

A new study¹ by European University Institute suggests that full withdrawal of the FDI from RF by 40 countries-allies of Ukraine² would lead to -28.2% loss of GDP. FDI withdrawal, as compared to other sanctions, has rather limited effect on countries-allies, while very strong effect on RF economy. By now, sanctions on investment are very fragmented. The US prohibited new investments into RF. G7, banned new investments in the energy sector and a few other specific sectors (present in G7 statement, but we didn't identify respective legal document³). Similar EU sanction extends only to the energy sector, and excludes peaceful atom and transportation of energy resources to the EU. Some international companies sized investment to RF voluntarily⁴. Liechtenstein introduced ban on investment in Russia and in projects co-invested by Russian Direct Investment Fund. Last week the UK tax regulator withdrew the status of a recognized stock exchange from Moscow Stock Exchange. The U.S. registered a bill obliging public companies to disclose their ties to RF and other aggressor countries. Germany plans sanctioned Russians to report property in Germany.

Experts from SOFREP military outlet⁵ estimate the cost of war for RF at \$900 mln per day, which gives ~68.4 bln over 76 days of war. This figure includes payments to servicemen, provision of ammunition, as well as the cost of repair of lost or damaged military equipment. For comparison, EU spends \$ 800 mln a day for RF gas and oil during the war, according to KSE⁶.

RF economy is able to withstand the blow of the 6th EU package, if it manages to reorient oil exports to Asia, even at prices not lower than \$44 per bar - FT. The main potential buyers are in Asian countries. In particular, China's independent refineries have already increased purchases, but major Chinese state traders are still avoiding oil imports from RF, fearing Western sanctions. However, for RF it is not easy to deploy oil flows to Asia, since the share of EU countries in RF oil exports was 60%, while China - 3 times less.

Preliminary estimate Q1 2022 growth by RF MinEcon: GDP + 3.7% YoY after a +5.0% in Q4 21. In Mar GDP growth slowed to 1.6% YoY in Mar, from 4.3% in Feb and 5.8% in Jan.

Russia continues to burn reserves. As of Apr 29, RF burned additional \$14bn of international reserves over the week. In total, for the two month of the war RF reserves dropped from a historically max level of \$643.2bn to \$593 bn (-\$50bn or ~8%).

Ruble continues to appreciate, but this doesn't reflect actual economic situation. From 7 Apr to 7 May, ruble strengthened against dollar by 19%, the RUB/USD XE fell from 82.6 to 67.4. On Mar 5, ruble for the 1st time since Mar 2020 fell below 68 RUB. Yet, RUB is not a freely convertible currency and both dollars and euro are largely beyond access for the RF due to sanctions. Therefore, such change in the exchange rate doesn't reflect actual situation.

RF budget is losing oil&gas revenues. Oil and gas revenues of the RF budget in Apr turned out to be lower than expected by \$1.9 bln (133.1 bln RUB). RF's MinFin received \$9.6 bln (665 bln RUB) vs planned \$11.5 bln (798.4 bln RUB) in Apr. Forecast for May is almost 2x lower - \$5.9 bln (414 bln RUB). As of the end of Apr, the price of Urals was at avg of \$70.52/bar - RF MinFin. While the avr price of Brent was \$105. The discount for Russian oil buyers was \$34.48 or 33%. Compared to Mar the discount increased by 8 p.p

NWF won't be replenished in 2022. Seizure of RF reserves, coupled with economic difficulties, led to the suspension of the budget rule. Starting from 2018 NWF was receiving oil&gas revenues generated from prices above \$42/bar Urals. NWF ~\$38 bln in foreign currency fell under sanctions and was frozen. Since 2023 NWF is planned to be replenished in rubles.

Industry. In Apr, the PMI index in the service sector of RF rose to 44.5 points from 38.1 points in Mar. Despite the growth, the indicator remained below the threshold of 50 points, which indicates a deterioration in the business environment. S&P Global Russia Manufacturing Purchasing Managers' Index (PMI) posted 48.2 in Apr, up from 44.1 in Mar to signal the 3rd successive deterioration in the health of the Russian manufacturing sector. Although the rate of decline eased from March's recent low, it was the 2nd-sharpest since Aug 2021. Output expectations were historically subdued amid concerns regarding the impact of sanctions on future demand and new orders.

¹ <https://voxeu.org/article/potential-economic-effects-allied-trade-embargo-russia>

² Albania, Australia, Bahamas, Canada, EU 27, Iceland, Japan, Korea, Liechtenstein, Montenegro, New Zealand, North Macedonia, Norway, Singapore, Switzerland, Taiwan, the United Kingdom, and the United States.

³ [G7 Leaders' Statement](#)

⁴ **RF's "counter-sanctions".** RF announced its intention to nationalize the property of foreign firms that have exited or ceased operations inside RF since it invaded Ukraine. If adopted, it will affect new projects in future.

⁵ <https://www.newsweek.com/russia-spending-estimated-900-million-day-ukraine-war-1704383>

⁶ https://drive.google.com/file/d/12bosK90FGDkePZNVpQyMY6DKa14_1rET/view

RF MinTrade now allows counterfeit products of Apple, Microsoft, Playstation, Renault, Nissan, General Motors and others, which decided to stop deliveries to RF. RF Mintrade has released an updated list of companies, whose products (> 50 groups of goods) are allowed to be imported into RF without the trademark owner's permission. On the other side, such legalization may lead to the rise of cost of electronics for the end consumer by up to 50% compared to the cost of goods before the start of the war - say analysts polled by Russian Forbes.

Oil & gas.

--Exports of crude oil from the US to the EU in Apr peaked in 6 years. The US oil miners sent EU buyers ~50 mb from major terminals in Texas and Louisiana. This is almost ½ of the total amount of oil sent abroad from the Gulf of Mexico.

--Greece might be helping RF to circumvent sanctions - in Apr, its share in the transportation of Russian oil tripled compared to 2021.

--Gazprom has sent a letter to EU customers that they can continue to pay for Russian gas without violating sanctions. A new document "clarifies the procedure" for payments for gas in RUB: foreign currency received from buyers is to be exchanged for rubles through accounts at the Russian National Settlement Center and excludes the possibility of any "third party" participating in the settlements (CBR), says Bloomberg.

--Coal. In Mar, the export of Russian coal to non-CIS countries decreased by 5% YoY, to 15.7 mln t. Russian coal exports to the UK (-50%) and Germany (-70%) dropped significantly. Meanwhile, deliveries to Poland decreased by only 6.3%. The EU as a whole in Mar purchased coal ~2 times less than a year ago (volumes decreased to 3 mln t). Along with this, deliveries to Asia also slightly decreased in Mar, to 7.3 mln t. China reduced purchases of Russian coal by 12% to 1.6 mln t. While exports to India increased 2.2 times, to 848.8K t, to Turkey - by 37%, to 1.5 mln t.

The US exports to RF in Mar 2022 fell by almost five times to only \$101 mln since Feb. American car exports fell from \$83 mln to \$20mln in Mar, pharma products - from \$60mln to \$14mln, aircraft engines and luxury goods fell to almost zero. On the other hand, the sanctions temporarily spurred exports from Russia to the US (especially due to the growth in crude oil supplies - up to \$363 mln), as the US authorities provided for a transitional period before their full entry into force.

Under the pressure of US sanctions, Chinese technology companies are closing down business in RF without making official statements. According to the Chinese GoV, China's exports to Russia in Mar fell by a total of 27% compared to Feb. Exports of technological products fell particularly sharply – supply of laptops decreased by >40%, smartphones by ⅔, base stations - by 98%. Chinese tech giants such as Lenovo and Xiaomi are publicly refusing to do business with Russia, says WSJ.

Russians continue to steal wheat and agro production from temporary occupied territories. Russians have already "exported" ~500K tons of grain from the south and east Ukraine (a third of the reserves in these areas). Also, they have stolen ~100K tons of grain from the Luhansk region (equivalent to the volume of grain needs of the region's residents for almost 3 years). They already tried to send 27k t of grain stolen in Ukraine to Egypt, but failed.

No more consulting in RF. The UK has imposed a ban on companies from the RF using the services of British firms in the areas of PR, accounting and consulting management. The US also joined such a sanction by banning U.S. citizens and companies from providing audit, consulting, and marketing services to Russian firms.

Russia's ranking in the World Press Freedom Index has fallen again due to Kremlin censorship during the war in Ukraine. RF dropped from 150th place (out of 180) by five positions to 155, behind Zimbabwe, Sudan and Libya. **3.8 mln people left RF in Q1 22 - FSB. For comparison: from 2000 to 2021, 5 mnl people left RF.**

War in Ukraine made Russians even more conformist, but approval of Putin and Mishustin started to fall. 61% Russian citizens noted that war RF against Ukraine rather rallied Russian society. 20% adheres to the opposite position - VTsIOM. Also they notice that for 67% Russia's Victory Day is the most important holiday in the year. Approval of Putin's activities decreased by 3pp to 79% (May 1 to Apr 24), approval of Mishustin is falling for two weeks in a row: -6 pp to 54% (May 1 to Apr 17) - FOM.

A rise in migration from RF is detected. 3.8 mln people left RF in Q1 22 according to FSB. For comparison: from 2000 to 2021, total 5 mnl people left RF. One bright examples, IT sector that is now experiencing "brain-drain": in Mar, 50-70K IT-specialists left RF, 2nd wave of emigration in Apr could reach 100K. In its turn, RF MinTrans sees the risks of an outflow of Russian pilots abroad, 13% of which are currently idle. Interestingly, analysts claim that the Russian black market of bureaucratic services has shifted from migration patents to the issuance of international passports "on an urgent basis."

SANCTION LOOPWHOLE. The US authorities are exploring ways to increase Russians' access to the US refugee program - Politico. Such action sends a powerful signal of US generosity to ordinary Russians — some of whom could be threatened with treason for opposing the war — and undermine Putin's oppressive regime by accelerating brain drain from his country.