

Sanctions and Financial Markets

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NBER Asset Pricing Meeting
Stanford, Fall 2023

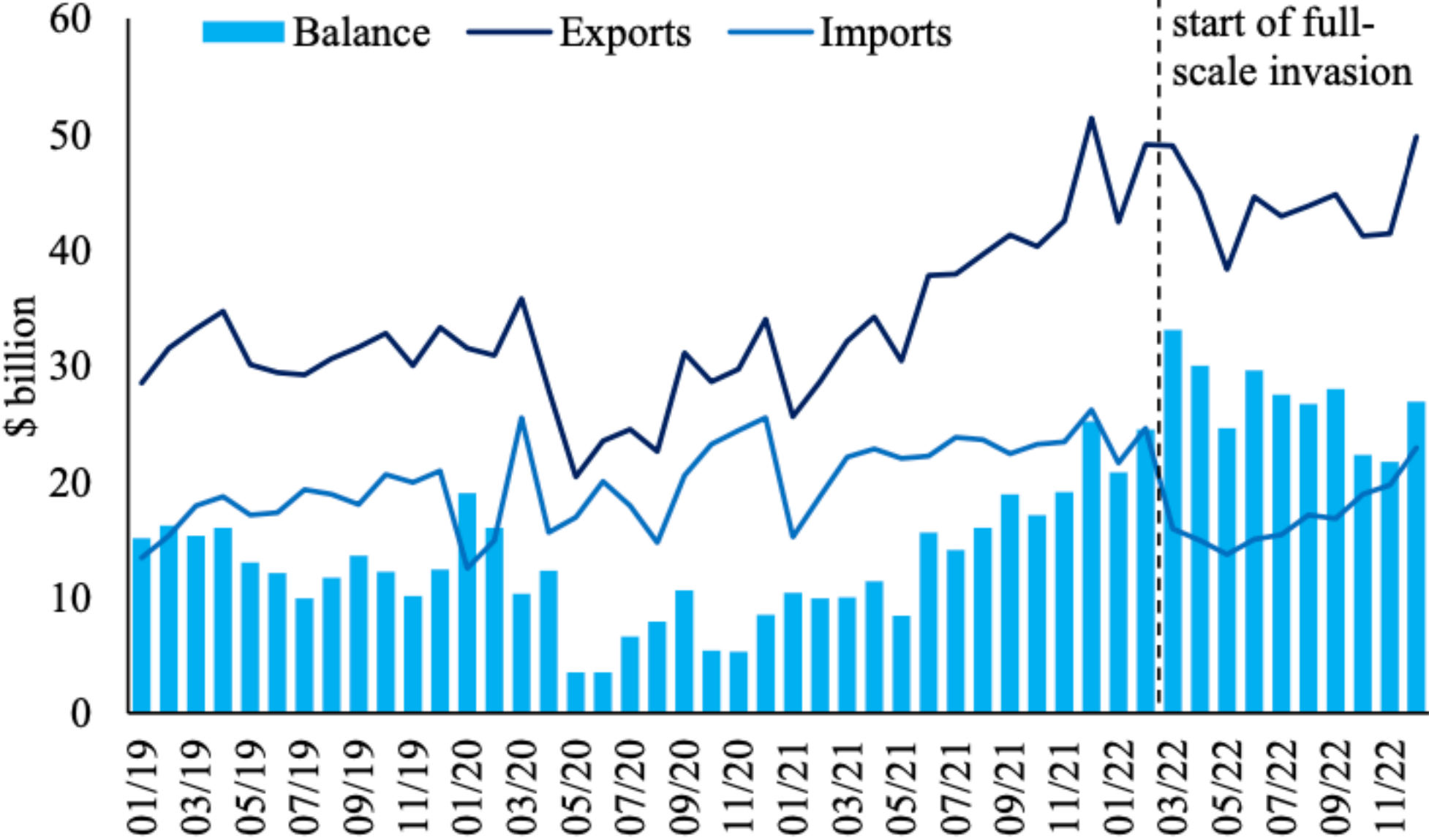
Ruble Exchange Rate. Missed opportunities?



Lerner Symmetry

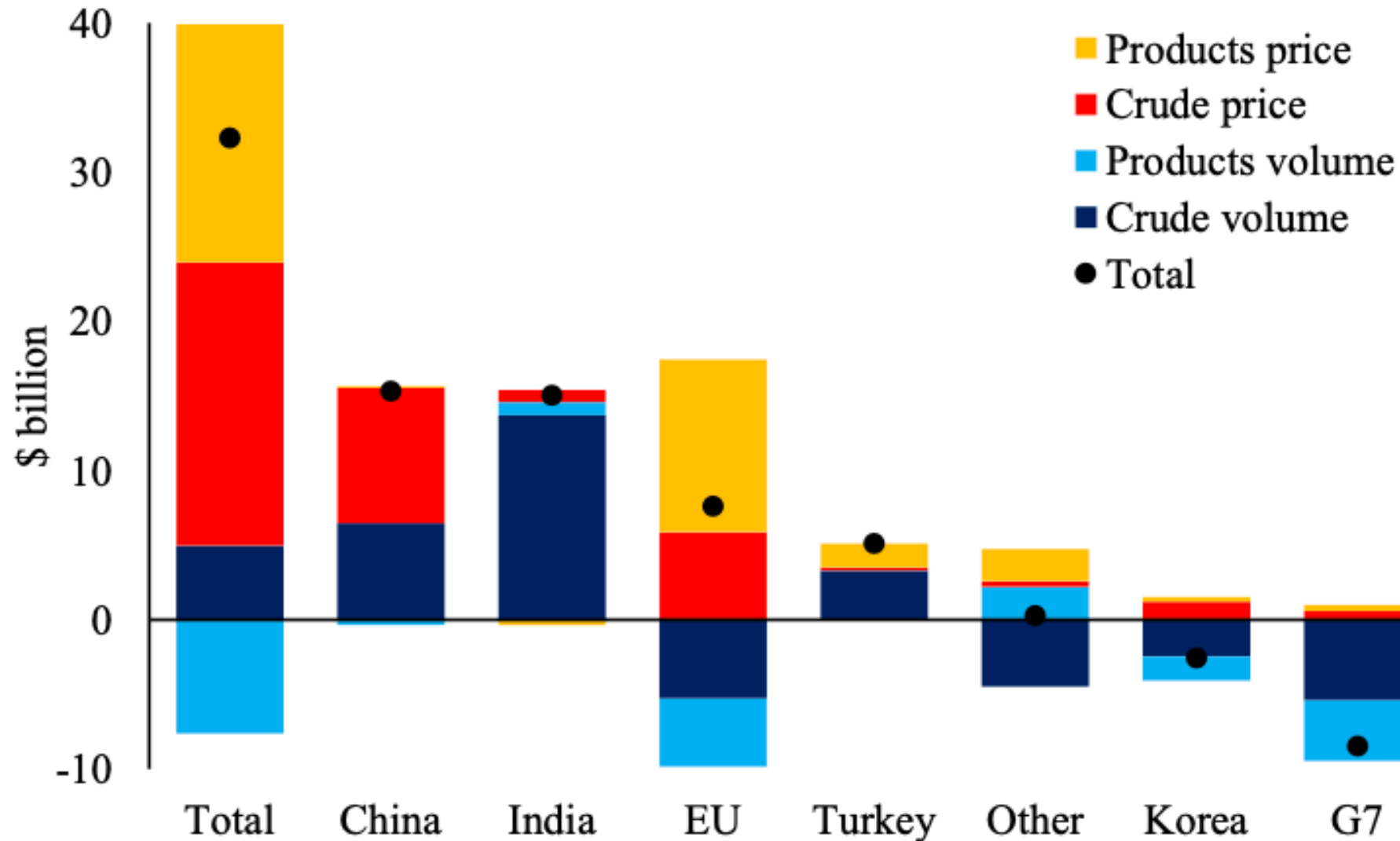
- General result: **Import tariff = Export Subsidy**
 - Supported by differential exchange rate movement (appreciation vs depreciation)
 - Trump tariff to fight current account deficits?
- Caveats:
 - Temporary sanctions: import sanctions encourage savings and delayed consumption
 - Interaction with financial sanctions: import sanctions relax financial constraints
 - Appreciation of currency eliminates FX debt burden
- Condition for financial crisis:
 - dollarization and twin deficits

Import without Export Sanctions in 2022



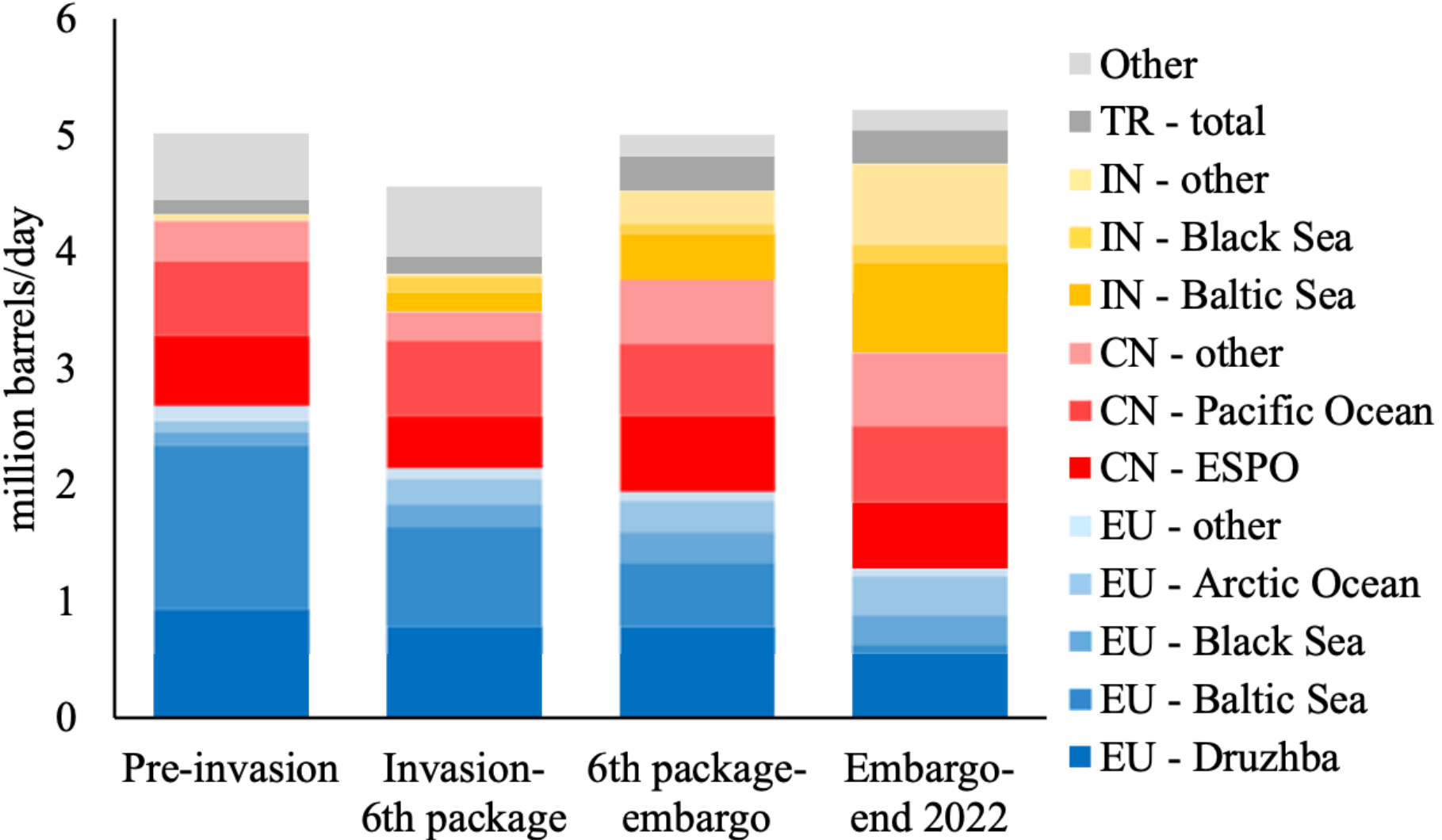
Source: Babina, Hilgenstock, Itskhoki, Mironov, and Ribakova (2023)

Who Pays for the War: Change in Russian Oil Revenues in 2022



Source: Babina, Hilgenstock, Itskhoki, Mironov, and Ribakova (2023)

Russian Volume of Crude Exports



Source: Babina, Hilgenstock, Itskhoki, Mironov, and Ribakova (2023)

Oil Prices and Price Cap



Sanctions and Financial Repression

Demand for currency:

$$\beta R_{Ht}^* \mathbb{E}_t \left\{ \frac{P_t^*}{P_{t+1}^*} \left[\underbrace{\left(\frac{C_{Ft}}{C_{Ft+1}} \right)^{1/\theta}}_{\text{imports}} + \tilde{\kappa} C_{Ft}^{1/\theta} \underbrace{\left(\psi_t - \frac{B_{t+1}^*}{P_{t+1}^*} \right)}_{\text{savings}} \right] \right\} = 1$$

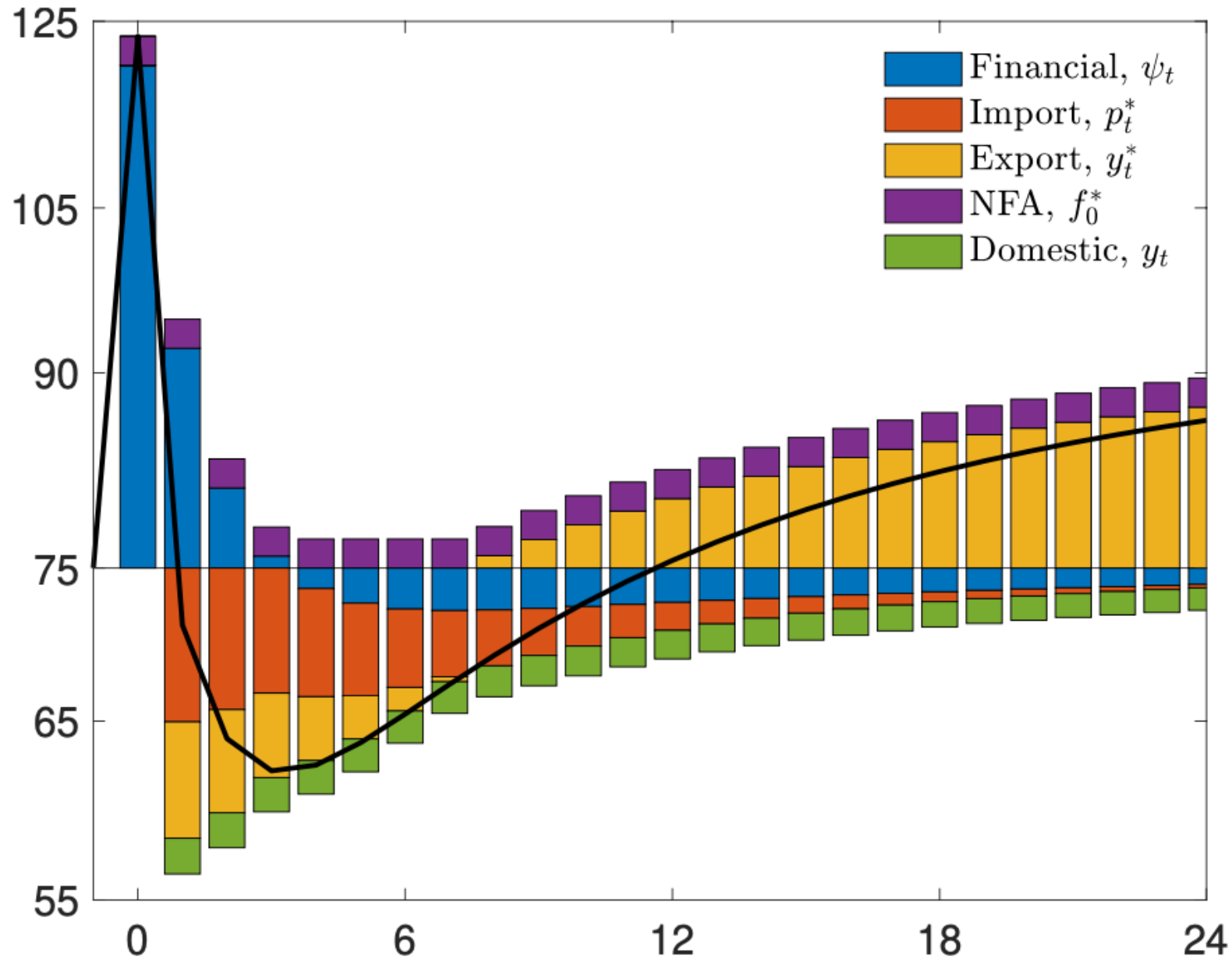
country's budget constraint:

$$\frac{F_{t+1}^*}{R_t^*} - F_t^* = Y_t^* - P_t^* C_{Ft}$$

import demand (expenditure switching):

$$\frac{C_{Ft}}{Y_t} = \frac{\gamma}{1-\gamma} \left(\frac{\mathcal{E}_t P_t^*}{P_t} \right)^{-\theta}$$

Exchange Rate Decomposition



Share of World GDP, current exchange rate

