raw materials, materials, fuel, energy, seeds, freight transport services, wholesale, commercial and financial services) is not included in GDP. Otherwise, the GDP would contain a double count. (Atwater, 2013)

End products are goods and services that consumers buy for end use, and not for resale. Intermediate products are goods and services that undergo further processing or are resold several times before reaching the final consumer. (Mankiw,2009)

There are two types of GDP:

- Nominal.
- Real

Nominal GDP calculated at current prices. At high inflation rates, this indicator may give incorrect data on the development of the economy. GDP growth may be associated exclusively with rising prices, and not with the growth of production in the country. (Mankiw,2009)

Real GDP is an indicator that is calculated excluding price inflation. The cost of goods is “frozen” compared to the previous year. This allows to get reliable data on real production growth for the year. (Mankiw,2009)

There are three ways how to calculate GDP:

- Calculation of value added
- Calculation of expenses
- Calculation of income

Calculation of value added to determine GDP, it is necessary to take and summarize all the gross value added that was produced by economic units operating within the geographic

boundaries of the country. To make it clear, gross value added is the difference between the market value of all goods and services produced and the market value of goods and services used in the production process. That is, when determining GDP, statistical agencies exclude intermediate consumption from their calculations (for example, raw materials, materials, semi-finished products) - this step avoids double counting and distortion of the final result.

Calculation of expenses in this case, there is nothing complicated - in order to calculate GDP, statistical agencies must summarize certain costs borne by economic entities of the country. (Mankiw,2009)

To be completely accurate, it is necessary to find the sum of the following components:

- consumers spending of the country's population.
- gross investment in the country's economy.
- government expenditure.
- net export (difference between the export and import of the country).

Calculation of income this method is similar to the previous one, only when calculating GDP, statistical services should summarize not the expenses. (Atwater, 2013)

But certain incomes of the country's economic entities in particular, it is necessary to find the sum of such components:

- salary of employees
- gross profit and gross mixed income
- net taxes on production and imports

Salary of employees is a salary that includes all kinds of bonuses, plus social security contributions paid by the employer.

Gross profit and gross mixed income are part of the gross value added that remains with the producers of goods and services after deducting the costs associated with remuneration of employees and net taxes on production and imports.

Net taxes on production and imports are taxes on production and imports levied by the state, minus subsidies on production and imports that the state pays.

Taxes on production and import are obligatory gratuitous payments in favor of the state, which, for example: import taxes, customs duties, land taxes, excise taxes, license fees and so on. (Sowell, 2011)

3.3.3 Exchange rate

Exchange Rate is one of the most important macroeconomic index, it shows the cost of one currency to another. Mostly, exchange rates are flexible exchange rates, they are driven by foreign exchange market. When the currency doesn't depend on foreign exchange market it called fixed exchange rate. The government is confident about its currency against euro or others currency, that cost of their currency holds the same price. (Kimberly,2019)

The exchange rate is an objective economic category. Its appearance is due to the following processes in the economy. Firstly, the export-import of goods and services, the movement of capital and the repatriation of income requires mutual exchange of currencies, since the currencies of other countries cannot be circulated as legal tender and means of payment in most countries. Secondly, it is used when comparing cost indicators in different countries, expressed in national currencies. Thirdly, it is used for revaluation of foreign currency accounts of economic entities. (Kimberly,2019)

In the world there are two main types of currency systems - with a fixed exchange rate and floating. Countries with a fixed-rate currency system set the value of their currency at a certain level, and then try to maintain this level. To maintain the value of the currency at this level in the event of a significant change in supply or demand for it, the central bank carries out so-called foreign exchange interventions. To do this, he must monitor the adequacy of his gold and foreign exchange reserves.

Two main types of exchange rate:

- Fixed exchange rate
- Floating exchange rate

Fixed exchange rate a rate at which the ratio of national and foreign currencies remains unchanged, despite the general economic factors of the development of the state and world currency markets. (Mankiw,2019)

Fixing the exchange rate in relation to one currency is most often found in countries with underdeveloped economies and weakened currencies. The fixing of the exchange rate in

relation to the basket of currencies is used in cases where it is supposed to eliminate the consequences of possible fluctuations in the rates of certain currencies by mutual repayment in the basket. (Mankiw,2019)

Floating exchange rate (free exchange rate, exchange rate or flotation) assumes that the exchange rate of a currency is formed under the influence of a number of economic factors that determine the demand for it and the supply on the market, can change to any extent without legislative regulation. (Mankiw,2019)

The supply and demand of each particular currency depends on the stability of the national economic system; inflation rates; degrees of cooperation and specialization of production; competitiveness of the national producer in the world market; the state of the balance of payments of the state, etc. (Holopov,2007)

3.3.4 Inflation

Inflation it is a sustainable process of reducing the purchasing power of money, its depreciation. It is a monetary phenomenon associated with excessive release of money in comparison with the offer of goods. However, this increase in money arises for various reasons. And the first of them is the growth of incomes of the population, not supported by a corresponding increase in the production of goods. So, there is excess demand, pushing up prices, a phenomenon that is especially evident in the conditions of the military economy. In this case, it is customary to talk about “demand inflation”. (Donovan, 2015)

One of main sources of inflation it’s increasing price of products and raw materials. There are variation types of inflation, depending on average price increasing, the following types of inflation possible: (Donovan, 2015)

- Natural inflation-price increases less than 10% annually.
- Creeping inflation-prices are rising gradually from 10% to 20% per year
- Galloping inflation-prices increase over 20% per year
- Hyperinflation-prices increases over 200% per year

A significant role in the development of the inflationary process is played by the so-called waiting moments. Expected price increases are pushing people to buy goods. This creates an artificial shortage of some of them, and therefore, prices increase, which forces them to demand an increase in wages in advance. It's especially difficult to bring down inflationary expectations. (Sowell,2011)

In practice, the following causes of inflation are distinguished:

- Excessive expansion of the money supply through mass lending. At the same time, funds for lending are not taken from savings, but are issued from the issue of unsecured currency. Most noticeably, this happens during periods of economic crisis or hostilities.
- The growth of government spending, for the financing of which the state is resorting to money emission, increasing the money supply over and above the needs of commodity circulation.
- A reduction in the real volume of national production, which, with a more or less stable level of money supply, leads to an increase in prices, since the same amount of money corresponds to a smaller volume of goods, work and services, that is, per unit of goods produced, work performed, services rendered more money.
- The monopoly of large companies on setting prices and determining their own production costs, especially in the resource-mining industries and in the raw materials industries.
- Monopoly of trade unions in determining the level of salaries.
- The growth of taxes, duties, excise taxes with a more or less stable level of money supply.
- The depreciation of the national currency (especially with a large number of imports into the country).

Inflation does not mean an increase in all prices in the economy, because the prices of individual goods, work and services may rise, fall or remain unchanged. (Sowell,2011)

3.4 Foreign trade

3.4.1 Import

Import it's bringing in of goods, works, services, results of intellectual activity into the customs territory of a state or country from abroad without obligation to re-export. (Gandolfo,1998)

There are two main types of imports: imports of industrial and consumer goods, and imports of intermediate products (raw materials) and services. (Gandolfo,1998)

Foreign companies importing goods and services into the domestic market of the country strive to ensure that their quality is as high as possible, while the price is lower than that of domestic companies. (Gandolfo,1998)

At the same time, foreign manufacturers seek to import into the country those types of products that are for some reason not available in the local market. Currently, there are three main types of importers:

- searching for products around the world for the purpose of importation and sale on the domestic market.
- engaged in the search for external suppliers in order to obtain products at the lowest price.
- using foreign suppliers as one of the links in their supply chain.

Another type of import classification is its division into direct and indirect:

- **Direct import** the consumers buy the commodity or service from foreign manufacturer
- **Indirect import** receipt goods and services from an intermediary company, specializing in such operations.

3.4.2 Export

Export it's a taking out of goods or services from the territory of the state, without obligation to re-enter the country. (Norman,1998)

As well as import, export has two types of its operation:

- **Direct export** represents the main export method, based on the level of the economy in production, which is concentrated in the country of manufacture and providing better control over distribution. Direct exports work more productive if volumes are small. (Norman,1998)
- **Indirect export** it is a process of primary export through intermediaries within the country. Indirect export methods require less marketing investment, but since the exporter does not have control over their products in the foreign market, the company loses substantial control over the marketing process. (Norman,1998)

A product is considered exported if it is sold to a foreign legal entity or individual. Export delivery of goods - the reimbursable transfer of goods by the seller to the buyer in fulfillment of the contract of sale. Export transactions are executed in a contract containing the rights, obligations and responsibilities of transaction partners. (Gandolfo,1998)

3.4.3 Trade balance

The **trade balance** is the difference between the amount of export and the amount of import of goods by a given country. It takes into account trade transactions of residents with non-residents, commodity exports and imports for a certain period (part of the balance of payments). (Holopov,2007)

If exports exceed imports, we are talking about a trade surplus (surplus). If imports exceed exports, it is customary to speak of a trade deficit (negative balance). The trade balance reflects, first of all, the competitiveness of goods of a given country abroad. It is closely related to the level of the national currency exchange rate, since a large positive value of the trade balance, its positive balance, means the influx of foreign currency into the country, which increases the rate of the national currency. A negative value of the trade balance means the low competitiveness of the goods of a given country in foreign markets. This leads to an increase in external debt and a depreciation of the national currency. Volumes of export and import are not considered as equal. Exports have a more direct impact on the country's economic growth, which is why financial markets attach more importance to export. On the other hand, import growth may reflect strong domestic consumer demand and its dissatisfaction with the national economy. (Holopov,2007)

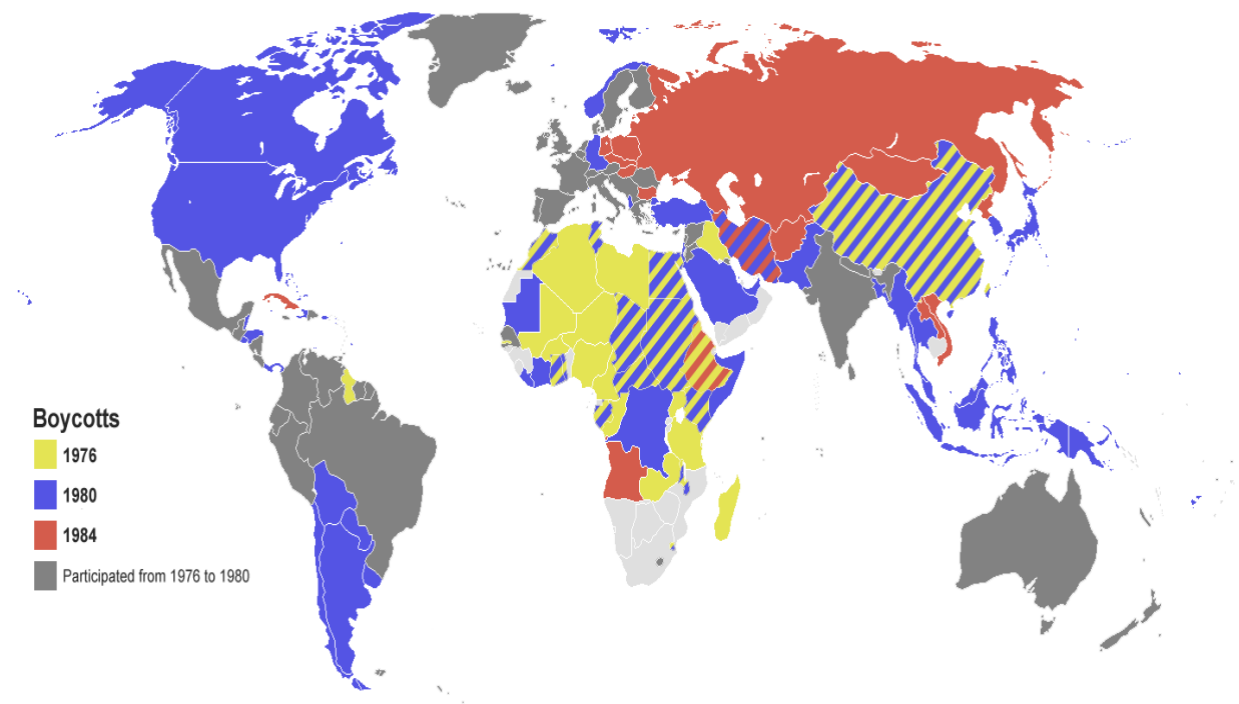
4 Practical Part

4.1 History of Anti-Russian sanctions

Sanctions have a long-way history in our world, in case of Russia economic sanctions were using in time of Ivan IV also known in history as an Ivan the Terrible because of his brutality. In a classic form, sanctions were used when diplomatic way for agreement doesn't work and military actions are undesirable. First imposition of sanctions was in 432 B.C. The first anti-Russian sanctions were most clearly identified in the late Middle Ages, in 1548. When Ivan The Terrible entered into the Livonian war he got negative impacts and economic sanctions from neighboring countries. Particularly, sanctions affected the supply of copper and bronze from Western countries to Moscow. The next place in history of Anti-Russian sanctions took the Peter the Great or Peter I and his daughters the Catherine II or Catherine the Great and Elizabeth. By their efforts were created a powerful community and world leader country which fully ensured its safety and was one of the most stable countries in Europe. Therefore, until the second half of the 19th century, before Russia entered the period of the systemic crisis, no one openly declared sanctions. In the middle of century, the outcome of the Crimean War, which wasn't successful for Russia, the issue of imposition economic sanctions was faced. After the Great October Revolution and the agreement between Russia and Germany, new economic sanctions started. They were imposed by the USA and Entente countries, before the imposition of sanctions these countries started intervention. In 1925 was announced a "golden blockade", the Europe and U.S declined to trade with the USSR for gold. In 1930, the block on the import from the USSR of all the goods except grain was imposed. The next sanctions on USSR were announced in 1939 in connection with Soviet-Finnish war. In the time of World War II, economic sanctions against USSR were not introduced, since the Soviet Union was an ally for the United States of America and the Great Britain.

During the 1948-1949 the United States limited export of equipment from USSR. In the future familiar restrictions continued and new ones were introduced. For the last 100 years USSR/Russia was under the sanctions all the time, even the during the Great Patriotic war, the allies imposed the trade ban to USSR of certain types of weapons and technologies. And from the beginning of the Cold War, sanctions began to increase. (Ishenko R, 2017)

Picture 1 Olympic boycott



Source: ruexpert.ru

Already in September 1983, the most resonant event was the incident a Koran Air airline passenger liner, which violated 1 USSR airspace with more than 500 km. The command of the Soviet air defense was adopted as a spy plane, as a result of which the Soviet Su-15 was shot down. The incident became the foundation for the unleashing of another anti-Soviet campaign, in which the United States introduced economic sanctions against the USSR. As a result, the airspace between the two countries was blocked. But after several months, in November 1983, in connection with the losses of large American airlines that lost a convenient route to Asia, the sanctions were canceled. After the collapse of the USSR, previously imposed sanctions continued to operate. For example, 10 Russian scientific institutions fell under U.S sanctions for cooperation with Iran in the missile field, although in 2010 they were canceled. (Ishenko R, 2017)

From 2013 under the U.S sanctions were almost 460 organizations and company, 300 individuals. (Bocharnikov I, 2003)

Table 1 History of Anti-Russian sanctions in XX century

Time	What	How	Outcome
1925 Golden Blockade	After the revolution and the Civil War, the USSR needed a lot of equipment and technologies, which were planned to be bought abroad.	West countries and U.S stopped accepting the gold as a payment for sold equipment and asked from Russia to pay with oil and grain.	Famine, the complete blockade of all goods from USSR.
1949 Technological Blockade	U.S developed a controlled technology lag strategy.	Commodities and technologies, which were banned for export.	Slow growth of the USSR in development.
1974 Jackson-Vanik amendment	Obstruction of trade between the USSR and the USA.	Were introduced additional oppressive tariffs and fees for goods supplied from the USSR.	Economic losses for the USSR and the USA.
1980 Boycott of the Olympic games (Figure 1)	Some countries in Europe and the United States because of the war in Afghanistan.	Boycott in taking part in the summer Olympic Games in Moscow.	Commodity substitution in the USSR.
1981 Blockade of gas pipeline construction	The United States has shown a desire to disable Soviet foreign trade.	The supply of materials for the construction of the Soviet export gas pipeline was stopped.	Attracting additional resources to the USSR.
1983 Sanctions for the downed Boeing-747	The downed plane by Soviet troops Boeing-747 airline "Korean Air".	The USA completely blocked air communication with the USSR.	The sanctions were lifted two months later, since the impact was negative for America itself, in the form of airline losses.
1998 Scientific "Blacklist"	Because of suspicions of technology to Iran.	The United States imposed the restrictions on scientific companies.	The sanctions were canceled in 2010.

Source: own elaboration based on Ilina E.V effect of sanctions on Russian Economy.

In February 1980 the UN General Assembly by a majority vote condemned the entry of Soviet troops into Afghanistan. Western countries supported the boycott initiative, which the threat of a breakdown in games. In April 1980 the United State Olympic Committee made the final decision to boycott the games. In a Figure 1, the countries that marked in a blue were boycotting the Olympic Games 1980. The USSR accepted the challenge and with the socialist countries that are marked in a red color in Figure 1 boycotted the Olympic Games in 1984 in Los-Angeles. (Ishenko R, 2017)

4.2 Reason of imposition sanctions

In March 2014, after the Russian Federation supported the unilateral declaration of independence of the Republic of Crimea and accepted its proposal to become part of Russia, the USA and the European Union, Australia, New Zealand and Canada introduced the first package of sanctions. These measures included the freezing of assets and the introduction of visa restrictions for persons included in special lists, as well as a ban on companies from countries that imposed sanctions to maintain business relations with individuals and organizations included in these lists. (Nureeva.R.M 2017)

In addition to these restrictions, the closure of contacts and cooperation with the Russian Federation and Russian organizations in various fields was also undertaken. The next expansion of sanctions was connected with the situation in the south-east of Ukraine.

Table 2 Economic sanction against Russia

Industry	List of sanctions
Oil	<ul style="list-style-type: none">• Sanctions against certain companies and their subsidiaries, as well as related corporations.• The ban of export of oil production technologies.• Freezing existing and refusing to conclude new projects.
Gas	<ul style="list-style-type: none">• Sanctions against certain companies and their subsidiaries, as well as related corporations.• Freezing existing and refusing to conclude new projects.
Financial and banking	<ul style="list-style-type: none">• Freezing financial assets of Russian entities and individuals.• Disconnection of Russian banking structures from international payment systems.• Limitation on placement of funds in western banks.• Limitation on access to credit resources.
Military-industrial complex	<ul style="list-style-type: none">• The ban on military operations with Russia.• The ban on export of dual-use goods to Russia, as well as any technology that can be used for military purposes.
Others	<ul style="list-style-type: none">• Personal sanctions against individuals of the Russian Federation• The ban on investment projects, the supply of equipment and materials for infrastructure, transport.

Source: own translation based on information retrieved from Nureeva R.M 2017.

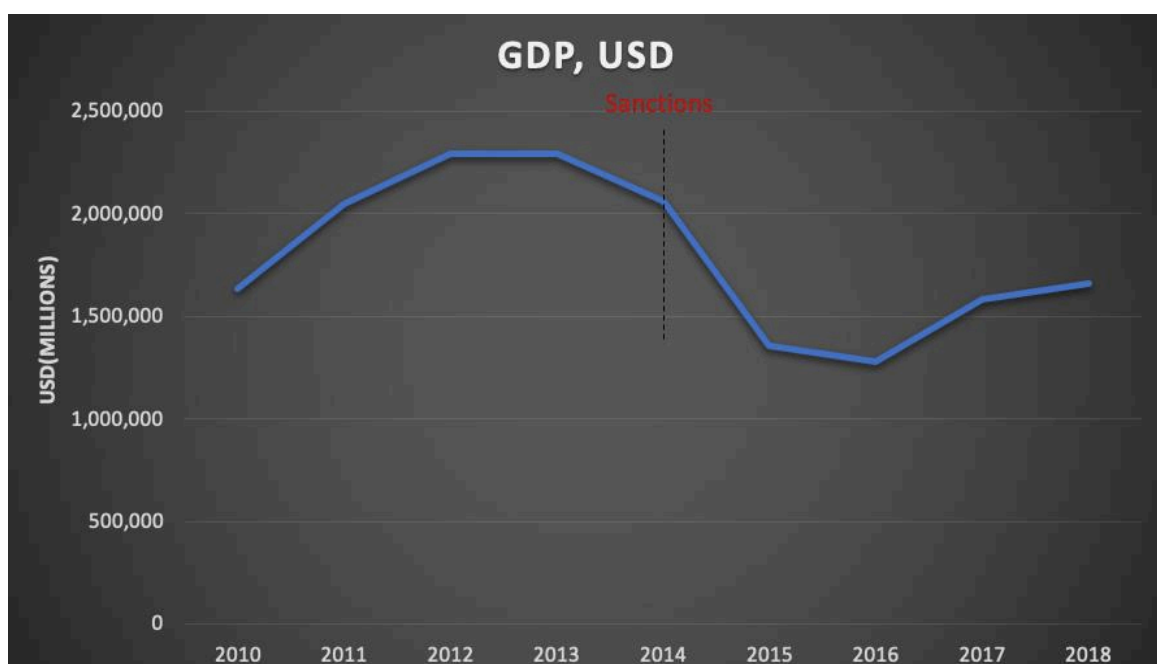
Later, the next stage of sanctions was related to the disaster of Boeing 777 in the Donetsk region in July 17, 2014. The reason was, according to the leadership of a number of states,

actions of rebels supported by Russia using special types of weapons supplied, in their opinion by Russian Federation. Economic sanctions against Russia are presented in a Table 4. Primarily they related to the gas and oil industry and the financial, banking sectors. (Nureeva. R. M 2017)

4.3 Changes in GDP before and after sanctions 2014

In our case we can see that before economic sanctions Russian's GDP was in a positive movement and almost stabilized after crisis 2008. In the period from 1998 to 2008 Russian GDP grew by 95%, financial crisis turned the economy to the unexpected negative tendency.

Figure 1 GDP (2010-2018)



Source: Own chart. Based on data.worldbank.org.

The end of 2013 GDP looked positive and in a good direction, all macro indicators were in safe position. Since Western Sanctions (2014) situation completely changed and economy was turned to opposite direction.

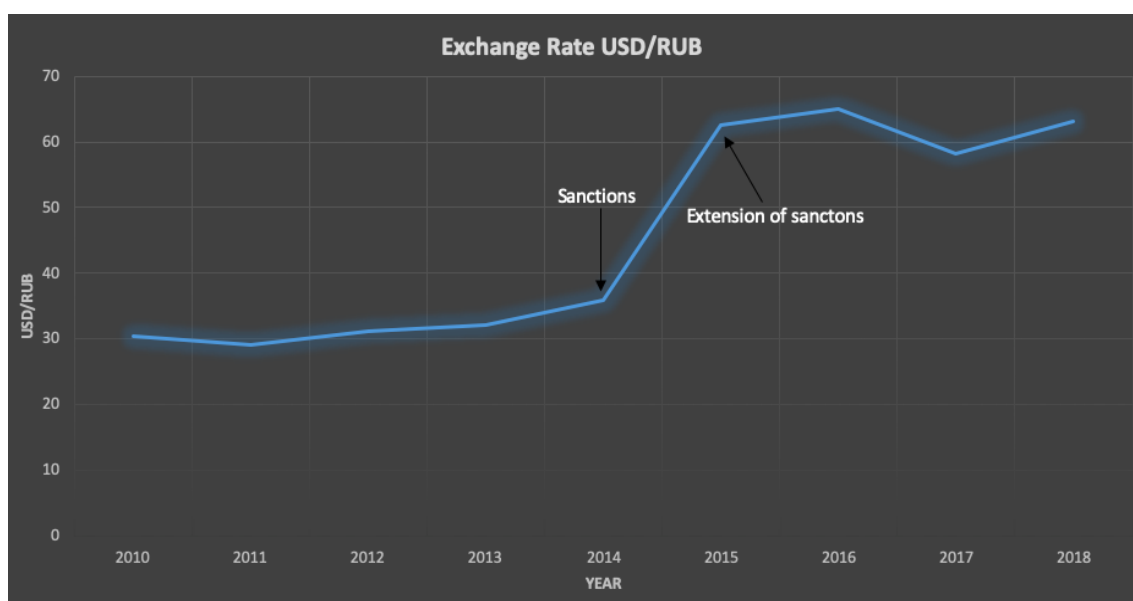
The imposition of economic sanctions has an impact for all macro indicators including GDP. Was created a chart and was found dramatically changes in GDP after imposition of economic sanctions.

In the 2014 after annexation of Crimea by Russia, EU and US imposed economic sanctions against Russia. All economic indicators which looked stability dramatically changed therefore GDP (Figure 1). New regulations of Import and Export from economic sanctions have a huge influence for Russian Economy including GDP.

4.4 Exchange Rate USD/RUB before and after sanctions 2014

Russian currency was falling down after announcement of economic sanctions. Devaluation of Russian RUB was a consequence of oil price declining, cause government budget mostly comprises of oil and gas export. It means that oil and gas sector contribute to development and growth of Russian Economy. Was created a chart and there was observed negative effect of economic sanctions on Exchange Rate USD/RUB.

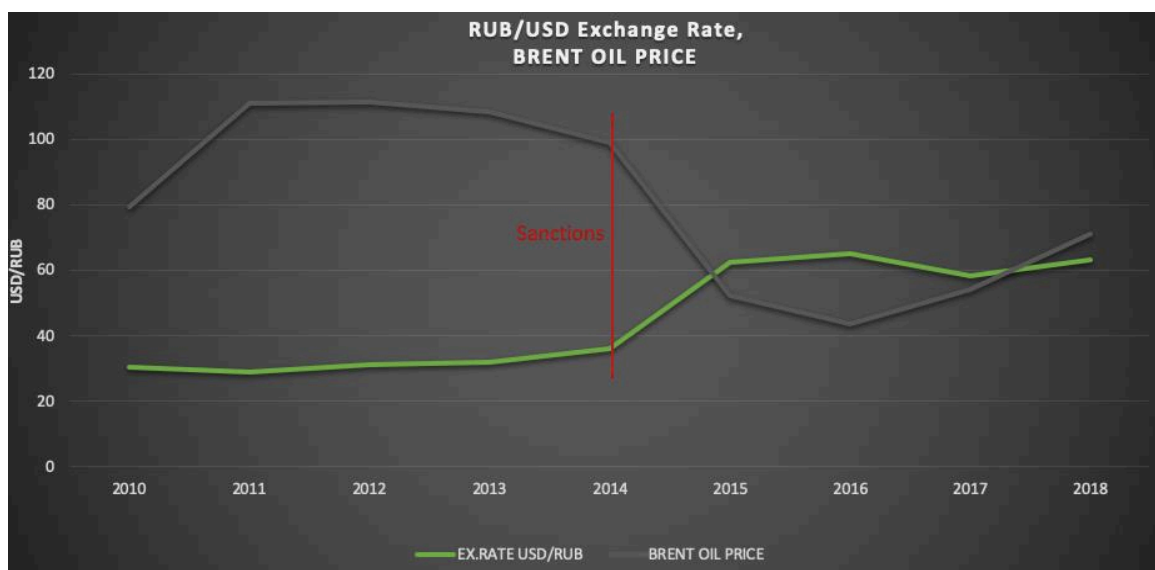
Figure 2 Exchange Rate USD/RUB (2010-2018)



Source: own chart. Based on exchangerates.org.uk.

It was a big impression on Russian Currency, imposition of sanctions declined dealings with western countries. As a result a lot of Russian companies faced difficulties with foreign companies that brought influence on currency.

Figure 3 RUB/USD Exchange Rate, Brent oil Price



Source: own chart. Exchangerates.org.uk.

In 2014 Russian Economy had a double crash from imposition of sanctions and declining price of oil. To run interventions during the crisis it's so risky, because government could spend all stocks of foreign currency to support RUB and did not reach the goal. In 2014 Government announced that our currency in a "FREE FLOAT".

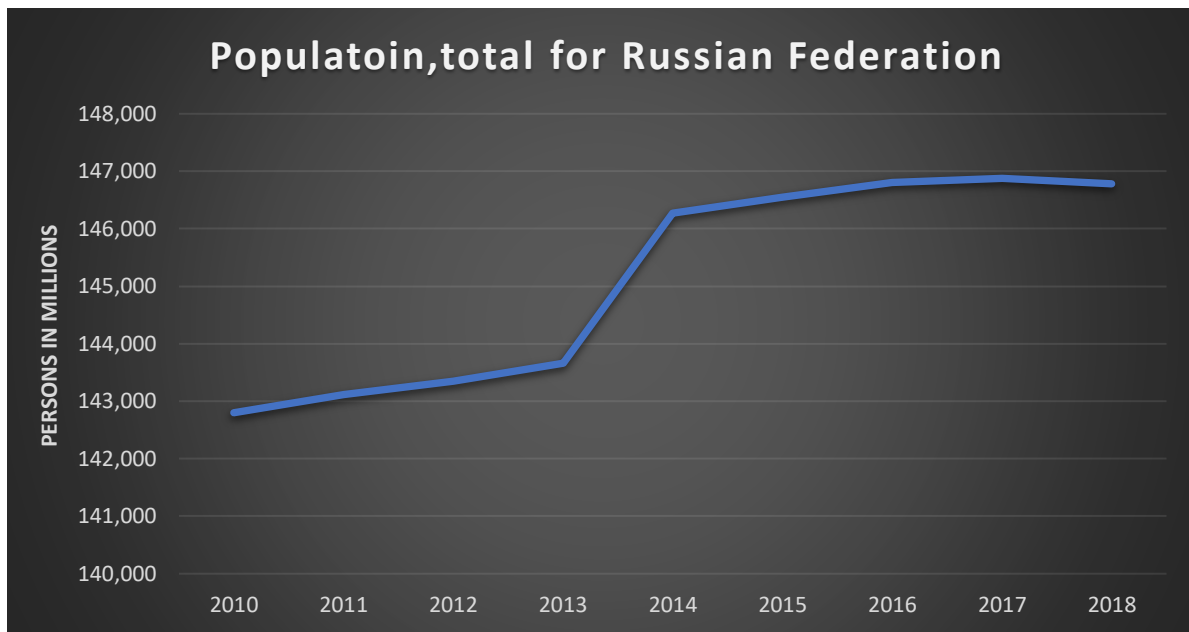
In a graph above, there is correlation in Exchange rate in a ratio with Oil price.

4.5 Unemployment rate 2010-2018

Figure 4 demonstrates that Unemployment rate from 2010 in a decrease tendency, in 2011 percentage of unemployment people increased by 2% in comparison with previous year. Due to economic sanctions in 2014 unemployment rate has a tiny shift, from 5.16% to 5.57% (2014 and 2015) regarding to staff cuts.

According to Rostat labor force in January 2017 was 76.1 million or 52% from whole population of Russian Federation.

Figure 4 Population, total for Russia Federation



Source: own chart, based on Data.worldbank.org.

In 2012-2014, the growth trend became more stable, for 2010-2017, the number of permanent residents of Russia without the Crimea increased by 1.8 million people (1.3%) and by the beginning of 2018 reached 144.5 million people, which roughly corresponds to the level of the fall of 1986.

In July 2012, two major significant events in the agricultural sector took place: firstly, Russia joined the WTO, and secondly, the State Program for the Development of Agriculture and the Regulation of Agricultural Products, raw materials and food markets for 2013–2020 was approved, these events influenced on development of new job opportunities.

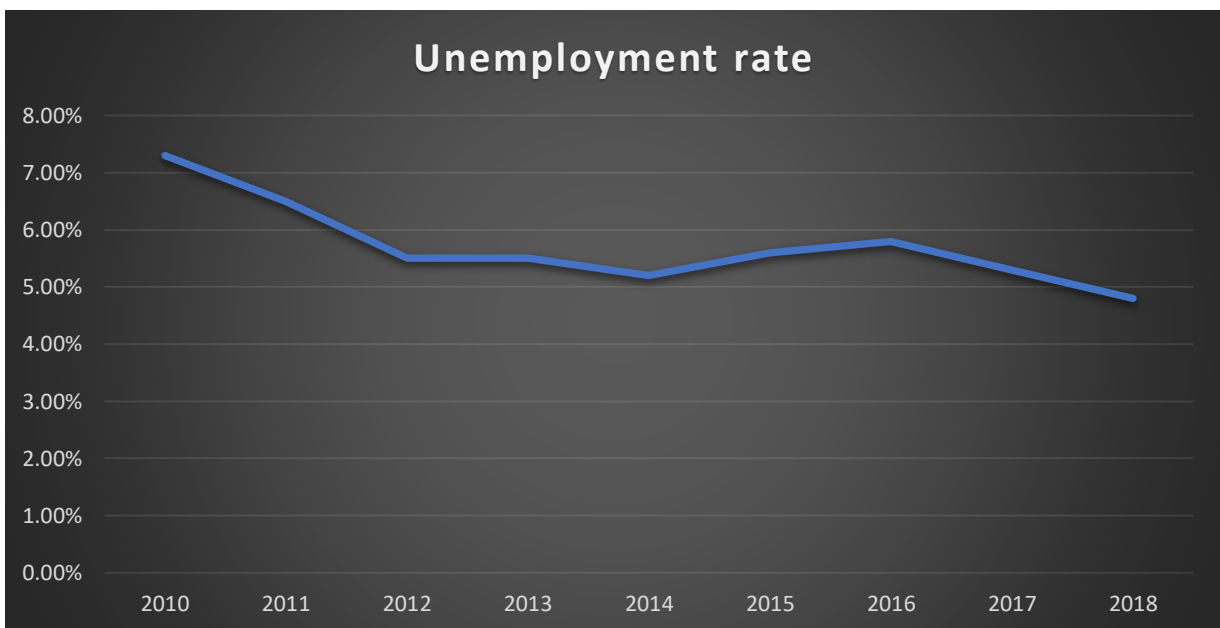
Figure 5 Economically Active Population 2000-2018



Source: fred.stlouisfed.org.

The number of economically active population in 2016 (Figure 5) was peak for the recent history of Russia, the changes are due to obvious demographic trends. Low-skilled labor is less and less demanded, therefore, higher education is delayed.

Figure 6 Unemployment rate 2010-2018



Source: own elaboration based on Rostat.

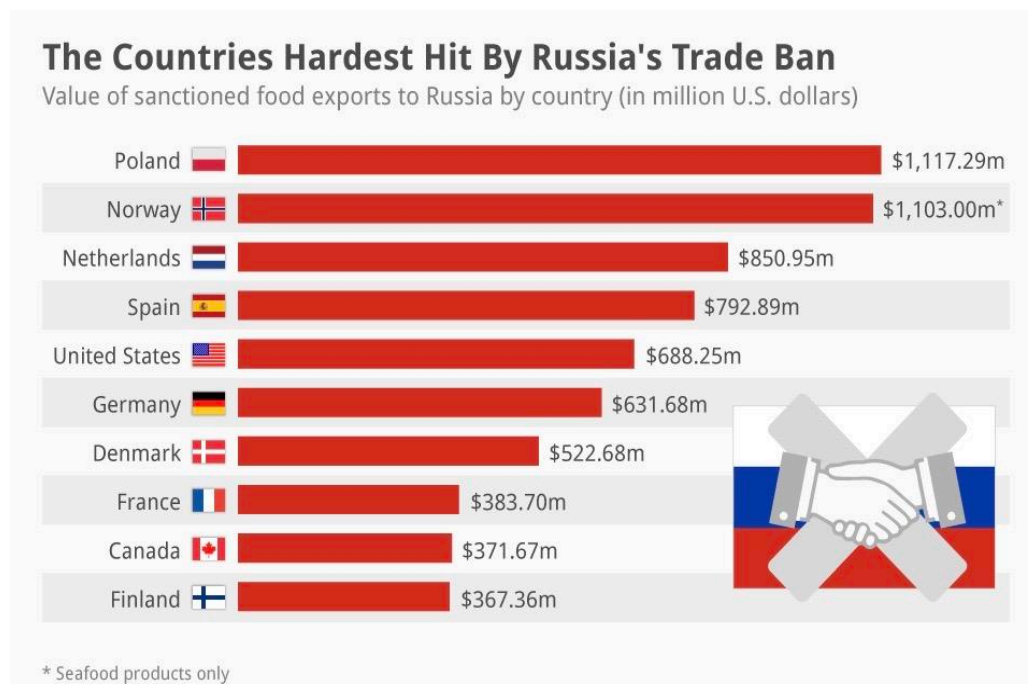
In 2018, the number of unemployed in the country decreased compared to last year. According to the Federal State Statistics Service, as of January 2018, the number of unemployed in the country amounted to 5.2%, by the end of the year the indicator fell to 4.9%.

4.6 Import and Export

Russian Federation is one of the biggest commerce partner of European Union, since 2012 Russian Federation joined WTO and their connection structured by WTO rules. EU and Russian Federation achieved a commerce peak in 2012, after imposition of sanctions dropped by 45% between 2012 and 2016. From 338.8 billions EUR to 190.5 billions EUR in 2016. Russian Federation a huge supplier of oil and gas to EU, consequences of economic sanctions has a negative impact on a trade volume among Russian Federation and EU especially on EU import. In August 2014 Russia announced a ban on imports of EU agricultural products. Result of Russian ban was dramatically unpleasant for most of EU countries. Russia is a second largest market for EU agricultural products after USA.

73% of import products were banned by the Russian Embargo. In a Picture 2 below we can see most affected countries by Russian Ban. As 73% of agricultural products were banned, EU had to find new destination for their products. For instance, the ban of pork by Russia, only part of pork was allocated after 8 months. Farmers in Poland has a big surplus of their products, despite on fact that most of the farmers got subsidy from government it wasn't enough to cover all losses. Poland was a one of biggest supplier of fruit and vegetables.

Picture 2 The countries Hardest Hit by Russia's trade ban



Source: Statista.com.

As a Russian Federation is a big market for western countries, in a short-run Russian Embargo took a negative position in the perishable sector, because fruits and vegetables were growing after the Russian Trade Ban. For perishable sector can be find other consumers but it will take some period of time to do it.

In a Table 3 there are countries and their perishable products, in case of Poland which was the one of the biggest exporter to the Russian market of vegetables and fruits, were banned products in a value of 927 EUR millions.

Source: European Parliament, employment and social affairs. The Russian Embargo Impact on the Economic and Employment Situation in EU.

Table 3 Most affected by Russian Embargo EU countries.

Country	Perishable products
Lithuania	Vegetables, fruit, dairy products.
Latvia	Fruit and vegetables, dairy products.
Cyprus	Fruit and fish.
Poland	Fruit and vegetables.
Belgium	Fruit and meat.
Spain	Fruit and vegetables.
Greece	Fruit, vegetables and cheese.
Denmark	Dairy products, fruit and vegetables.
Estonia	Dairy products.
Finland	Dairy products.
United Kingdom	Fishers products/mackerel.

Source: European Parliament, employment and social affairs.

As an EU agricultural sector was aimed on Russian market, a solid part of export belongs to Russia, ban food has a critically damage for agricultural market. In case of Russia it's a dramatically inflation for specific products, in case of EU it's a big surplus for their exports'

products without any substitute market, considering the fact that fruits and vegetables are perishable products.

Foreign trade in goods and services has a significant impact on the economic development of Russia. Despite the relatively low share of net exports calculated as the difference between export and import in the structure of GDP, this component makes a significant contribution to the dynamics of GDP.

Figure 7 Import, Export, Trade balance for trade in goods



Source: own chart. Based on Eurostat.

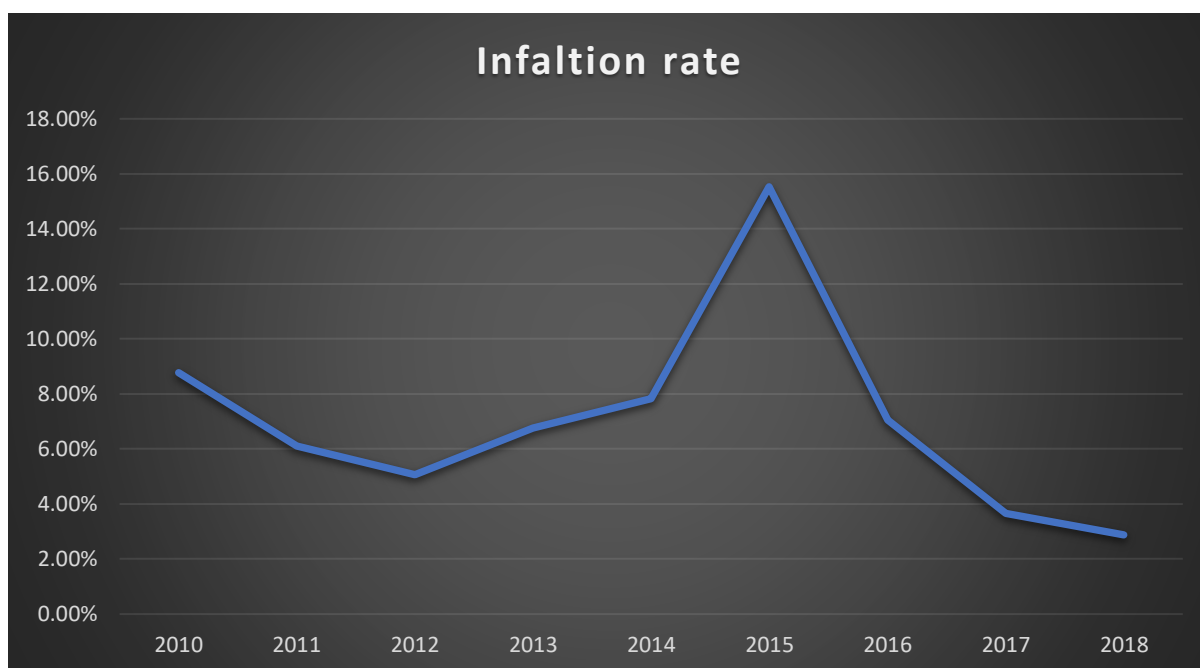
In the structure of Russian imports from Europe, machinery and equipment traditionally occupied the first place. The second was always agricultural products, which, however, we are now more self-sufficient. A significant portion of imports are also pharmaceuticals. In a graph above was confirmed that after financial crisis 2008, EU and Russia were trying to restore their trade relationship and develop their trade. Period of 2012 was a heyday for Russia economy, main macroeconomics aspects were almost stabilized after financial crisis 2008 and some of them began generates profit. GDP and commodity circulation were in pretty positive tendency. Russian Federation decided to take a part in Ukrainian crises, to annex Crimea

peninsula that brought incredible consequences for their economic. Imposition of west economic sanctions and Russian Embargo provided the worst effect on trade volume.

4.7 Inflation

Sanctions and devaluation of Russian RUB were the main factors which influenced inflation rate (Figure 8). Such a powerful acceleration of inflation rate was caused by economic sanctions.

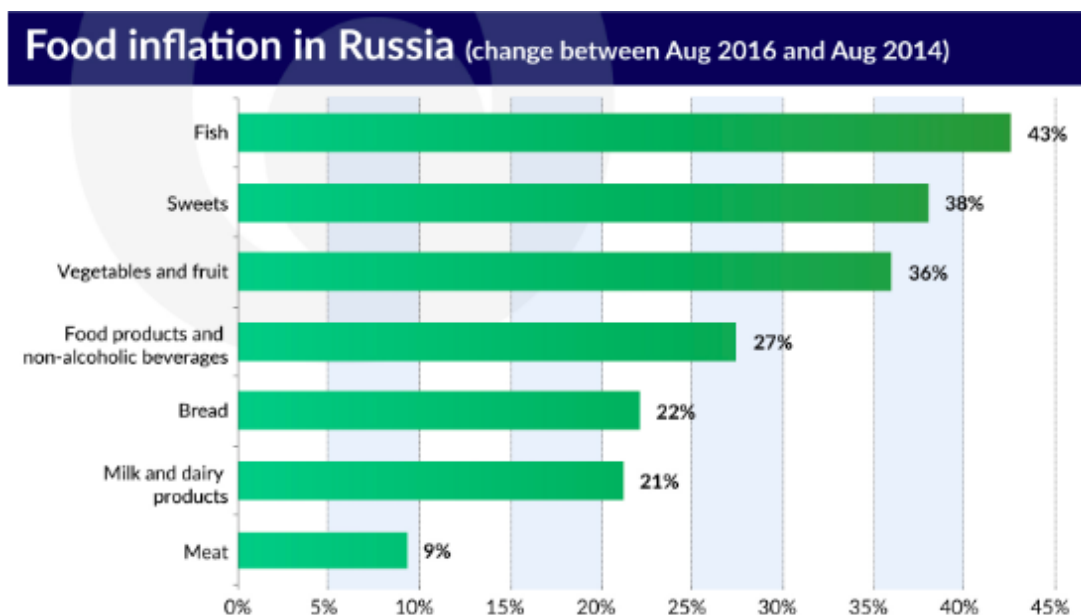
Figure 8 Inflation rate 2010-2018



Source: own elaboration. Based on Rosstat.

If it were not for the sanctions and the weakening of the RUB, then food prices would most likely decline, making on the contrary, a negative contribution to inflation.

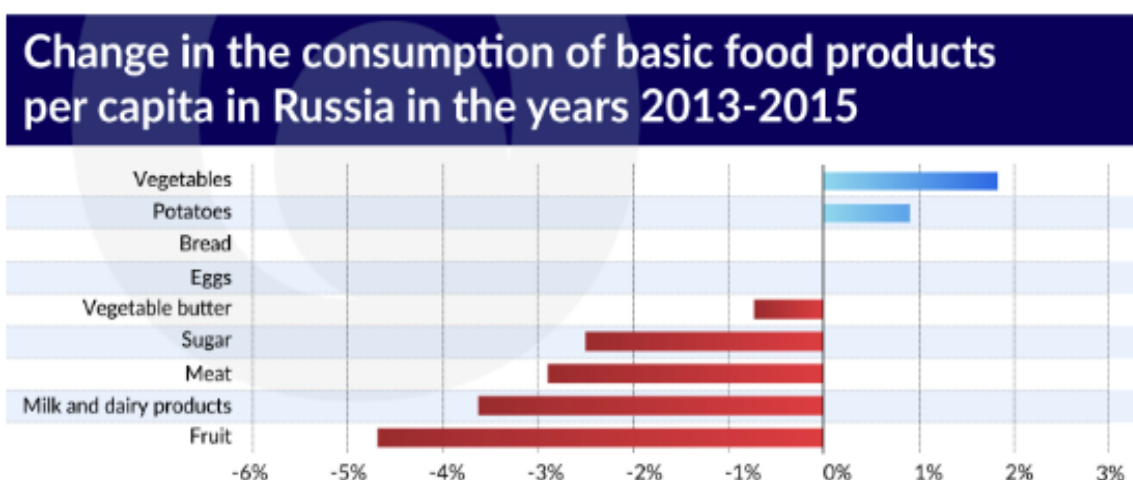
Picture 3 Food inflation in Russia



Source: Rosstat.

Sanctions can also explain the increase in fish and dairy product prices, since import was banned, which provided 30% of the consumption of this product. Since the Russian Federation announced the food ban, it's changed the consumers preferences in Russia.

Picture 4 Change in consumption



Source: Rosstat.

Thus, changes in the structure of food consumption reflect an increase in the share of relatively cheap products in the diet of Russians and a decrease in the share of more expensive products.

5 Conclusion

This thesis is aimed to demonstrate the outcome of western sanctions and analyze their consequences. Based on the objectives of the thesis, the result was achieved through descriptive and thematic analysis. By examining macroeconomic indicators, this bachelor thesis demonstrates how the implementation of sanctions brought on negative effects for the Russian Federation. The sanctions countermeasures, known as the Russian Embargo, resulted in huge losses for the European Union, especially for its agricultural sector (Picture 2). Albeit these countermeasures could bring positive impulse for Russia and its companies, to enhance their potential, to increase the volume of production and to develop the agricultural sector. The evidence of the positive amendment it's the unemployment rate which was investigated in a practical part of the thesis (Figure 6). This macroeconomic indicator has a small shift in 2014 and 2015 due to staff cuts. Afterward, the Russian Economy adapted to the sanctions and the unemployment rate started declining, which in turn caused the development and improvement of the domestic economy.

The practical part of the research contained the analysis of Russia's Gross Domestic Product. It showed that before sanctions Russian GDP had a stable growth (Figure 1) and built positive trend growth by 95%, until the period of the financial crisis 2008. After the crisis in 2008 GDP stabilized and began growing, the western sanctions and the downturn of oil price brought consequences for the dramatic decline of the Russian GDP.

Trade volumes both in EU countries and in the Russian Federation have gone down, which is showcased in Figure 7 by the steep downslope in imports and exports among the countries. After the sanctions, trade volume decreased from 338.8 billion EUR (2012) to 190.5 billion EUR (2016). As 73% of import commodities were banned by Russia, it brought difficulties for the economies of both sides, and specifically their budget. When the economic sanctions were imposed, the macroeconomic landscape was no longer the same. The main indicators of economic growth such as inflation, exchange rate, and GDP show that impact sanctions had caused. The Russian Ruble, too, was devalued because of the sanctions as seen in the exchange rate in Figure 2. In addition to that, since the Russian economy heavily relies on oil and gas, the decline in oil prices also negatively impacted the country's budget.

This thesis demonstrates that the outcome of the western sanctions imposed on Russia had a dualistic outcome. On one hand, it has caused considerable damage. On the other, it ignited the

development of domestic production, as a State Program for the Development of Agriculture was approved, which will now allow the Russian Federation to become more autonomous from western trade.

Overall, the research demonstrates the indisputable effects western sanctions had on the Russian economy. It also showcases the suffering the general public endures as a consequence of the choices which were made strictly out of political interests.

Following the objectives of the paper, the main conclusion which can be drawn is that the imposition of sanctions slowed down most of the macroeconomic growth indicators, which were observed in the practical part of the research and created a declining tendency for them. In summary, the research argued that western sanctions worked as a political tool and impacted the Russian economy and its people.

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