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Russia's Counter Sanctions: Forward to the Past!

Since February 2022, Russia has introduced a series of counter sanctions in response to the international sanctions introduced following the country's full-scale invasion of Ukraine. These measures aimed to counteract external economic pressure while shielding the domestic economy from further destabilization. However, their broad implementation has led to mixed effects across various sectors while simultaneously increasing the administrative burden. This policy brief argues that Russia's countersanctions reinforced state control over key industries, worsened market competition and fiscal sustainability, which contributed to a systematic move towards a planned economy.

Russia's Counter Sanctions and the Expansion of State Control

Since February 2022, Russia has introduced a series of countersanctions in response to the international sanctions imposed following its invasion of Ukraine. A broad range of economic, financial, and trade restrictions have been implemented, including nationalization of foreign assets, price control, capital flow restrictions, export bans, and state-directed subsidies – all aimed at mitigating external economic pressure while reinforcing state control over key industries (Garant, 2025).

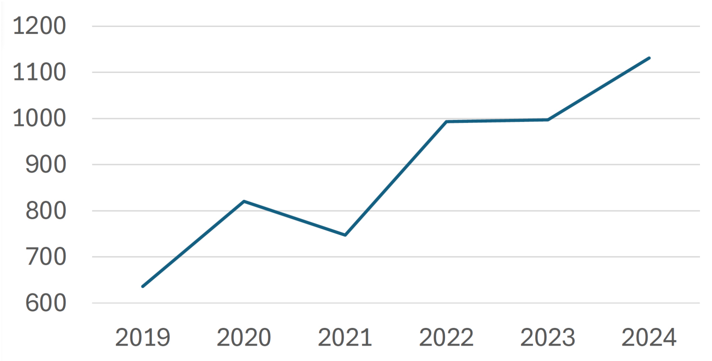
While it is widely accepted that, in times of crisis, governments may intervene in the economy to provide necessary support, such intervention should remain limited in scope and duration. Prolonged state involvement, particularly through subsidies and market controls, can distort price signals, crowd out private investment, and erode the foundations of competitive market dynamics (Friedman, 2020).

In the case of Russia, intensive government economic interventions, specifically after 2022, have led to mounting inefficiencies, increased inflationary pressures, and weakening long-term growth prospects (SITE, 2024; SITE, 2025). This policy brief discusses how the recent surge in presidential decrees, the sharp expansion of targeted subsidies across nearly all sectors, and the tightening of price regulations reflect the Kremlin's strategic use of counter sanctions as a means of consolidating economic power and reinforcing centralized control.

An Expansion of Presidential Control

Since 2022, presidential decrees account for 25 percent of all anti-sanctions legislative measures, indicating a significant consolidation of executive control over economic policymaking. The trend of expanding presidential control through issued decrees is illustrated in Figure 1. As shown in the figure, the total number of presidential decrees has nearly doubled since 2019, amounting to 1131 in 2024. The largest share of this decree increase, however, occurred post February 2022.

Figure 1. Number of Presidential Decrees in Russia



Source: ConsultantPlus, 2025.

Beyond the expansion in the number of decrees, what is particularly noteworthy is the breadth of topics they cover. They range from significant interventions on nationalization and economic control to quite detailed low-impact orders.

Among the highly impactful presidential decrees, Decree No. 79 (February 28, 2022) should be mentioned. The decree introduced a mandate that Russian residents engaged in foreign economic activities sell 80 percent of their foreign currency earnings. Further, Decree No. 302 (April 25, 2023), allowed the Russian state to seize foreign assets from "unfriendly states" if necessary for national security or in retaliation for asset confiscations abroad. Global companies from Germany (Uniper), Finland (Fortum), France (Danone), and Denmark (Carlsberg) are among those affected by these expropriations (Garant, 2025). Seized foreign assets were transferred to state-controlled entities, which drastically reduced competition and increased inefficiencies within key Russian industries.

Similarly, Decree No. 416 (June 30, 2022) on the Nationalization of Sakhalin-2, transferred oil and gas projects from foreign operators (Shell, Mitsubishi and Mitsui) to a Russian-controlled legal entity. Moreover, foreign companies from "unfriendly" countries were required to sell their Russian assets at a minimum 50 percent discount when exiting the market. Additionally, they were obliged to pay a "voluntary contribution" to the Russian federal budget at 15 percent of asset value (Garant, 2025).

At the same time, numerous presidential decrees have been adopted to address very specific low-level administrative issues. While their economic impact has been quite limited, they have largely contributed to a growing micromanagement and regulatory complexity (for instance, Decree No. 982 (December 22, 2023) on Temporary State Control Over a Car Dealership, Decree No. 1096 (June 17, 2022) on Transport Credit Holidays etc.).

Apart from the potential negative effects of direct government intervention in the economy, there are several issues with Presidential Decrees. Most importantly, presidential decrees, unlike statutes or other forms of legislation, are not subject to parliamentary approval. Thus, they are bypassing legislative debate and accountability, which makes them less transparent and balanced. Presidential decrees serve as tools to avoid legislative resistance since the Russian judiciary rarely challenges presidential authority, meaning decrees are difficult to contest or reverse through legal means. Further, they often overlap with other legislation, thus duplicating the functions of other legislative (and executive) authorities, leading to regulatory uncertainty. This, in turn, undermines implementation and expands bureaucratic oversight, further increasing inefficiencies and costs (see for instance, Remington, 2014; Pertsev, 2025).

Altogether, the surge in presidential decrees in Russia contributes to increasing institutional instability, an increasing administrative burden and a centralization of power. However, the full impact of these measures on the macro level is yet to unfold.

Targeted Subsidies and Industry Dependence

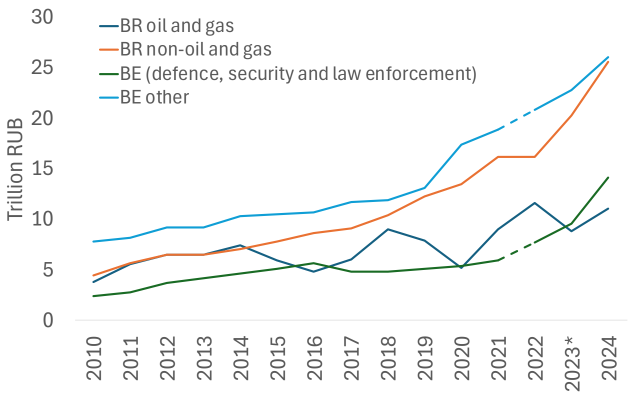
A key tool in Russia's counter sanctions strategy is the expansion of state subsidies. Since 2022, substantial subsidies have been directed toward the energy sector; industrial and technological development – including aviation, pharmaceuticals, electronics, and shipbuilding; agriculture and food security; transportation and infrastructure; the banking sector; housing; and consumer lending. The scale of these subsidies indicates growing imbalances and escalating fiscal risks in the Russian economy (Garant, 2025).

However, estimating the total resources going to subsidies is quite challenging. Precise subsidy figures are only explicitly stated in few legislative acts. Most legislative documents mention the form of subsidy without specifying the amount or the source of financing. Nevertheless, some estimates have been made by both Russian and Western experts.

For instance, Russia spent approximately 12 RUB trillion (126 USD billion) on fossil fuel subsidies in 2023 (Gerasimchuk et al., 2024). Subsidies to the agricultural sector were estimated at 1 trillion RUB between 2022 and 2024 (Statista, 2025). Since 2022, Russia has allocated approximately 1.09 trillion RUB (12 billion USD) in subsidies to the aviation sector to maintain operations (Stolyarov, 2023; Garant, 2025). Around 100 billion RUB were allocated to support the tourism industry during 2023–2024 (Ministry of Economic Development of the Russian Federation, 2024; Garant, 2025).

To understand the order of magnitude, it's worth noting that, for instance, budget revenues from oil and gas amounted to 8.8 trillion RUB in 2023 and 11.1 trillion RUB in 2024 (Figure 2).

Figure 2. Budget revenues and expenditures



Source: SITE, 2025.

In addition, state subsidies for mortgages nearly doubled since 2022, with the total amount reaching 1.7 trillion RUB between 2022 and 2024 (CBR, 2024). Thus, the Russian mortgage market has become heavily dependent on state support, with subsidized mortgage programs accounting for nearly 70 percent of the growth in mortgage lending in early 2024 (CBR, 2024). Although the so-called standard preferential mortgage program was terminated on July 1, 2024, its discontinuation does not remove the substantial fiscal burden created by earlier subsidy schemes.

Moreover, the Russian government has expanded subsidized lending programs to support both businesses and individuals. For instance, preferential loans and credit holidays have been granted to small, medium and large enterprises (see for instance, Presidential Decree: No. 121, March 2022, Federal Law 08.03.2022 No. 46-FZ, and others (Garant, 2025)), further straining the government's finances.

In many cases, subsidies allocated to state-owned enterprises double as a mechanism for off-budget military financing. For instance, defense-industrial conglomerates like Rostec not only receive targeted support but play also a pivotal role in facilitating military acquisitions and production activities outside of the formal federal budget framework (Kennedy, 2025). This not only obscures the true scale of budget expenditures but again increases the long-term fiscal burden.

As such, these measures have fostered a heavy reliance on state funding, resulting in the accelerated depletion of financial reserves and contributing to increased fiscal risks.

Price Controls, State Regulation and Planned Procurement

As mentioned earlier, the set of countermeasures recently implemented by Russia also indicates a shift toward a planned economy, with hallmark features such as price controls gradually re-emerging as policy tools. As in Belarus, where state-led economic management has long been the norm, the Russian government's direct intervention in price-setting mechanisms, particularly for essential goods, erodes market signals.

Since 2022, a series of decrees have introduced price controls on essential goods and services to cushion households against rising costs amid inflation. These measures include caps on fare increases for public transportation, limits on tariffs for heating, water supply, and wastewater services; price limits on essential medicines, and staple agricultural products (Garant, 2025).

By limiting the price growth of necessities, these interventions aim to support households in the short term. However, prolonged price controls may entail distorted market signals, increased subsidies dependency for producers, and higher administrative costs for control enforcement.

The deviation from market mechanisms has been even more amplified in procurement, through Federal Law No. 272-FZ (July 14, 2022), which compels businesses to accept government contracts if they receive state subsidies or operate in strategic sectors. In practice, companies cannot refuse government contracts if their products or services are required for so-called counterterrorism and military operations abroad. Refusal to comply with procurement orders may result in criminal liability, as non-performance can be interpreted as economic sabotage under this law.

In addition, the Russian government provides up to 90 percent of procurement contracts in advance (Government Decree No. 505, March 29, 2022). This arrangement weakens the role of contracts, prices, and competition, while increasing the fiscal risks. In effect, it reinforces a central planning logic and undermines competitive procurement, where outcomes should be driven by performance and value rather than access to state funding.

With Russian companies cut off from foreign investment and other external financing due to sanctions, large-scale government support has become even more critical – intensifying dependence on state subsidies and, by extension, state control. The legal changes outlined above have turned procurement into a key instrument of political control over businesses. The scale of these subsidies is contributing to a damaging shift toward a centrally planned system, restricting competition and undermining long-term growth potential.

Fiscal Sustainability at Risk

The extensive use of subsidies, preferential loans, and government-backed financial interventions has placed an increasing burden on Russia's fiscal system. While these measures were introduced to mitigate the effects of international sanctions, stabilize key industries and support households, they have led to significant structural imbalances, growing budget deficits, and rising financial risks.

State-subsidized loans have surged across multiple sectors, including construction, IT, housing, energy, infrastructure, and agriculture. The result has been a sharp increase in corporate and consumer debt, with unsecured consumer loans growing at an annual rate of 17 percent as of April 2024. Overdue debt on loans to individuals reached 1.34 trillion RUB by February 2025, signaling mounting financial distress for households despite the support measures (CBR, 2025).

The high concentration of corporate debt has further destabilized the financial system. By early 2024, the debt of the five largest companies accounted for 56 percent of the banking sector's capital, indicating systemic vulnerabilities (CBR, 2025). In addition, the government has implemented new policies that exacerbate the risks connected to state interventions in banking operations. For instance, in March 2022, it introduced a moratorium on bankruptcy proceedings, effectively delaying the official declaration of businesses as insolvent or financially distressed. At the same time, the Central Bank required commercial banks to restructure loans rather than classify them as defaults – masking financial distress and exacerbating long-term risks to the banking sector (Garant, 2025).

Moreover, a growing share of Russia's war-related spending now flows through off-budget channels – such as state-owned enterprises and regional programs – rather than the federal budget. According to a recent analysis, as much as one-third of military and strategic expenditures bypass formal budget reporting altogether (Kennedy, 2025).

These hidden expenditures distort the actual fiscal position, reduce transparency, and increase the long-term burden on the public sector by masking the true scale of liabilities – raising further questions about the sustainability and accountability of Russia's fiscal policy.

Conclusions

Since February 2022, Russia's counter-sanctions measures have markedly shifted its economic governance toward greater state control and elements reminiscent of Soviet-era central planning. Large-scale subsidies, administrative pricing, and deep state involvement in production and procurement have suppressed market competition and efficiency. These interventions have distorted incentives and curtailed the role of market signals, contributing to growing inefficiency across key sectors.

Looking ahead, the long-term economic outlook for Russia is increasingly negative. While the counter-sanctions measures may have softened the initial blow of international sanctions, they have entrenched structural vulnerabilities, reduced fiscal flexibility, and amplified systemic risks, particularly in the financial and real estate sectors. Moreover, by undermining innovation and productivity, Russia's counter sanctions are accelerating its trajectory toward deeper economic isolation and a centrally managed model, with severe implications for sustainable growth.

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