



RUSSIA REFORM MONITOR

The American Foreign Policy Council's Review of
Russian Government Actions and U.S. Policy

Russia Reform Monitor No. 2508

January 26, 2022 **Ilan I. Berman**

Related Categories: Economic Sanctions; Energy Security; International Economics and Trade

HOW RESILIENT IS THE RUSSIAN ECONOMY?

In a bid to defuse the deepening standoff over Ukraine, the Biden administration has threatened to impose biting new sanctions against the Russian government, while the U.S. Congress has floated a raft of possible new punitive measures, including personal sanctions against Russian President Vladimir Putin himself. Yet these threats, and parallel ones made by leaders in Europe, are liable to be less effective – and less compelling – than officials imagine. "Russia's efforts to reduce its reliance on the global financial system have made it better prepared to weather the sanctions that the U.S. and Europe have warned would follow a new attack on Ukraine," explains the *Financial Times*.

Since 2014, the paper explains, Russia has significantly expanded its foreign currency reserves and simultaneously begun to "de-dollarize" its economy: "Central bank reserves have soared more than 70 per cent since late 2015 and now surpass \$620bn. Dollar reserves made up about 16.4 per cent of total reserves last year, from 22.2 per cent in June 2020, according to data published last week. About a third of the reserves are in euros, 21.7 per cent are in gold and 13.1 per cent are in renminbi." Simultaneously, the Kremlin has expanded its National Wealth Fund, and diminished the number of foreign investors that hold sovereign bonds.

The aggregate result of these efforts, experts say, is to make the Russian economy significantly more resilient to any economic pressure from the West – and willing to weather it in order to achieve its geopolitical objectives. "[Sanctions] won't make Putin change his mind, because any damage will be acceptable and the Kremlin thinks it has an answer," says Alexander Gabuev of the Carnegie Moscow Center. (*Financial Times*, January 18, 2022)

LIONIZING GAZPROM

Over the past two decades, Russia's state natural gas giant, GAZPROM, has become a corporate colossus, involved in numerous state infrastructure projects and the Kremlin's energy relations with Europe. For these functions, the conglomerate has just been honored by the Kremlin. On January 20th, GAZPROM CEO Alexei Miller was awarded the title of "Hero of Labor of the Russian Federation" by President Putin. The award was given "for special labor services to the state and people" carried out by the energy firm, which ranks as one of the Kremlin's most visible – and potent – "soft power" tools. Miller, who has served as chairman of GAZPROM's board since 2001, has played an instrumental role in its success. (RBC, January 20, 2022)

A FRESH LOOK AT "PUTIN'S PALACE"

Kremlin opposition critic Alexei Navalny may be behind bars, but his investigative team is continuing its crusade against Kremlin corruption. Last year, Navalny's team released an expose on the lavish seaside "palace" reportedly owned by President Putin near the Black Sea resort town of Sochi. Now, Navalny's researchers have updated the report with new images of the sprawling facility and its many amenities (including an old-style theater and a dedicated hookah lounge), corroborating many of their earlier assertions and extrapolations. For its part, the Kremlin has denied any role in the property, and billionaire businessman (and Putin confidante) Arkady Rotenberg has stepped forward to claim ownership. (*Meduza*, January 20, 2022)

RECOGNITION FOR UKRAINE'S ENCLAVES, PERHAPS

Russia's lower house of parliament is poised to hold "consultations" over whether to urge President Putin to recognize the Donetsk and Luhansk People's Republics – whose ongoing resistance to Ukrainian government control Russia supports – as independent states. According to Vyacheslav Volodin, the speaker of the Russian State Duma, the ruling "United Russia" party is concerned about the security of Russians living in the two separatist enclaves in Ukraine's restive Donbas region. "The question submitted for our examination is a very serious and responsible one," Volodin said. "We see that [Ukrainian] President [Volodymyr] Zelenskiy is ignoring the Minsk agreements. NATO wants to occupy Ukraine. Both things can result in tragedy. We must not let this happen." (Reuters, January 21, 2022)

[EDITOR'S NOTE: The parliamentary suggestion is potentially quite consequential. If adopted by the Kremlin, it would provide Moscow an added pretext to insert forces into Ukraine, allowing it to claim that it was doing so in defense of independent, pro-Russian entities whose security and identity is threatened by a hostile foreign government in Kyiv.]

