KSE | Institute

Sanctions and the Russian Economy: 2026 Mid-Year Assessment

Prepared by the KSE Institute Sanctions Hub of Excellence, August 2026

- **Sanctions policy advanced in several important areas during 2026, including the continued targeting of the shadow fleet and its ecosystem, anti-circumvention measures, and broader restrictions on Russia's financial and military-industrial infrastructure. However, serious disruptions to global energy flows caused by the Iran war have prevented more transformative measures against Russian energy exports, leaving the sanctions architecture largely unchanged.**
- **Russia's macroeconomic vulnerabilities have grown in H1 2026. Its economy remains in stagnation despite a substantial windfall from higher energy prices, as deepening structural weaknesses continue to outweigh short-term gains. Mounting fiscal pressures, constrained financing channels, and the possible end of the disinflation trend underscore growing constraints on sustaining the war and maintaining macroeconomic stability. Meanwhile, Ukrainian strikes on oil infrastructure have triggered a fuel crisis that has curtailed Russia's ability to maximize windfall gains.**
- **The Russian economy's outlook is shaped by energy sector uncertainty and dubious fiscal policy. The trajectory of the Iran war and Ukraine's strikes on Russian energy infrastructure will determine whether recent energy windfalls persist or quickly dissipate. At the same time, widening fiscal imbalances, increasing signs of fiscal dominance, and mounting difficulties financing the budget point to rising vulnerabilities and could further constrain Russia's ability to sustain the war effort.**
- **Russia's growing economic and fiscal vulnerabilities create an opportunity to intensify sanctions once geopolitical conditions permit, particularly as temporary support from elevated energy prices fades and fundamental challenges resurface. The sanctions coalition should therefore prepare to impose further comprehensive energy, financial, and export-control measures as soon as possible.**

Key Sanctions-Related Developments in 2026

Sanctions policy in H1 2026 balanced the objective of increasing pressure on Russia with the need to safeguard global energy supplies during the Iran war, which limited the scope for more far-reaching measures. The European Union's 20th and 21st sanctions package and other coalition actions expanded shadow fleet listings, activated the EU's anti-circumvention tool for the first time, and strengthened restrictions on Russia's financial and military-industrial infrastructure. These advances were partially offset by some setbacks, including temporary US waivers allowing certain Russian seaborne oil exports during the Strait of Hormuz crisis and exemptions added to the EU's 21st sanctions package to secure its adoption. As a result, sanctions policy advanced incrementally in H1 2026, while more transformative measures—notably a maritime services ban—remained contingent on more favorable geopolitical conditions. The most significant sanctions developments included:

- **The United States waived sanctions on Russian seaborne oil from mid-March to mid-June in response to the closure of the Strait of Hormuz.** In March, the global oil shock caused by the disruption of flows through the Strait of Hormuz led OFAC to issue sanctions waivers that authorized shipments of seaborne Russian crude oil and petroleum products.[1] While the waivers technically only included cargoes already loaded onto vessels, they allowed Russia to export significant volumes of oil and effectively reset its floating storage levels with each extension of the waiver. The episode reinforced that sanctions policy remains linked to broader geopolitical—and, in this case, global energy market—trends, and is sometimes subordinate to competing strategic objectives. The final waiver expired on June 17 but it could be revived if there are new sustained disruptions to global oil supplies.

- **The EU adopted its 20th sanctions package in April after a two-month delay.** It was initially slated for adoption coinciding with the fourth anniversary of Russia's full-scale invasion on February 24 but postponed by Hungarian and Slovakian opposition amid disputes over Russian oil flows through the Druzhba pipeline. The delay, which ended after the Hungarian election and the resumption of flows that had been interrupted by Russian attacks, once again demonstrated the vulnerability of EU sanctions policy to the unanimity requirement and the ability of individual member states to hold up major new initiatives for domestic political purposes. Nevertheless, the delayed package was broad in scope, including: 120 new listings, with 58 related to Russia's military-industrial complex; the first ever use of the anti-circumvention tool (directed at Kyrgyzstan); 46 new shadow tankers; a prohibition on maintenance services for Russian LNG tankers and icebreakers; three new ports (including one in Indonesia, the first ever third-country port); and a sectoral ban on Russian crypto and CBDCs.
- **Coalition countries continued expanding sanctions against the shadow fleet, increasingly targeting the wider maritime ecosystem that supports it.** During the first half of 2026 (and in the EU's 21st package in July), coalition countries designated additional tankers involved in transporting not only Russian crude oil and petroleum products, but also liquefied natural gas (LNG). Canada accounted for the largest expansion, listing 265 vessels, followed by New Zealand (99), the UK (77), Australia (61), the EU (79), and the US (8, under the Iran sanctions program but also shipping Russian oil). Sanctions policy has also increasingly moved beyond individual ships. The EU broadened the legal basis for vessel designations and introduced measures that target ports, terminals, and vessel sales.
- **The proposed maritime services ban would mark a substantial change in the oil sanctions framework, but its adoption remains uncertain.** It would replace the oil price cap with a full prohibition on EU operators providing any maritime services—including shipping, insurance, financing, and brokering—for Russian crude and petroleum product exports, regardless of sale price or destination. The maritime services ban, which would target Russian export volumes rather than only revenues, would have the greatest impact on oil products due to the continued involvement of EU operators but would need to be paired with stepped up enforcement of the shadow fleet sanctions campaign.[2] By mid-2026, the proposal remained postponed but not abandoned, with its future dependent on a stable conclusion to the Strait of Hormuz situation. Once the global energy crisis has passed, its implementation will be contingent on overcoming opposition from maritime member states—particularly Greece and Malta—concerned about its effects on their shipping industries.
- **The EU and UK continued their efforts to close the refining loophole.** Previously-existing import bans prohibited Russian crude oil and oil products, but allowed oil products refined in third countries using Russian crude to be imported. The EU's ban came into effect in January 2026, which, according

[1] The first waiver, General License 133 on March 5, only covered shipments destined for India, but was eventually expanded to include all destinations in General Licenses 134 on March 12, 134A on March 19, 134B on April 17, and 134C on May 18 (excluding transactions involving entities in Iran, North Korea, Cuba, or occupied Ukraine, beginning in General License 134A).
[2] See KSE Institute's assessment of the effects of a proposed maritime services ban from February 2026.

to KSE Institute estimates, substantially reduced the EU's direct exposure.[3] The UK adopted comparable measures in May 2026, albeit with a carveout for diesel and jet fuel refined from Russian-origin crude oil that will expire in January 2027. The ultimate effectiveness of these measures depends on robust—and enforced—traceability requirements, and the ability of customs authorities to verify complex supply chains that involve blended feedstocks.

- **The EU targeted sanctions circumvention infrastructure, both in Russia and in third countries.** The EU's 20th sanctions package included the first use of its anti-circumvention tool, which was introduced by the 11th sanctions package in June 2023. In justifying its use against Kyrgyzstan, the European Commission notes[4] that Kyrgyzstan's government has not taken sufficient measures to stem the flow of high-risk machine tools and telecommunications equipment, which are imported from the EU and subsequently re-exported to Russia. The anti-circumvention tool is designed to restrict EU exports of specific goods to third countries circumventing sanctions; however, because this is the first application of the tool, its efficacy and scope will need to be monitored. Additionally, the EU broadened its sanctions against payment infrastructure, namely cryptocurrencies (including stablecoins) and the Central Bank of Russia's digital ruble. While the 19th sanctions package targeted a specific cryptocurrency and exchange, the 20th package's measure is sector-wide, creating a new legal mechanism allowing transaction bans on third-country crypto-asset service providers (CASPs) that systematically facilitate the circumvention of EU sanctions.
- **The EU adopted its 21st sanctions package in July[5] after watering down key provisions that had held up its adoption since early June.** The package included a record number of individual listings—170 entities and 48 individuals—and targeted 94 banks or financial institutions, including four outside of Russia that helped circumvent sanctions. Among the important extensions adopted in the 21st package were: a pause of the automatic adjustment of the oil price cap, which was introduced with the 18th package in mid-2025; the introduction of additional shadow fleet vessel designations in an effort to contain Russia's windfall profits from the Iran war-related global energy crisis; and the imposition of sanctions (transaction bans and/or assets freezes) on several companies operating in the Russian refining sector and one Belarusian refinery. The EU also banned transactions with the Georgian Kulevi refinery, with the ban taking effect in January 2027. The package also provides for the possibility of confiscating and selling cargo carried by detained shadow fleet vessels—a potentially powerful tool, whose practical impact will ultimately depend on the aggressiveness of vessel interdictions and the political will of coastal states. Crypto-related measures were also significantly expanded with transaction bans for 14 third-country crypto platforms and service providers, including three entities linked to the A7 network, and a new mechanism for country-wide prohibitions.

  In order to overcome the gridlock that delayed implementation, the package ultimately introduced a waiver allowing EU entities to transit Russian LNG to non-EU countries, which was demanded by Greece, on a one-year renewable basis. It also narrowed the proposed ban on visa issuance to short stays (90 days or less) of those who directly participated in fighting against Ukraine, and removed a ban on imports of Russian fish after industry pushback. Even though Viktor Orban's defeat in the Hungarian elections in April removed the most outspoken critic of the EU's sanctions policy, other member states are now advocating for their economic interests more openly.

[3] See KSE Institute's assessment of the closure of the EU's refining loophole from June 2026.
[4] See European Commission's Questions and answers on the 20th package of sanctions against Russia.
[5] See the European Union's press release.

The Russian Economy in Mid-2026

Despite considerable windfall energy revenues as a result of the Iran war, Russia's economy is in stagnation (and contracted in Q1), the deficit continues to mount, and Ukrainian strikes have triggered a fuel crisis that led to export bans on refined products. High commodity prices have thus far buoyed the economy from outright decline to stagnation, but structural challenges—particularly to fiscal sustainability and the labor market—remain unresolved. The government faces rising borrowing costs to finance its ballooning deficit, and has even struggled to find buyers for its OFZ issuance, leading to multiple failed or cancelled auctions. Disinflation pressures seem to have subsided, and the stretch of gradual monetary easing that began in 2025 is now potentially coming to an end. Ultimately, Russia's structural vulnerabilities stemming from the invasion of Ukraine and sanctions imposed in response to it are too deep to be offset by the Iran war's temporary effects.

- **Soaring energy prices due to the Iran war provided Russia with considerable extra revenues.** Oil export earnings rose from an average of $10.4 billion in January–February to $19.1 billion in March, $21.5 billion in April, and $20.8 billion in May, before falling to $15.8 billion as energy markets began to normalize following the initial US-Iran Memorandum of Understanding and as Ukrainian attacks on Russian refineries forced a shift from higher-value petroleum product exports towards lower-value crude shipments (see Figure B5 in the *thematic box*). While it is possible that they would have fallen further in a hypothetical no-war scenario, even compared to the January–February baseline, Russia's windfall earnings amounted to at least $35.7 billion—or roughly $9 billion per month—over just four months. With a one-month lag due to the way taxes are calculated, the budget also benefitted, with base revenues from oil and gas extraction and exports rising from an average of ~480 billion rubles ($6.2 billion) in January–March to ~1.0 trillion rubles ($13.7 billion) in April–June (+120%) (see Figure 1). The ruble's moderate strengthening in recent months weighed on the local currency-value of energy taxes. More importantly, Russia was forced to spend ~620 billion rubles ($8.4 billion) on damper payments over April–June to keep domestic fuel prices contained (vs. 17 billion in January–March), and outlays under the reverse excise mechanism (i.e., subsidies to energy companies) rose from ~64 billion rubles ($0.8 billion) per month in Q1 (~110 billion rubles in 2025) to around 136 billion ($1.8 billion) per month in Q2. As a result, while base oil and gas revenues rose by 1.6 trillion ($22.5 billion) in Q2 vs. Q1, the total additional contribution to the budget was "only" 0.8 trillion ($11.4 billion). It is also worth noting that the windfall energy revenues generated in Q2 2026 were insufficient to offset the shortfall in oil and gas budget revenues recorded in Q1 following US sanctions on Rosneft and Lukoil. As a result, cumulative oil and gas revenues in H1 2026 remained 17% below what should have been received over this period based on the budget target and a distribution similar to previous years'.
- **Ukraine's renewed campaign against Russian refining and fuel infrastructure has moved beyond isolated operational disruptions and created a fuel crisis** that Russia will struggle to resolve quickly, particularly if Ukrainian strikes continue. At the peak, around 40% of Russia's refining capacity was disrupted, while gasoline production fell roughly 25% below its June 2025 level. The timing has been particularly consequential: by constraining refining capacity and petroleum product exports, Ukrainian attacks have limited Russia's ability to fully monetize the windfall from higher global oil prices generated by the Iran war. While elevated prices boosted Russia's oil export earnings, disruptions to domestic refining forced Moscow to redirect more crude abroad—a record 5.8 mb/d in June—while restricting higher-value petroleum product exports and contributing to a decline in total oil export earnings to $15.8 billion, down from $20.8 billion in May. The constraints on fuel production and

distribution are also spilling over into the broader economy through higher transportation and production costs, supply-chain disruptions, and renewed inflationary pressure. Moscow has been forced to rush through increasingly costly and distortionary measures to stabilize the domestic fuel market. These interventions can temporarily ease the most visible shortages, but only at a growing cost to the federal budget. They cannot fully shield households and businesses from higher fuel prices and supply constraints, which risk spreading through transport, agriculture, and industrial production.

The thematic box below traces the chronology of Ukrainian strikes and assesses their impact on Russia's fuel market, export earnings, the wider economy, and the government's policy response.

- **Energy windfall revenues and spending restraint temporarily improved the budgetary situation.** Over the first half of the year, Russia's federal budget registered a deficit of 5.7 trillion rubles ($74 billion or 2.7% of GDP)—1.5% more than in full 2025 (2.6% of GDP), 51% above the initial plan for this year, and 19% above the revised one (see Figure 2). There are two distinct phases, which are largely not the result of fluctuations in energy revenues due to the Iran war: while the deficit reached 5.8 trillion rubles over January–April (1.4 trillion per month), it was effectively balanced in May–June. Oil and gas revenues rose significantly starting in March, but the magnitude of the increase neither explains the improved budget situation, nor aligns with the timing of broader dynamics (see Figure 3). The same is true for non-oil and gas revenues, which were much stronger in March–June than in the first two months of the year (2.8 trillion vs. 2.0 trillion on average). Rather, the key factor is lower expenditures: in January–April, Russia spent an average of 4.4 trillion rubles; this number fell to 3.4 trillion in May–June. While elevated spending at the start of the year partly reflected the typical frontloading of defense expenditure, it was also boosted by payments postponed from late 2025 and carried over into early 2026, which KSE Institute research had flagged last year. Spending pressures are likely to intensify again in the coming months. Without the May–June reduction, the deficit would have risen to around 7.7 trillion ($100 billion). Aside from these specific developments, fundamental dynamics continue to indicate significant fiscal challenges. In H1 2026, oil and gas revenues were 23% lower y-o-y, non-oil and gas revenues only 16% higher as economic activity slowed, and expenditures 16% higher as planned cuts to military spending prove impossible during the war (see Figure 4). The stronger ruble—76.3 vs. the USD on average in H1 2026 compared to 92.2 assumed in the budget—remains a challenge for revenue collection.
- **Russia relied on domestic borrowing and Treasury cash balances to finance the deficit in H1.** Over the first half of the year, new issuance of domestic debt (i.e., OFZs) reached 2.9 trillion rubles ($37.4 billion)—26% higher than in H1 2025 and 52% of the full-year borrowing plan (see Figure 5). Sovereign wealth fund (NWF) assets were only used for budget financing to a limited extent (0.5 trillion rubles in H1 2026) (see Figure 6). With a cumulative deficit of 5.7 trillion in H1 and net domestic borrowing estimated at 2.3 trillion—2.1 trillion over January–May according to official data plus KSE Institute's assessment of issuance and repayments in June—Russia relied significantly on its Treasury's cash balances for budget financing. The federal government's deposits with commercial banks declined by 3.6 trillion between December 2025 and June 2026 (monthly averages, see Figure 7). During H1, domestic bond debt (i.e., the total amount of outstanding OFZs) rose by 2.9 trillion rubles (9.6%) and reached 32.7 trillion rubles ($420 billion) or ~15% of GDP at the end of June (see Figure 8).

  While the debt level by itself is not a major concern, Russia's challenge is one of cash flows as Russian banks are the only remaining buyer of OFZs following the exit of foreign investors. Their holdings of ruble-denominated sovereign debt have risen by 11.2 trillion rubles (118%) since the start of the full-scale war and represent close to 11% of total banking system assets (see Figure 9). Banks are incentivized to absorb issuance through attractive yields (around 14% for a one-year bond at 5–6% annual inflation) and the provision of large amounts of liquidity in the form of central bank repo operations, which currently stand at above 4.3 trillion rubles (see Figure 10). In addition, the debt repayment and service burdens are rising, which will require substantial refinancing and crowd out other spending in the future. Already, debt service accounts for ~9% of total expenditures (in the 2026 budget) and is projected to increase considerably as Russia is forced to borrow at high interest rates.

With the reliance on domestic borrowing and Treasury cash balances, Russia managed to preserve the NWF as a second budget financing channel, at least for some time. Total NWF assets stood at 13.1 trillion rubles (5.6% of GDP) compared to 13.4 trillion (6.2% of GDP) at the end of 2025 (see Figure 11). Liquid assets, i.e., holdings of foreign currency and gold, fell from 4.1 trillion to 3.6 trillion over the same period, due to sales of yuan-denominated assets and gold as well as a 6% decline in gold prices (June vs. December). The price of gold has also been a key driver of overall reserve dynamics, with gold falling by $27.5 billion and total international reserves decreasing from $754 billion at the end of 2025 (and a peak of $827 billion in late January) to $720 billion at the end of H1 (see Figures 12 & 13).

- **Russia's rising borrowing costs and growing reliance on domestic banks to absorb sovereign debt issuance began to expose clear constraints towards the end of H1.** Following the CBR's smaller-than-expected 25 basis point rate cut in June, market participants scaled back expectations of rapid monetary easing, triggering a sell-off in long-dated OFZs and pushing required yields higher. Banks had previously been willing to purchase fixed-rate OFZs partly in anticipation of capital gains as interest rates were set to decline. With rates now expected to remain elevated for longer, however, the risk-adjusted appeal of such instruments weakened: banks could earn comparable returns on shorter-duration or floating-rate instruments with lower price sensitivity and therefore demanded higher yields and/or deeper discounts to nominal value. This led to a series of auction cancellations. In particular, the Ministry of Finance cancelled the June 24 auction, raised only 9.1 billion rubles on July 1 against an offering of 110 billion rubles, and subsequently suspended OFZ auctions after failing to receive bids at prices it considered acceptable. The episode underscores the fragility of Russia's increasingly captive domestic financing model: the government can likely continue placing debt through state owned banks, but only at a higher effective cost or by shifting further towards floating-rate OFZs. The Ministry of Finance has already authorised two such issues with a combined maximum volume of 1.5 trillion rubles, equivalent to the entire Q3 borrowing plan. While the suspension of auctions may allow time for market conditions to stabilize, the Ministry of Finance cannot postpone borrowing indefinitely given the scale of its financing needs. Unless investor demand recovers, the Russian Government will eventually have to accept higher yields, or a greater reliance on floating-rate issuance.
- **Russia's economy contracted in Q1, but the energy windfall improves the outlook moderately.** Following the sharp slowdown in economic growth in 2025—1% instead of 4.1% in 2023 and 4.9% in 2024 (revised up from the April 2025 estimate of 4.3%)—activity contracted in the first quarter of this year—by 0.6% q-o-q (seasonally adjusted) and 0.2% y-o-y (see Figures 14 & 15). While this creates a weak starting point for the remainder of the year, forecasts for 2026 growth have been revised upward. For instance, the IMF raised it from 0.8% to 1.1% due to higher commodity prices. Growth remains fundamentally constrained, however, by tight monetary policy, slowing domestic demand, labor shortages, and the continuing effects of sanctions and wartime distortions.

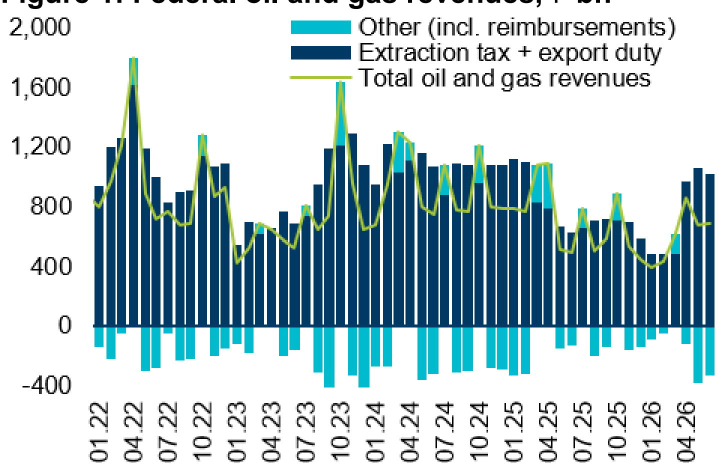
The slowdown has become increasingly visible across individual sectors of the economy. Consumer-facing industries have weakened as high borrowing costs and slower real income growth weigh on household demand, with retail trade and market services losing momentum after two years of rapid expansion. The deterioration has been compounded by Ukraine's campaign against the logistics infrastructure of Wildberries, Russia's largest e-commerce platform. By the end of July, repeated drone strikes had damaged roughly 10%[6] of the company's warehousing capacity, disrupted distribution networks serving millions of consumers and thousands of SMEs, and prompted the government to consider financial support for the company. Construction activity has also softened as elevated financing costs continue to suppress residential development and private investment despite sustained public spending. Manufacturing remains highly uneven—output linked to defense production continues to benefit from government procurement, but civilian manufacturing has slowed substantially as weaker domestic demand, import restrictions, and labor shortages constrain production. Meanwhile, Ukraine’s sustained strikes on refining and fuel infrastructure have created a fuel crisis that has disrupted refinery operations, increased logistics costs, and complicated fuel supply for agriculture, transport, and industry. Although higher global oil prices have improved export revenues, the resulting windfall has therefore translated only imperfectly into broader economic activity, as structural constraints continue to limit the economy’s capacity to expand.

- **Disinflation is losing momentum as war-driven fiscal and fuel pressures re-emerge.** The CBR continued to ease monetary policy in H1 2026, cutting the policy rate by a cumulative 175 basis points—from 16% at the beginning of the year to 14.25% in June (see Figure 16). Another 25 basis points cut followed at the MPC meeting in late July. Headline inflation slowed to 5.3% y-o-y in May and core inflation to 4.9%, but temporary factors made the disinflation trend appear stronger than it actually was. The CBR attributed the sharp slowdown in April–May partly to one-off factors: fruit and vegetable prices declined considerably more than seasonal patterns would suggest, while ruble appreciation restrained prices for import-sensitive goods. The stronger currency was itself to a large extent supported by the energy windfall from the Iran war, as higher global commodity prices boosted Russian export earnings. These disinflationary tailwinds began to reverse towards the end of H1 2026. Headline inflation rebounded to 6.0% y-o-y in June with m-o-m inflation rising to 0.6%, while core inflation edged up to 5.0% y-o-y. A key driver was the rapidly escalating shock to Russia’s domestic fuel market. Ukrainian strikes on refineries and fuel-supply infrastructure reduced the availability of gasoline and diesel, resulting in regional shortages, restrictions on sales, and an increase in prices. While the immediate impact came through the direct contribution of motor fuel to the consumer price index, a more persistent disruption would increasingly feed into transportation, logistics, agricultural, and broader production costs. The CBR warned that restoring supply could take time and that higher gasoline prices could also generate secondary effects through inflation expectations. With monetary policy still tight—the policy rate stands at ~8% in real terms—high borrowing costs continue to weigh on the private sector and overall economic activity (see Figure 17). Credit growth has recovered somewhat in recent months but remains low in comparison to the 2023–24 boom period (see Figure 18).
- **Fiscal policy, meanwhile, made another decisive move in the opposite direction.** Amendments adopted in June allow the government to increase expenditures without formally revising the budget law and to expand domestic borrowing beyond the statutory debt ceiling. The CBR now treats the fiscal risk as having effectively materialized: the return to a zero primary structural deficit has been postponed

[6] See Reuters.

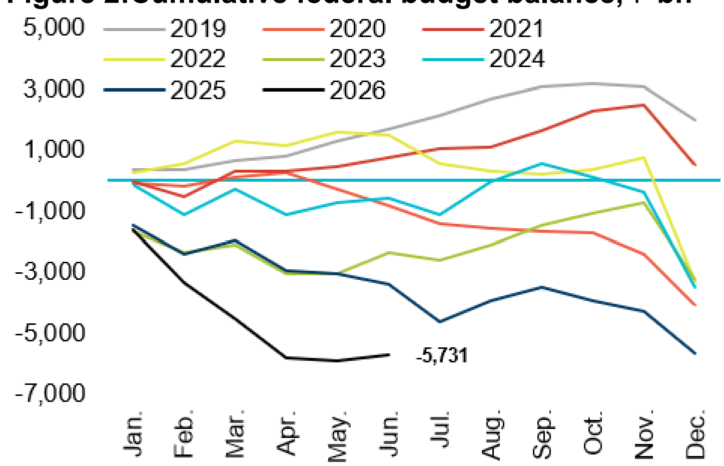
from 2026 to 2029, implying a significantly larger fiscal impulse and potentially requiring tighter monetary policy than assumed in its baseline scenario. Against this backdrop, the unusually small 25-basis-point cut in June—compared with 50 bps expected by most analysts—was read as a hawkish surprise. Rather than providing meaningful relief to the civilian economy, the June decision signaled a slower easing cycle and possible pauses ahead. It was followed by another surprise in the opposite direction in July, cutting by 25 bps when the consensus expectation was a hold, which will exacerbate the challenge of failed OFZ auctions. The CBR is now caught between a rock and a hard place: persistently high rates will continue to constrain private-sector activity and increase the cost of financing Russia's expanding domestic debt, further sharpening the conflict between funding the war and preserving macroeconomic stability, while rates kept too low will create more practical challenges to financing the deficit via OFZ issuance.

Figure 1: Federal oil and gas revenues, ₽ bn



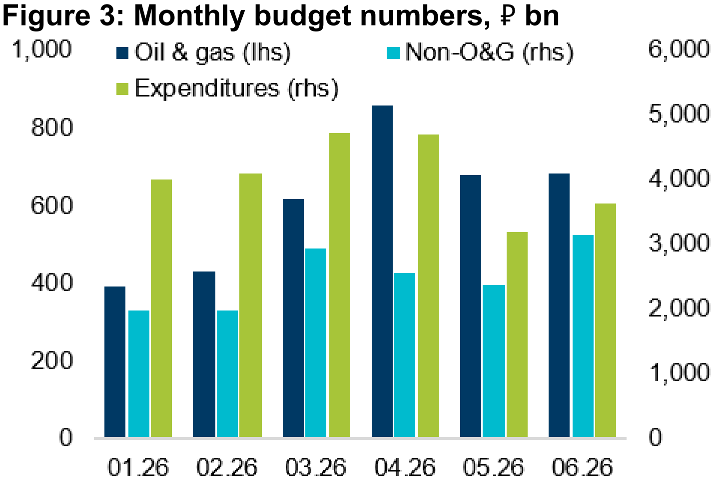
Source: Ministry of Finance, KSE Institute

Figure 2:Cumulative federal budget balance, ₽ bn



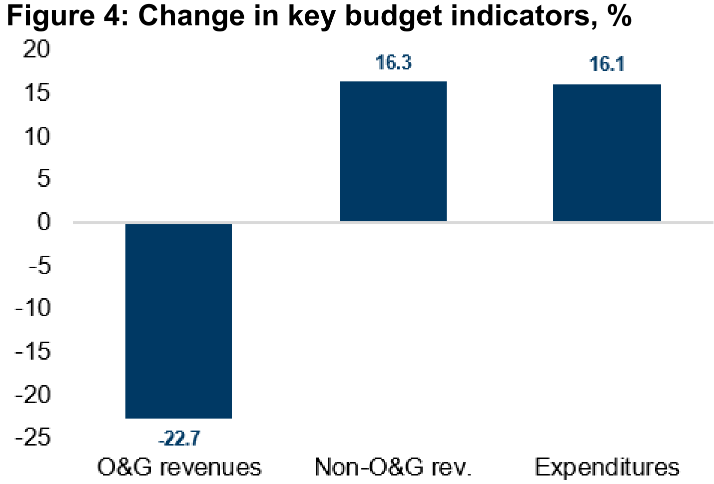
Source: Ministry of Finance, KSE Institute

Figure 3: Monthly budget numbers, ₽ bn



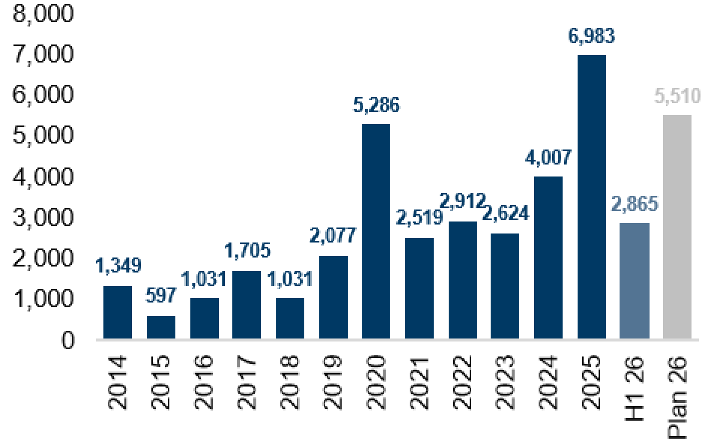
Source: Ministry of Finance, KSE Institute

Figure 4: Change in key budget indicators, %



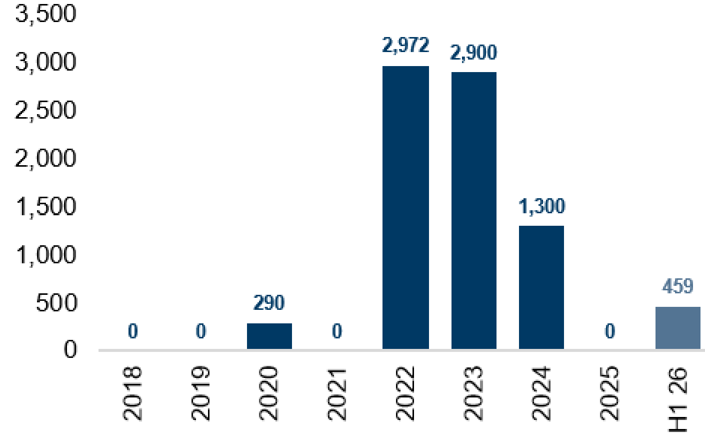
Source: Ministry of Finance

Figure 5: New OFZ issuance, ₽ bn



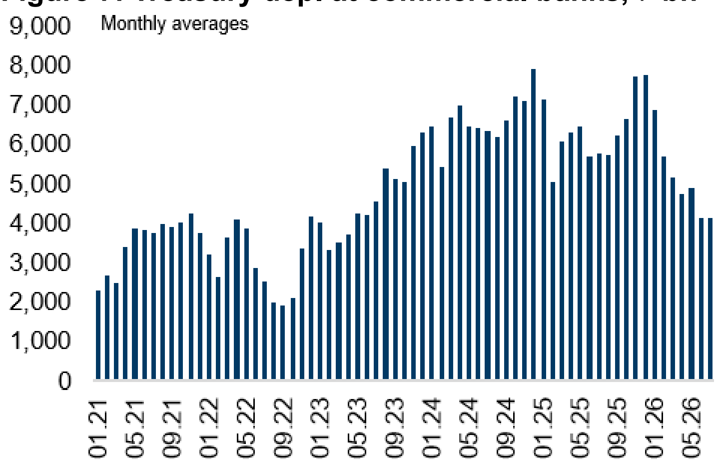
Source: Ministry of Finance, KSE Institute

Figure 6: NWF use for the budget, ₽ bn



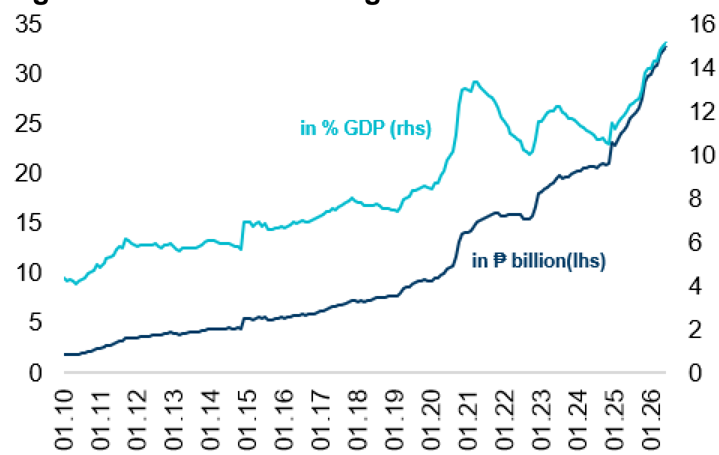
Source: Ministry of Finance

Figure 7: Treasury dep. at commercial banks, ₽ bn



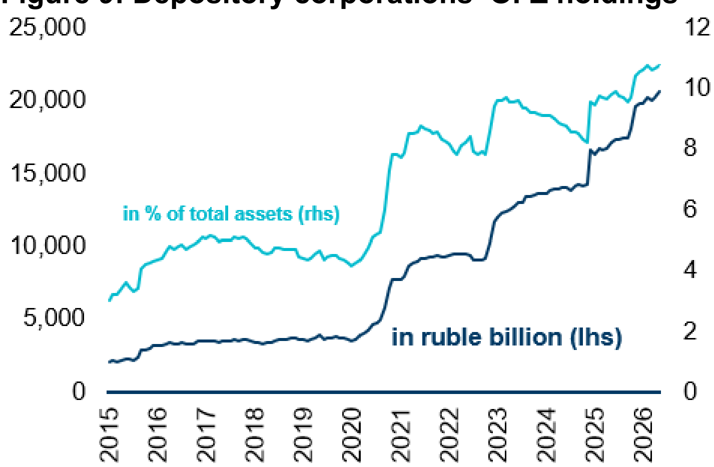
Source: Bank of Russia, RU Treasury, KSE Institute

Figure 8: Total outstanding OFZ



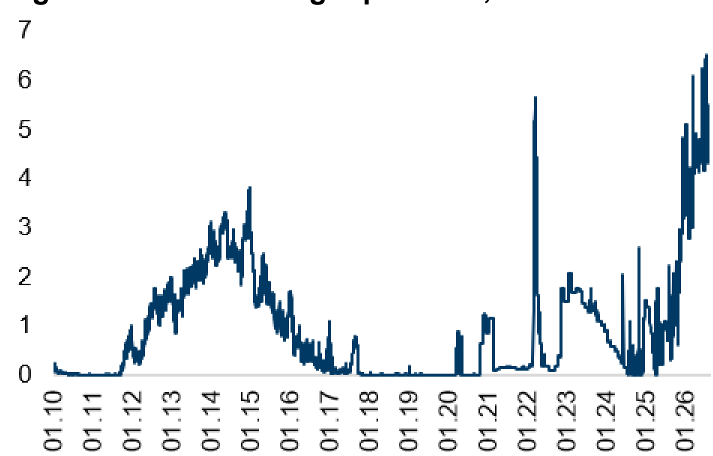
Source: Bank of Russia

Figure 9: Depository corporations' OFZ holdings



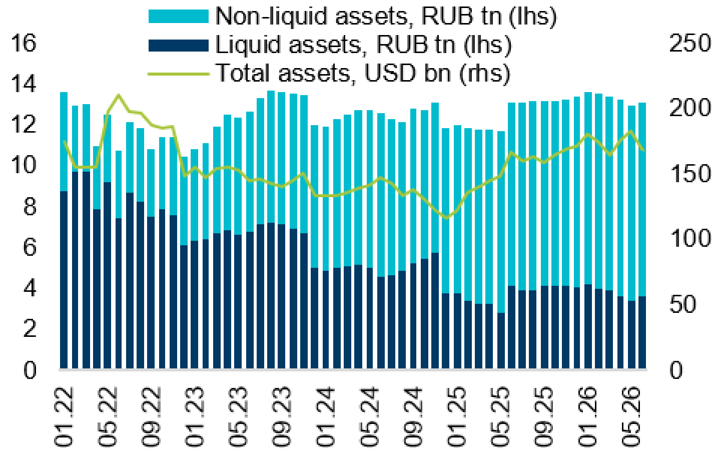
*Source: Bank of Russia, KSE Institute *excl. CBR*

Figure 10: Outstanding repo loans, ₽ tn



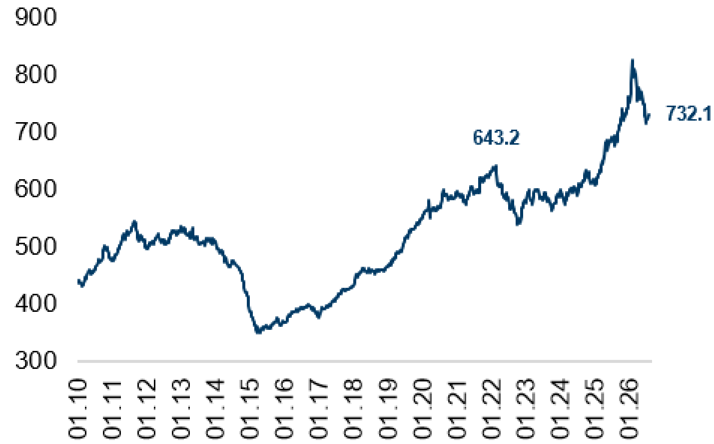
Source: Bank of Russia

Figure 11: NWF assets



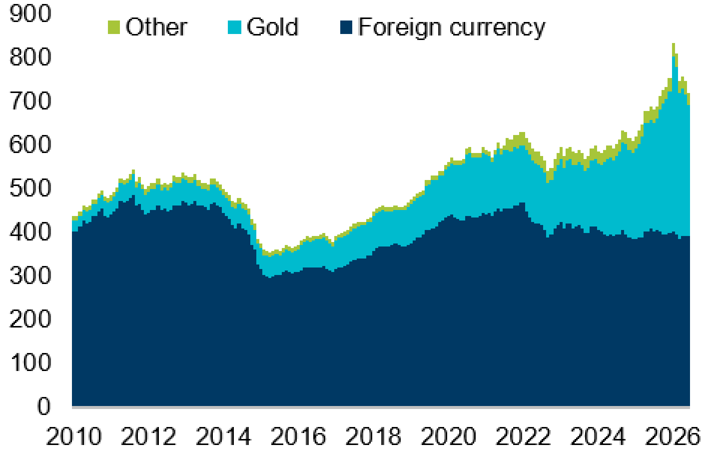
Source: Ministry of Finance, KSE Institute

Figure 12: Total reserves (weekly), $ bn



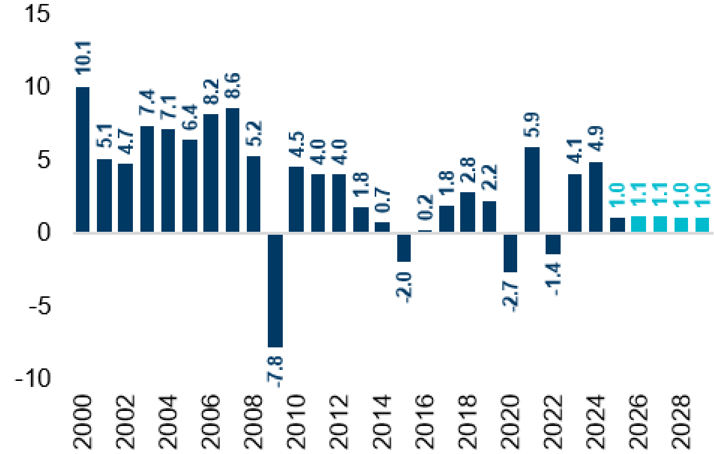
Source: Bank of Russia, KSE Institute

Figure 13: Reserve composition (monthly), $ bn



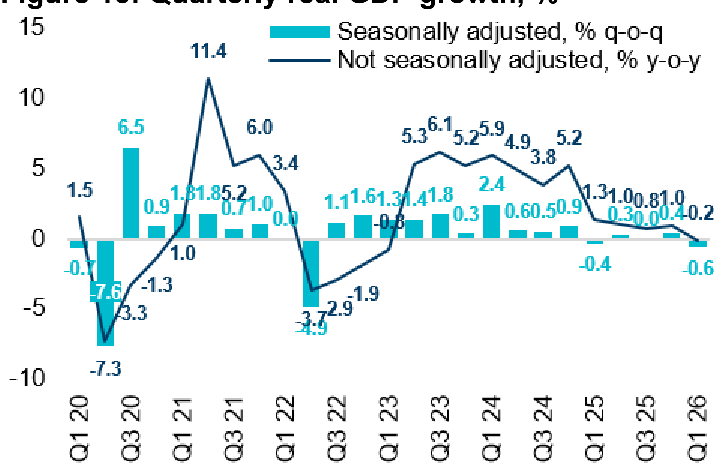
Source: Bank of Russia, KSE Institute

Figure 14: Annual real GDP growth, %



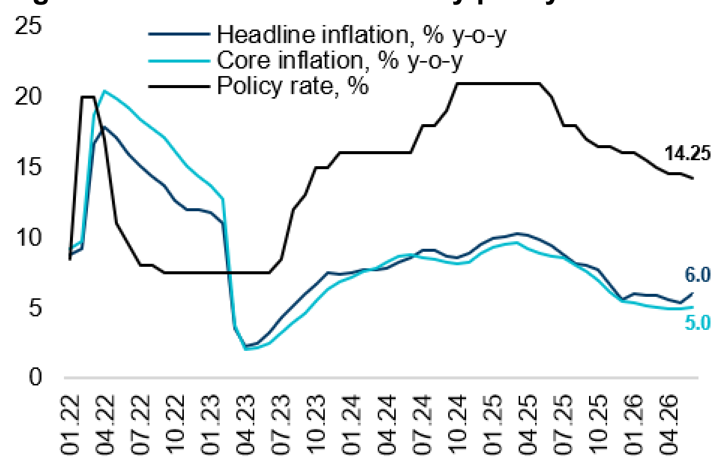
Source: International Monetary Fund

Figure 15: Quarterly real GDP growth, %



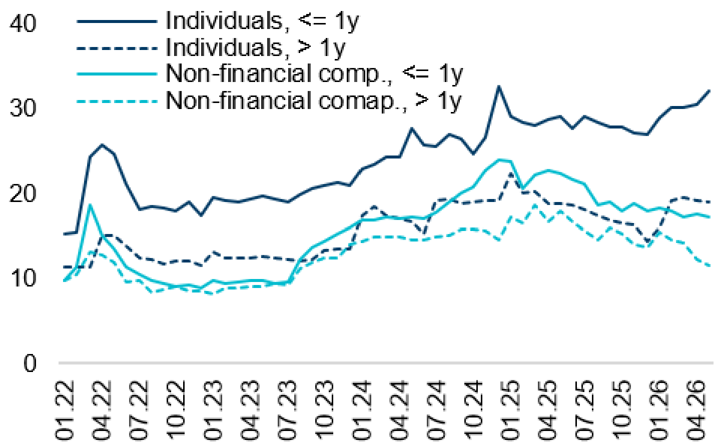
Source: Rosstat, KSE Institute

Figure 16: Inflation and monetary policy



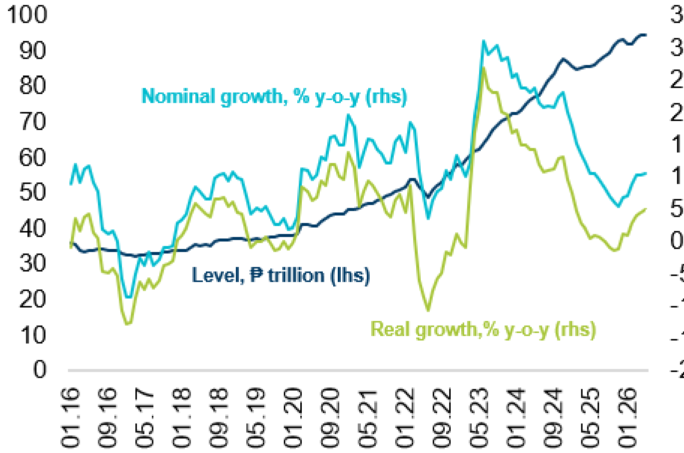
Source: Bank of Russia

Figure 17: Commercial interest rates, %



Source: Bank of Russia

Figure 18: New private sector credit



Source: Bank of Russia

UKRAINE'S REFINERY STRIKES TRIGGER FUEL CRISIS IN RUSSIA AND LIMIT ITS OIL WINDFALL

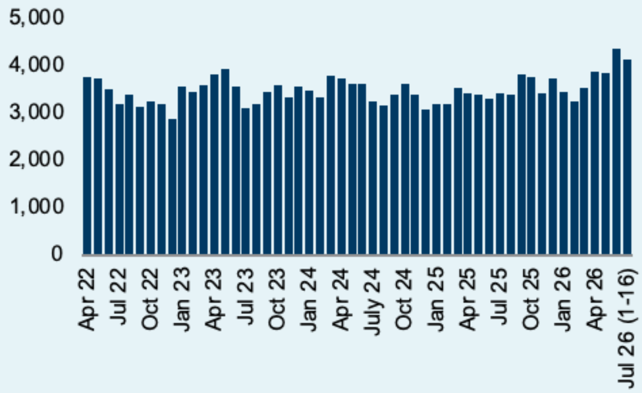
Ukraine significantly expanded its campaign against Russian energy infrastructure in March 2026, turning it into a material source of economic pressure. Repeated attacks on refineries, pipelines, pumping stations, railway infrastructure, and export facilities increasingly constrained Russia's ability to process crude oil and distribute refined products. Market experts estimate that, at the peak, around 40%[7] of the country's refining capacity was temporarily disrupted or operating under constraints.

The physical disruption quickly translated into widening fuel shortages across the domestic market. By late June, gasoline production was roughly 25%[8] below the June 2025 level, while by early July total output was equivalent to only around 65%[9] of average seasonal consumption. Shortages, long queues, rationing and sales restrictions were reported across most regions, with occupied Crimea among the most severely affected. Unsurprisingly, the government prioritized stabilizing supplies in Moscow after Ukrainian strikes forced the Moscow refinery—the largest fuel supplier to the capital region—offline. Authorities redirected fuel from refineries in the Urals and Siberia and increased deliveries from Belarus,[10] allowing supplies in Moscow to stabilize by mid-July even as severe shortages persisted elsewhere. However, the disruption of the Moscow refinery is unlikely to be short-lived: industry sources estimated that repairs to the Moscow refinery would take at least six months.[11] The government's response therefore illustrates its willingness to prioritize the politically and economically critical capital, even at the cost of leaving other regions more exposed to shortages.

[7] See Financial Times.
[8] See Reuters.
[9] See Reuters.
[10] See Reuters.
[11] See Reuters.

The disruption also produced a pronounced shift in the composition of Russia's seaborne oil exports towards crude oil. As affected refineries became less able to absorb domestic crude production, Moscow was forced to redirect a larger share of unprocessed oil to international markets. Seaborne crude exports rose from around 3.5 million barrels per day in January to a record 4.37 million barrels per day in June—around 13% above the May level and the highest monthly level recorded since at least 2022—and remained above 4.1 million barrels per day during the first half of July (see Figure B1). Correspondingly, the volume of Russian crude oil on water reached a record 144 million barrels by July (see Figure B2). Part of this accumulation reflects a decline in China's imports of Russian crude, which slowed cargo discharge and left more barrels in transit or floating storage. This increase likely represented a forced adjustment to reduced refining capacity rather than indicating a genuine strengthening of Russia's export position.

Fig. B1: Russian seaborne crude oil exports, kd/d

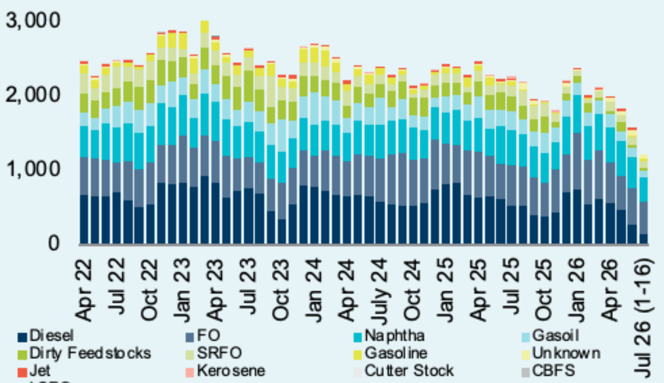


Source: International Energy Agency

Fig. B2: Weekly Russian crude oil on water, mb

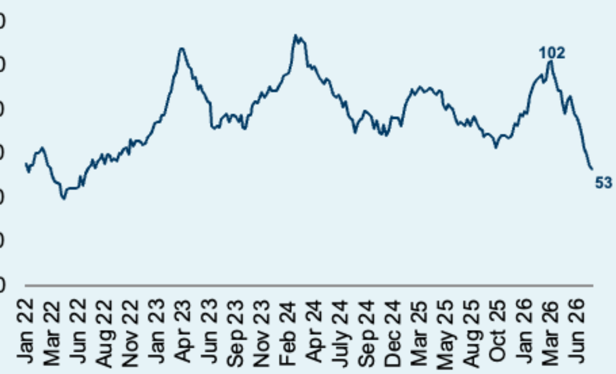
Source: Kpler, KSE institute

Fig. B3: Russian seaborne oil products exports, kd/d



Source: Kpler, KSE Institute estimates

Fig. B4: Weekly Russian oil products on water*, mb



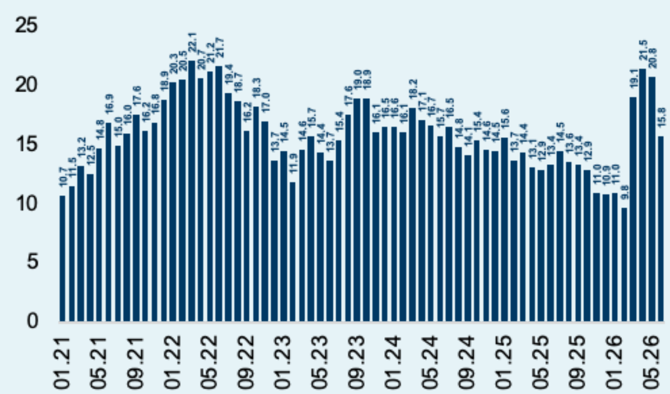
Source: Kpler, KSE Institute

**Displays only the following oil product categories: Fuel Oil, Gasoil/Diesel, Gasoline/Naphtha, and Kero/Jet.*

Seaborne petroleum product exports, meanwhile, moved sharply in the opposite direction. Shipments fell from more than 2.4 million barrels per day at the beginning of 2026 to 1.58 million barrels per day in June—13% below the May level and around 20% lower than in April—and declined further to approximately 1.2 million barrels per day in the first half of July (see Figure B3). The sharpest contraction occurred in diesel and gasoil, Russia's most important and typically highest-value petroleum product exports, while jet fuel and kerosene shipments also declined substantially following the introduction of an export ban in June. To address shortages, export bans were gradually imposed for diesel, gasoline, jet fuel, marine fuel, and gasoil. Consequently, the volume of oil products on water fell from a recent peak of 102 million barrels in March to just 53 million barrels by July (see Figure B4). Although higher crude shipments helped prevent oil from accumulating domestically as refinery throughput declined, they only partially offset the loss of higher-value petroleum product exports, particularly diesel.

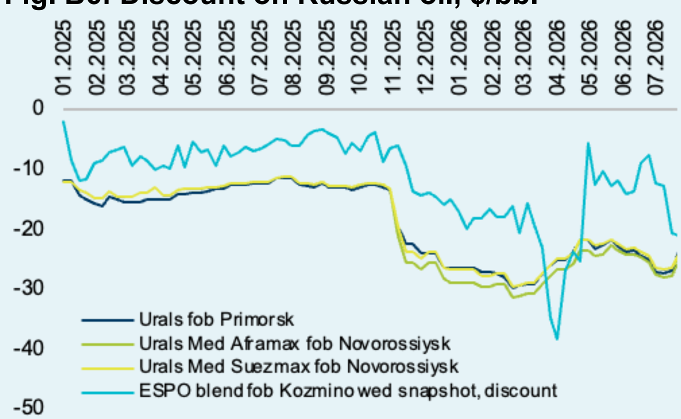
Record crude shipments did not prevent a sharp decline in Russia's oil export earnings. Combined revenues from crude oil and petroleum product exports fell to an estimated $15.8 billion in June, down from $20.8 billion in May (see Figure B5). The decline reflected both lower crude export prices, which followed the reversal in global benchmarks, and a sharp contraction in petroleum product exports. Product shipments fell by approximately 230 thousand barrels per day m-o-m and 660 thousand barrels per day y-o-y, driven primarily by export restrictions that were expanded between April and July. Crude and petroleum product export revenues declined by approximately $2.5 billion and $2.4 billion, respectively, compared with May. Even as Russia redirected record volumes of crude oil abroad, the additional shipments were insufficient to offset the combined effect of lower crude prices and the loss of more valuable refined product exports. Ukrainian strikes therefore constrained Russia's ability to fully monetize the external oil-price windfall by limiting the volume of crude that could be processed domestically into higher-value products.

Fig. B5: Oil export earnings, $ bn



Source: International Energy Agency

Fig. B6: Discount on Russian oil, $/bbl



Source: Argus

June's revenue decline was also partly explained by price dynamics, as Russian crude prices slumped in line with global benchmarks following the establishment of a fragile truce between the United States and Iran. Urals FOB Primorsk plunged to $43.2/bbl on July 1, after it traded around $100/bbl on a peak in late April. It subsequently recovered to $67.1/bbl on July 29 amid a renewed global prices rally triggered by further escalation in the US-Iran conflict. **Importantly, Ukrainian strikes were a key driver of the widening discounts on Russian crude.** By disrupting up to 1.9 million barrels per day of refining capacity, the attacks forced Russia to redirect more crude to export markets, contributing to an accumulation of floating inventories and excess supply in June and July. This pushed the Urals discount to North Sea Dated (NSD) to around $26/bbl in the second half of July—approximately $3/bbl wider than at the beginning of the month. The impact was even more pronounced for ESPO: excess Russian supply, compounded by weaker Chinese buying interest, widened the ESPO FOB Kozmino discount to NSD by almost $12/bbl during the month, to $21/bbl on July 29. As a result, ESPO FOB Kozmino began trading below Urals FOB, a development previously observed only in April 2026 (see Figure B6).

The decline in petroleum product exports reflected not only reduced refinery output but also increasingly restrictive government measures aimed at protecting domestic supply. At the end of January,[12] Russian authorities extended existing limits on exports of gasoline, diesel, and other fuels through July as a preventative measure to preserve stability in the domestic market. At that stage, direct gasoline producers remained exempt, allowing refineries to continue exporting surplus output and avoid excessive stock accumulation. As Ukrainian strikes intensified and the domestic market tightened, the government progressively removed these exemptions. A full ban on gasoline exports took effect on April 1 (until July 31, 2026),[13] and by late May exports of jet fuel (until 30 November, 2026)[14] had been fully prohibited. On July 8,[15] the restrictions to diesel exports, marine fuel and gasoil, were extended to a full ban through the end of the month. The restrictions were extended[16] again on July 30: the ban on exports of gasoline, diesel, and other fuels will remain in force until January 1, 2027. From September 1, however, the restrictions will no longer apply to diesel, marine fuel, or gasoil exported directly by producers. The extension indicates that the Russian government does not expect the domestic market to stabilize quickly.

Operational intervention expanded as export controls proved insufficient. Russian authorities instructed[17] refineries to maximize throughput, released accumulated fuel reserves, shortened ongoing repairs, and postponed planned maintenance. The government was also forced to intervene more directly in domestic fuel distribution. By late July, it had established[18] an explicit hierarchy of consumers, prioritizing state and municipal needs, defense-related enterprises, rail transport, civil shipping, and agriculture, while filling stations and some export deliveries received lower priority.

Russia also turned to emergency imports in a highly unusual step. In mid-June, Moscow began[19] arranging seaborne gasoline supplies from Asia after the increased deliveries from Belarus and the limited volumes potentially available from Kazakhstan proved insufficient to cover the growing shortfall. It subsequently sought around 50,000 tonnes of AI-92 gasoline from Kazakhstan,[20] while gasoline deliveries by rail from Belarus tripled[21] m-o-m to 181,000 tonnes in June.

The decision to import gasoline from India and Morocco marked an extraordinary reversal for one of the world's largest exporters of refined petroleum products. Russia had not previously relied on India as a source of refined fuel, yet by July 1 at least 60,000 tonnes of gasoline had been dispatched,[22] while the authorities were considering total monthly imports of up to 400,000 tonnes from different suppliers. Part of the Indian supply was reportedly produced by Nayara Energy[23] from Russian crude and sold back to Russia through traders—effectively forcing Moscow to reimport, at additional cost, fuel refined abroad from its own oil. KSE Institute, based on Kpler data, could confirm that two tankers were involved in this operation. On June 20, 2026, *AGNI (IMO 9314167)* loaded 350,827 barrels (42,000 tonnes) of gasoline at the Vadinar refinery in India, with Nayara Energy listed as the seller. On July 7, the cargo was transferred via a ship-to-ship operation near Damietta, close to the Suez Canal, to *GARNET (IMO 9577094)*. As of July

[12] See Government of Russia.
[13] See Government of Russia.
[14] See Government of Russia.
[15] See Government of Russia.
[16] See Government of Russia.
[17] See Reuters.
[18] See Kommersant.ru.
[19] See Reuters.
[20] See Reuters.
[21] See Tradingview.
[22] See Reuters.
[23] See GUR.

26, *GARNET* had reached its destination in Murmansk. Importantly, rather than proceeding to one of Russia's Baltic ports, *GARNET* sailed to Murmansk via a route that avoided both the English Channel and the Danish Straits—likely to reduce the risk of inspection, detention, or other enforcement action. Meanwhile, *AGNI* returned to the Vadinar refinery and departed again on July 24 carrying 503,216 barrels (60,244 tonnes) of gasoline along the same route towards the Suez Canal. Both vessels fully meet KSE Institute's criteria for inclusion in the Russian shadow fleet and are sanctioned by multiple jurisdictions, including the US (in *GARNET*'s case), the EU, and the UK. In addition, Russia opened a separate supply route from Morocco.[24] KSE Institute's analysis of Kpler data confirms that *SINO FAITH* (IMO 9375575) loaded 30,000 tonnes of gasoline in Morocco on July 11 and discharged the cargo in Murmansk on July 30. The Panama-flagged tanker is under Chinese management and is not currently subject to sanctions. These voyages illustrate both the severity of Russia's domestic fuel shortage and the increasingly costly measures required to stabilize the market. Meanwhile, *AGNI*'s immediate return to Vadinar for a second cargo suggests that Moscow is seeking to turn this ad hoc shipment into a repeatable and potentially larger-scale supply route. The additional cargo from Morocco indicates that Russia is simultaneously testing multiple seaborne import channels rather than relying on a single supplier or logistics chain.

As export restrictions and initial emergency imports proved insufficient to restore market balance, the government escalated to more costly fiscal and regulatory interventions. As of June 1, it expanded[25] the import-damper mechanism to compensate authorized suppliers for imported gasoline, with support for non-EAEU supplies calculated using Indian gasoline prices and delivery costs. Later in July, the same mechanism was extended[26] to diesel imports and middle distillates. The June package also introduced[27] tax incentives for gasoline produced by blending straight-run gasoline with other components and gave refineries more time to meet modernization commitments without losing existing tax benefits. In mid-June, the authorities relaxed[28] technical requirements for domestically supplied gasoline and diesel. Later, effective July 1, the Government reduced[29] the mandatory exchange-sales requirement for Class-5 gasoline from 15% to 10% for July–September. A similar measure is also planned[30] for diesel, with the requirement to be reduced from 16% to 10%. In late July, the government proposed[31] recognizing certain volumes supplied under direct contracts when assessing exchange-sales requirements, giving producers greater flexibility to redirect fuel toward priority domestic consumers.

The fuel crisis was increasingly generating broader macroeconomic costs through higher fiscal support, renewed price pressures, and disruption to fuel-intensive sectors. Oil companies received a combined 622.4 billion rubles over April–June under the fuel-damper mechanism. The damper payments will increase further due to higher imports of road fuel as Russia became a net road fuel importer after successful Ukrainian strikes. These transfers illustrate how the government was increasingly using the federal budget to absorb part of the cost of keeping domestic fuel prices below export parity. At the same time, the supply shock began to reverse the earlier disinflationary trend. The central bank[32] identified higher

[24] See Reuters.
[25] See Interfax.ru.
[26] See DW.
[27] See RG.ru.
[28] See DW.
[29] See Interfax.ru.
[30] See Interfax.ru.
[31] See Interfax.ru.
[32] See Central Bank of Russia.

gasoline and diesel prices—caused by lower production and temporary supply disruptions—as the main driver of faster non-food inflation across most regions. Although it characterized much of the June inflation acceleration as reflecting temporary factors, prolonged fuel shortages risk creating more persistent price pressures by raising transportation, logistics, and production costs throughout the economy.

The spillovers were already visible in individual sectors. Agriculture was particularly exposed because the crisis coincided with the harvesting season, when demand for diesel from tractors, harvesters, and grain transport is highest. In tourism, fuel shortages further weakened an already subdued summer season, particularly for car-based travel and occupied Crimea. Around half of Russia's summer trips are typically made by private car, but concerns about fuel availability sharply reduced road travel.

The breadth of state intervention demonstrates that the shock is structural rather than merely local. Export bans sacrifice foreign sales; imports are logistically costly and cannot replace lost refining throughput at scale; reserve use and deferred maintenance reduce future buffers; and relaxed technical standards trade product quality for short-term availability. If Ukrainian strikes continue, fuel shortages and higher prices will increasingly translate into economy-wide cost pressures, reinforcing inflation and constraining civilian production and consumption. Kinetic pressure on refining complements sanctions by reducing export earnings, raising fiscal costs, and forcing increasingly inefficient resource allocation.

Prospects for the Russian Economy

The Russian economy faces continued stagnation in H2 2026, with major uncertainties stemming from the Iran war and Ukrainian long-range strike campaign. Downside risks are compounded by a loss of fiscal discipline as the Kremlin sacrifices long-term sustainability in order to continue its invasion. If the CBR yields to political pressure and continues easing, it risks further destabilizing the bond market and threatening the federal government's ability to fund its large budget deficit. The IMF projects growth of a meager 1% in 2026 after an upward revision due to high commodity prices.

- **Energy revenues will depend on the resolution of the Iran war, on the one hand, and Ukraine's success in its strategic bombing campaign against Russian energy infrastructure, on the other.** The Iran war and the closure of the Strait of Hormuz have created a significant windfall for Russian energy revenues. Oil export earnings—which were at critically low levels before the closure of Hormuz—have reversed their late 2025–early 2026 trend and are now projected to come in at least $33 bn higher in 2026 than in 2025. However, Ukraine's long-range strike campaign (discussed in detail above) has helped cap Russia's windfall and even manufactured a fuel shortage crisis across Russia. If the global oil market returns to surplus with a resolution to the Iran war soon, Russia's lost oil product export revenues will pose a much more considerable challenge for the Russian economy and federal budget, compounding on other threats detailed below. A prolonged global oil crisis, in contrast, would keep the Urals price well above the budget's assumed ~$59/bbl and alleviate fiscal pressure, though it would not resolve the domestic fuel crisis or bring the budget deficit to a sustainable level.
- **Even after increasing the target budget deficit by 1 trillion rubles, the deficit is likely to far exceed the plan for the year.** Revisions to the planned budget deficit are a recurrent feature since the start of the full-scale invasion but they have come earlier and more often in recent years. The federal budget deficit has far exceeded planned levels, particularly in the first four months of the year. A minor surplus in June (~200 billion rubles) marginally reduced the cumulative deficit on the back of stronger

non-oil and gas revenues, but it remains highly unlikely that the deficit could come back to even the revised plan's levels, in particular as deficits always expand dramatically in December. As long as the war continues and the economy remains stagnant, the only viable path towards a more sustainable budget is to sharply reduce non-military expenditures.

- **The conflict between fiscal and monetary policy, in tension since 2022, has swung in favor of fiscal expansion.** A recent law passed by the Duma allows the government to increase expenditures and state debt beyond limits established by the budget law, raising widespread concerns of growing fiscal dominance. The Kremlin has long been seen as providing political cover to the central bank and its governor, Elvira Nabiullina, as it has sought to contain war-related inflation with tight monetary policy. Now that the economy has been in stagnation for over a year—and GDP shrunk in Q1—the Kremlin appears to have endorsed a considerably more dovish stance. This has helped destabilize the bond market and will set up a confrontation with the CBR, wherein the central bank can either retain its credibility on inflation or yield to political pressure, but not both.
- **A string of failed bond auctions indicate that the government could face mounting problems funding its large deficits.** Russia now funds most of its deficit by issuing OFZs, which are sold almost entirely to domestic banks. While the government's debt stock is not dangerously high, the OFZ auction failures raise questions about its ability to secure the cash flows necessary to fund the rising deficit. Market participants are likely proceeding cautiously as the fuel crisis (induced by the Ukrainian strike campaign) creates significant pro-inflationary pressure, making rate hikes more likely. However, the CBR surprised analysts with a 25 bps cut to its key rate in late July (consensus expectation was a hold), which may further complicate OFZ auctions, as terms demanded by domestic banks diverge yet further from government offerings.

Next Steps on Sanctions

Despite the temporary reprieve stemming from the Iran war and soaring energy prices, Russia's economy and budget are in a precarious situation, with deficits significantly higher than in H1 2025 and financing sources becoming increasingly constrained. These considerable vulnerabilities, together with the eventual normalization in global energy markets that will follow a return of flows through the Strait of Hormuz as well as the continuation of Ukraine's strike campaign, provide an opening for a much more aggressive approach towards Russian energy exports in the coming months, which continue to fuel its war against Ukraine. In addition, the coalition should tighten measures in other areas such as finance and export controls. While the timeline of additional energy sanctions fundamentally depends on geopolitical developments, we aim to outline a menu of options that should be implemented as soon as circumstances allow.

<u>In the area of energy, we propose ten measures to limit Russia's ability to pay for the war:</u>

- **Complete the exit from Russian fossil fuel imports.** The sanctions coalition should **end all imports of Russian fossil fuels as soon as possible.** This is primarily Europe's responsibility as Russia's most important pre-war export market, though not exclusively. The EU has now banned the import of seaborne crude oil and petroleum products, imports of petroleum products refined from Russia crude oil in third countries, and imports of Russian natural gas (including LNG) under short-term contracts; bans on LNG and pipeline gas imports under long-term contracts will take effect on January 1, 2027, and September 30, 2027, respectively. The **EU's priority should be to stay the course while completing**

the REPowerEU agenda by banning imports of Russian pipeline oil, which has been on hold due to the Iran war, resist industry pressure to issue any emergency derogations that would delay the phase-out of imports from Russia, and enforce[33] the ban on petroleum products refined from Russian crude oil in third countries. Other coalition countries should also complete their exit from Russian oil and gas. Specifically, the **UK should eliminate the exemptions** from its ban on petroleum products refined from Russian crude oil that were issued in response to the Iran war, and **Australia and the US should close the refining loophole**. In addition, Ukraine's Asian partners—i.e., **Japan, South Korea, and Taiwan**—should reverse the increase in imports of Russian oil, coal, and LNG that occurred during the Strait of Hormuz crisis and set a timetable for fully phasing out purchases of Russian fossil fuels.

- **Pressure the major buyers of Russian oil and gas.** The imposition of **US sanctions on Rosneft and Lukoil** in late 2025, accompanied by a threat of secondary sanctions directed at financial institutions in third countries and diplomatic pressure on buyers (especially in India), **had a significant impact on Russia** by widening the discount on Russian oil as the remaining buyers (primarily in China) leveraged their market power. Despite selling at much lower prices, Russia was still not able to place all of its oil, however, leading both **export and production volumes to drop** in February 2026 for the first time in four years. Now that OFAC's waivers on its Russian oil sanctions have expired, the **US should return to enforcing its sanctions on Russian oil producers**, while **expanding these measures to new players** that have replaced sanctioned companies. The prospective Graham sanctions bill, potentially adopted in the coming months, would provide the administration with additional tools to step up pressure on buyers of Russian oil and gas.

  The EU and UK should **expand the list of sanctioned Russian oil companies and Russia-linked traders** that facilitate the country's oil exports.[34] Casting a wider sanctions net makes swapping out one Russian supply chain for another more costly and difficult. Then, although the EU and other countries do not use secondary sanctions out of legal principle, they can use their **leverage over third-country entities** to reduce the appetite for imports of Russian oil. Most importantly, the EU, UK, and others could **withhold access to its markets**—for exports, financial services, insurance—from any companies who continue to import Russian oil or in other ways frustrate restrictive measures.

- **Replace the oil price cap (OPC) with a maritime services ban.** While the **oil price cap is *theoretically* the perfect instrument during a major oil market disruption** such as the Strait of Hormuz crisis—it limits the target's revenues in times of elevated prices without compromising supply to the market—the **Iran war has clearly shown that it is not up to the task**. For several months, Russian crude oil sold for more than double the price cap's level, strongly implying that there is **little to no OPC compliance** within the 25–30% of Russian seaborne crude oil exports still transported with G7-linked vessels. The sharp increase in product prices in recent months served as a reminder that the **problem goes beyond crude oil**; Russian petroleum products sold significantly above the respective caps while the shadow fleet accounted for only 25–30% of volumes. Fundamentally, **the price cap regime remains effectively unenforceable due to long-standing issues concerning the credibility of pricing information** provided through the attestation system.

  Replacing the OPC with a full maritime services ban would significantly limit the transport capacity available to Russia while sidestepping the OPC's greatest weaknesses. A maritime services ban would be most effective if it concerned **both crude oil and petroleum products**, for which there is

[33] See KSE Institute, Assessing the Closure of the EU's Refining Loophole, June 2026.
[34] Some Russian companies may need to be excluded from sanctions (e.g., Lukoil) due to the complicated situation with their assets in Europe.

considerably higher leverage due to the shadow fleet's smaller role. We estimate that **the impact on G7-based operators still involved with Russian oil would be limited**, as the expected oversupply in the global oil market will create ample demand for their services outside of Russian cargo. While it would be preferable to adopt a services ban across all G7 jurisdictions, action by European countries would be impactful as the interlinkages in the global shipping and insurance industry will effectively force non-European service providers to comply with such restrictions.[35] Importantly, because this measure creates a further incentive to grow alternative transport capacities, a **maritime services ban must go hand in hand with a continued campaign to rein in the shadow fleet**. Moreover, when discussing a services ban, European countries must consider that this is the **last remaining leverage over the transport of Russian oil** to third countries; thus, the measure needs to be carefully planned and implemented, including by shortening the phase-in period as much as possible.

- **Complete the listing of shadow fleet tankers.** Significant progress has been made in recent years in terms of the listing of shadow tankers. In particular, the EU and UK, with 625 and 590 listings, respectively, have now sanctioned a considerable share of the fleet. As not all unsanctioned shadow vessels are actively transporting Russian oil, it should be possible to **cover the remaining targets[36] within the next several months** and ensure full alignment between the two jurisdictions. The US is unfortunately lagging behind, not having sanctioned any vessels under the Russia sanctions regime since January 2025. Due to the considerable deterrent effect of US secondary sanctions, the **US could seriously constrain Russia's ability to use the shadow fleet** and overall transport capacity for Russian oil if it were to list the ~360 tankers that are currently under EU/UK sanctions but not OFAC.
- **Comprehensively target the shadow fleet's ecosystem.** While shadow tanker designations have had a significant impact on operations, **many EU/UK-listed ships continue to operate** and many entities in third countries continue to facilitate these operations or interact with the vessels and/or their cargo.[37] In the absence of comprehensive listings of vessels by the US, **targeting of the fleet's ecosystem is required**. This should include measures against ship managers, traders and brokers, flag states, and crewing agencies—all of which drive up costs and create friction, even if they are often evaded through reorganization and adaptation. More importantly, however, **measures should target elements of the ecosystem that cannot be easily replaced**, including destination ports, buyers, financial institutions, and insurance providers. Here, the EU, UK, and other countries should leverage the size of their markets for goods, financial services, and insurance to exert pressure on entities in third countries that do not formally partake in the sanctions regime (e.g., China, India, and Turkey). Ultimately, the goal should be to force all actors involved with the shadow fleet to **choose between interacting with EU/UK-sanctioned ships and maintaining access to European markets**.
- **Limit shadow fleet activity in European waters.** The shadow fleet not only allows Russia to generate considerable export earnings and budget revenues but also represents a **security threat and environmental risk in European waters**. Physical **interdictions** of vessels by several countries (including France, Sweden, and the UK) **have had a deterrent effect and forced operational changes** that increase voyage lengths and costs. However, these measures have relied on concerns regarding the validity of shadow vessels' flags as legal justification in the context of narrow intervention rights under the current interpretation of international maritime law, and **increasing reflagging to**

[35] See KSE Institute's assessment of the effects of a proposed maritime services ban, which includes a discussion of how the ban could be affected by the US' abstention, from February 2026.
[36] See KSE Institute's assessment of what is left of the shadow fleet to sanction from June 2026.
[37] See KSE Institute's assessment of the impact of shadow tanker designations from May 2026.

Russia is narrowing room for similar actions in the future. Thus, European coastal states should **aggressively pursue interdictions in any cases where flag validity concerns continue to arise**, while **considering broader measures based on the closer association of the shadow fleet with Russia**. As the flag state of record, Russia takes on specific responsibilities that will enable other parties to hold it to account via countermeasures and/or take measures if it does not comply, and simultaneously subjects the vessels to EU port bans.[38]

- **Complicate Russian imports of petroleum products.** As a result of Ukrainian drone attacks on Russia's refining sector, shortages of important petroleum products have emerged in Russia and the country may be reliant on imports of such products for a considerable amount of time. The **sanctions coalition must now focus on petroleum product *imports*** in addition to the past and current measures that largely target Russian fossil fuel exports. While Russia will likely be able to fulfill the fuel needs of its military and broader economy, the price of doing so can be increased considerably. As a first step, **coalition countries should ban exports of petroleum products to Russia** (on top of the current prohibition on jet fuel and additives exports) **and use their leverage over third-country refineries and ports** to ensure that actors in India, Kazakhstan, China, and Turkey are as hesitant as possible and/or demand the largest-possible mark-ups in return for their willingness to supply Russia.
- **Restrict Russia's access to energy sector technology and critical parts needed for repairs.** Stepped-up Ukrainian drone strikes have had a significant impact on Russian refineries and oil export infrastructure in recent months. As these attacks will continue with drone technology and production capacity growing, sanctions coalition countries should **ensure that access to replacement parts and any critical energy technology is as limited and/or expensive as possible** to maximize their impact. Given that the Ukrainian long-range strike campaign against Russia's oil infrastructure has reportedly[39] begun specifically targeting components that are most difficult for Russia to replace, the sanctions coalition should take steps to exacerbate the effects of Ukrainian strikes. One approach could be to **create a dedicated Energy Repair High-Priority List, modelled on the Common High Priority (CHP) items list, covering refinery-critical goods** (e.g., industrial pumps, compressors, turbines, etc.) and restricting both direct exports and potential circumvention schemes. Much like the CHP export controls, the EU should coordinate with partners to harmonize this list, while expanding restrictions on repair services, industrial software, engineering support, and other channels that enable Russia to restore damaged energy infrastructure.
- **Disrupt the development of Russia's LNG sector.** With the EU's phasing out of Russian LNG by the end of this year, Russia will lose its most important export market and be forced to seek new destinations for exports from Yamal, which has primarily supplied LNG to European buyers. As a result, transport routes will grow and logistics become more complicated. The limited number of ice-class LNG tankers that can transport cargo from Russia's key facilities year round and growing need for such vessels, provides the sanctions coalition with **considerable leverage** to inhibit what Russia considers a key element of the future of its natural gas industry. **Sanctions should target vessels (both existing and the construction and purchase of new ones), repair yards,[40] and any providers of services**

[38] See KSE Institute's assessment of the implications of reflagging shadow tankers to Russia.
[39] See Financial Times.
[40] Particular attention should be paid to the activities of Fayard A/S, a Danish shipyard at Odense Port that remains the last EU facility servicing the specialized Arc7 LNG carriers supporting Russia's Yamal LNG exports. Given these vessels' dependence on specialist maintenance and Western spare parts, restricting access to Fayard could create a significant operational bottleneck for Russia's Arctic LNG fleet. For further details, see the Urgewald report, *Fayard and Russia's Arc7 LNG Fleet*.

to the Russian LNG fleet. Moreover, the **US should take enforcement action to preserve the credibility of its sanctions against Arctic LNG II**, which has been able to increase shipments despite the threat of secondary sanctions. The recent delay and softening of the 21st sanctions package show such tighter restrictions in this area may face strong political headwinds in some coalition countries.

- **Limit Russia's geopolitical influence through Rosatom.** Sanctions against Rosatom have been elusive despite the entity's role in furthering Russia's geopolitical goals. With a new government in Hungary, there may be an **opportunity to pursue a more aggressive approach**. In particular, the EU should join the US' ban on imports of low-enriched Uranium from Russia (fully in effect from January 2028), the new Hungarian government should suspend Rosatom's participation in the Paks-2 nuclear project, and the EU should set ambitious deadlines for phasing out all imports of Russian nuclear fuel. This effort should also be extended to critical raw materials, where Rosatom is one of the world's largest producers and traders, by setting clear timelines to reduce and ultimately eliminate the EU's strategic dependence on the company across these supply chains.

Beyond energy, we propose measures to restrict access to critical imports and financial flows:

- **Continue expanding sanctions against the Russian banking sector.** Sanctions should be further aligned with U.S. and UK measures in order to close remaining gaps in financial restrictions. In 2026, the EU substantially broadened its sanctions against the Russian banking system, moving beyond the largest state-owned lenders to target regional institutions and alternative payment channels. Following the adoption of the 20th and 21st sanctions packages, by the end of July 2026 the number of Russian banks that have a valid licence and are subject to EU restrictive measures had risen to 113, of which 89 were subject to both an asset freeze and a full transaction ban, 14 to an asset freeze only, and 10 to a transaction ban only. Despite this expansion, important gaps remain between the EU framework and measures imposed by partner jurisdictions: **24 US-sanctioned banks are not yet subject to equivalent EU restrictions,**[41] while **two UK-sanctioned institutions**[42] also **remain outside the EU framework.** These institutions should be reviewed as priority candidates for additional EU listings, with **Gazprombank representing the most significant gap**: although it is subject to full blocking sanctions in the U.S. and an asset freeze in the UK, the EU has imposed only sectoral restrictions on certain debt instruments and new loans or credit, without applying an asset freeze or full transaction ban.

  The EU should **target banks that may substitute for larger sanctioned institutions** by processing domestic or cross-border payments, supporting regional industrial groups, servicing import transactions, maintaining correspondent links, or facilitating payments connected to sanctioned persons, controlled goods, energy settlements and third-country procurement networks. Particular attention should be paid to **regional and specialized banks** whose role may be less visible than that of systemically important institutions, but which can still provide operational continuity for Russia's wartime financial infrastructure. Additional EU measures should extend not only to the banks themselves, but also to their **subsidiaries, branches, representative offices, payment companies, digital banking platforms, correspondent arrangements and affiliated channels** where these are used to maintain access to international payment systems or foreign-currency transactions. The EU should also consider measures against institutions that enable indirect access to financial services through third countries,

[41] Including Finstar Bank, Primorsky Territorial Commercial Bank, Bratsky Narodny Bank, Krona Bank, Guta Bank, Exi Bank, Viking Bank, Bank Alexandrovsky, Slavia Bank, Public Trust Bank, NK Bank, Maritime Bank, Sinko Bank, Kremlyovskiy Bank, NS Bank, Waybank, Russian Universal Bank, RFC-Bank, Rossita Bank, Ural FD Bank, RusRegionBank, Mosoblbank, Kamcombank and Timer Bank.

[42] Solid Bank and Vyatich Bank.

including through correspondent accounts, non-bank payment providers, foreign subsidiaries or partner banks outside Russia.

- **Target intermediaries and banks in third countries.** Export-controlled goods from EU and other coalition countries' producers rarely reach Russia directly, but rather are channeled through extensive networks of intermediaries in countries outside of the sanctions coalition—including China, the UAE, Turkey, as well countries in Central Asia and the Caucasus. It is critical that the EU **aggressively uses existing tools against companies** (adopted in the 11th sanctions package) **and financial institutions** (adopted in the 18th sanctions package) in these jurisdictions. In addition to slowing down the flow of war-critical goods to the Russian military-industrial complex, this will drive up the prices for Russian buyers. As fewer businesses and countries are willing to sell them export-controlled goods, Russian importers will hold continuously diminishing leverage over the few remaining sellers—particularly those in China, to whom Russia already pays exorbitant (~300%) premia for CHP goods.[43]
- **Continue restricting Russian alternative (crypto) payment channels.** Restrictions should be expanded against the **state-aligned financial infrastructure engineered to bypass sanctions and preserve access to trade**, encompassing not just the digital ruble, but also sanctioned ruble-pegged stablecoins, and bespoke settlement platforms such as Exved or the A7 network. Measures should extend to **financial institutions, technology providers, and logistics intermediaries** in jurisdictions that facilitate sanctions-circumvention. Strict **supervision of virtual assets service providers** (VASPs) is required to ensure the Travel Rule is applied to every transaction, preventing nesting and other obfuscation techniques. Designation criteria should be based on the nature, scale, and purpose of transactions, targeting any institution enabling flows linked to Russia's war economy.

  Sanctions should evolve into an **infrastructure-centric approach** that targets the service layers—e.g., exchanges, OTC brokers, mixers, and cross-chain bridges—that sustain Russia's economy. Priority should be given to **state-backed Russian payment schemes used for military procurement and offshore VASPs** that exploit jurisdictional arbitrage to ignore the Coalition restrictions. To pre-empt future loopholes, **Travel Rule obligations should be applied to "DiNO"** (Decentralized in Name Only) platforms—those that claim decentralization but maintain sufficient control to qualify as service providers under EU/FATF standards. Effective enforcement should combine targeted designations with blockchain analytics and public-private partnerships to disrupt the modular "laundering-as-a-service" networks utilized by sanctioned actors. The objective is to **dismantle the wider crypto-financial ecosystem** that allows Russian entities and other perpetrators of crypto crime to evade restrictions.
- **Tighten due-diligence requirements for EU operators, compelling non-financial companies to use "Know Your Client" and "Know Your Client's Client" (KYC) procedures.** The EU's current regulatory regime has serious loopholes when it comes to companies' responsibilities. **Due-diligence requirements are particularly lax for subsidiaries, joint ventures, and contractual partners in third countries**, which is extremely problematic in industries such as microelectronics, which rely heavily on offshored production. In addition to KYC, the EU should **mandate periodic post-execution investigations** of distribution companies working with sensitive technologies. Such inquiries are conducted only occasionally and usually in response to obvious red flags; this has allowed companies to claim ignorance over the illicit transactions that involve their products.

[43] See KSE Institute's Russian CHP Imports Tracker for Q2 2026.

- **Close sanctions-arbitrage channels through joint enforcement and intelligence sharing.** Partner jurisdictions should **strengthen secure mechanisms for exchanging financial intelligence, beneficial-ownership data, licensing information, and enforcement findings**. This would reduce the ability of Russian banks, procurement networks, crypto platforms, and payment intermediaries to exploit gaps between sanctions regimes. More coordinated enforcement would also limit the use of third-country financial institutions, correspondent accounts, non-bank payment providers, and affiliated service companies to maintain access to international finance. The core objective should be to reduce regulatory arbitrage, increase transaction costs for Russian actors, and improve the overall deterrent effect of the coalition's financial sanctions.
- **Harmonize financial sanctions across the G7 and partner jurisdictions.** Financial sanctions against Russia would be more effective if coalition jurisdictions applied **more closely aligned restrictions** to Russian banks, third-country financial institutions, crypto-asset platforms, payment intermediaries, shadow-fleet service providers, and defense procurement networks. Current differences in designation scope, timing, licensing practice, and enforcement create **opportunities for sanctioned actors to reroute transactions through less restrictive jurisdictions**. Closer coordination should, thus, focus on common designation criteria, coordinated listing packages, shared beneficial-ownership information, warning notices, red-flag indicators, joint investigations, and more consistent enforcement action.

Appendix: Overview of Key Sanctions Measures in H1 2026

Banking Sanctions in 2026

The sanctions landscape for Russian banks changed significantly during 2026. Whereas previous sanctions had largely focused on Russia's largest state-owned and systemically important financial institutions, the 2026 measures expanded to encompass a much broader segment of the banking sector, including regional banks, medium-sized commercial institutions, specialized lenders and niche financial organizations. Rather than targeting only institutions directly financing the Russian state or defence sector, sanctioning authorities increasingly sought to reduce the number of remaining unsanctioned financial channels available for domestic and international transactions.

EU

In 2026, the EU substantially broadened its sanctions against the Russian banking system, moving beyond the largest state-owned lenders to target regional banks and alternative payment channels. Taken together, the 20th and 21st sanctions packages imposed financial restrictions on 95 Russian banks: 44 were subjected to both asset freezes and full transaction bans, 50 to asset freezes only, and one to a full transaction ban only.

The 20th package, adopted in April 2026, placed 20 additional Russian banks under a full transaction ban. The measure focused mainly on regional and medium-sized institutions that could provide substitute payment, settlement and trade-finance channels after Russia's largest banks had already been restricted.

The 21st package, adopted in July 2026, represented a much larger escalation. It imposed asset freezes on 91 Russian banks[44] and extended the full transaction ban to 33 additional Russian credit and financial institutions. Of the 98 newly affected banks, 26 were simultaneously placed under both an asset freeze and a full transaction ban. Another 53 banks were newly asset-frozen after already being subject to a transaction ban, while 12 received an asset freeze without any prior transaction restrictions. In addition, one already asset-frozen bank was newly subjected to a transaction ban, while six other banks received a transaction ban without an accompanying asset freeze.

As a result, by the end of July 2026, the number of Russian banks that have a valid licence and are subject to EU restrictive measures had risen to 113. Of these, 89 were subject to both an asset freeze and a full transaction ban, 14 to an asset freeze only, and 10 to a full transaction ban only.

Despite this expansion, important gaps remain between the EU framework and the sanctions imposed by partner jurisdictions. A cross-jurisdictional comparison identifies 24 U.S.-sanctioned banks that are not yet subject to equivalent EU measures: Finstar Bank, Primorsky Territorial Commercial Bank, Bratsky Narodny Bank, Krona Bank, Guta Bank, Exi Bank, Viking Bank, Bank Alexandrovsky, Slavia Bank, Public Trust Bank, NK Bank, Gazprombank, Maritime Bank, Sinko Bank, Kremlyovskiy Bank, NS Bank, Waybank, Russian Universal Bank, RFC-Bank, Rossita Bank, Ural FD Bank, RusRegionBank, Mosoblbank, Kamcombank and Timer Bank. Two banks sanctioned by the UK also remain outside the EU framework: Solid Bank and Vyatich Bank. These institutions should be reviewed as priority candidates for additional EU listings.

Gazprombank represents the most significant remaining gap. It is subject to full blocking sanctions in the United States and an asset freeze in the UK. By contrast, the EU has imposed only sectoral restrictions,

[44] Notably, the asset-freeze list included JSC Post Bank, which had ceased to exist as a separate legal entity on 1 May 2026 following its acquisition and absorption by VTB.

prohibiting dealings in certain debt instruments and the provision of new loans or credit, but has not subjected the bank to an asset freeze or full transaction ban.

Not all Russian banks covered by EU restrictive measures are subject to both an asset freeze and a full transaction ban. Fourteen banks are subject only to an asset freeze and ten banks are covered only by the transaction ban.

Russian banks subject only to EU's asset freeze	Russian banks subject only to EU's transaction ban
"Regional Commercial Siberian Social Bank" LLC	JSICB "Eniseisk United Bank"
Far Eastern Bank	LLC "Zemsky bank"
JSC Royal Credit Bank	PJSC SPB Bank
JSC NOKSSBANK	JSC JSCB "International Financial Club"
NBD-Bank PJSC	"INTERPROGRESSBANK" (JSC)
JSC Coalmetbank	JSC "Russian regional development bank"
JSC Investtradebank (Investtorgbank)	Unistream Bank
JSC "Bank Orenburg"	JSCB "Agropromkredit"
Prio-Vneshtorgbank (PJSC)	JSC "Databank"
JSC Bank Agroros	Bank 131 JSC
JSC "Econombank"	
PJSC "AKIBANK"	
JSB "Almazergienbank"	
JSC Black Sea Bank of Development and Reconstruction	

Australia

Australia also significantly broadened its regime by imposing asset freezes on 50 additional banks, virtually all of which were already subject to US blocking sanctions. Australia's action therefore primarily extended domestic asset-freeze obligations to institutions already excluded from the US financial system.

Switzerland

Switzerland extended transaction restrictions to 20 banks in alignment with the EU's 20th sanctions package. The UK sanctioned 13 additional institutions, generally combining asset freezes with trust-services restrictions, director-disqualification measures and prohibitions on correspondent banking relationships and payment processing. Banks including Lanta-Bank, Transcapitalbank, Tochka Bank, Ak Bars Bank, Fora-Bank, Bank Sinara, Absolut Bank, Post Bank and Investtradebank had already been sanctioned by the United States or other partner jurisdictions. The UK acted independently or ahead of broader coordination in relation to Yandex Bank, Avers Bank, Wildberries Bank and Vyatich Bank.

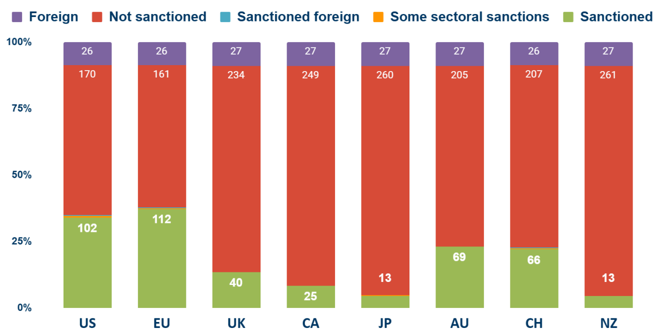
Canada

Canada's activity remained more limited, with new restrictions against T-Bank, Absolut Bank and Zemsky Bank. No new banking sanctions were recorded in the United States, Japan or New Zealand during the period. The absence of a comparable US designation wave reflected the fact that most significant Russian financial institutions had already been covered by earlier OFAC actions, particularly the major designation rounds of February 2023, November 2023 and November 2024.

By the end of July 2026, the EU had sanctioned more Russian banks that have a valid licence than any other jurisdiction, applying restrictive measures to 113 institutions. This compared with 102 banks sanctioned by the

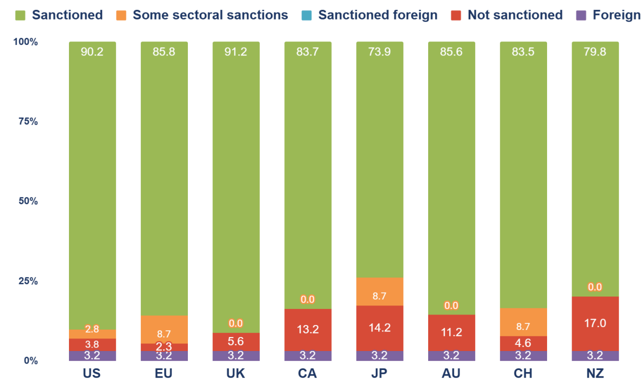
United States, 69 by Australia, 66 by Switzerland, 40 by the UK, 25 by Canada, and 13 each by Japan and New Zealand. However, most banks newly targeted in 2026 had already been sanctioned by at least one partner jurisdiction (Figure 19).

Figure 19: Number of sanctioned banks



Source: KSE Institute analysis

Figure 20: Assets of sanctioned vs. non-sanctioned Russian banks, %



Source: KSE Institute analysis

Although the EU had sanctioned the largest number of Russian banks by the end of July 2026, its measures covered approximately 86% of Russian banking-sector assets, compared with 90% under US sanctions (Figure 20). The difference is largely attributable to Gazprombank, one of Russia's largest banks, with assets of 17.3 trillion roubles as of June 2026. The United States imposed full blocking sanctions on Gazprombank in November 2024, whereas the EU continues to apply only limited capital-market and lending restrictions.

Cryptocurrency And Alternative Payment Channels

EU

The 20th sanctions package further restricted third-country financial channels used to circumvent EU measures. It imposed transaction bans on four third-country banks identified as using Russian financial infrastructure or materially undermining EU sanctions objectives. Joint Development Bank in Laos was listed for providing financial services to sanctioned persons or otherwise frustrating EU sanctions. Keremet Bank and Capital Bank of Central Asia in Kyrgyzstan were targeted for processing circumvention-related transactions or financing trade supporting Russia's war, while Yelo Bank in Azerbaijan was listed over its links to Russian financial messaging infrastructure and related circumvention concerns (the Azerbaijani bank was later delisted under the 21st package). At the same time, the EU removed five previously listed institutions – three Tajik banks and two Chinese banks – which had been targeted for materially undermining EU sectoral or asset-freeze sanctions, including by servicing listed persons or facilitating transactions that circumvented EU restrictions, after they took remedial action and terminated the activities underlying their listings.

The EU created a new transaction-ban category targeting third-country "payment agents" – non-financial intermediaries, frequently active in logistics or import-export trade, that facilitate payments for Russian entities outside conventional banking channels. The measure covers entities enabling international transactions through third-country accounts, netting, set-off, reconciliation or settlement arrangements that circumvent EU sectoral or asset-freeze sanctions. The prohibition also covers persons acting on behalf of or at the direction of listed payment agents and providers of equivalent enabling services. Under this framework, Arneis, Asia Import Group, GPAgent and Platejka were subjected to transaction bans from 14 May 2026 for facilitating cross-border settlements outside conventional banking channels.

The EU broadened its crypto-related restrictions in two principal ways. First, from 24 May 2026, it prohibited transactions involving two additional digital assets under development – the RUBx crypto-asset and the digital rouble, Russia's central bank digital currency – as well as any support for their development. This extended the existing restrictions on the A7A5 rouble-backed token. The EU considers the digital rouble a potential domestic and cross-border payment channel capable of shielding Russian companies, individuals and financial institutions from sanctions.

Second, from the same date, the EU introduced a blanket prohibition on transactions with any crypto-asset service provider or platform established in Russia that enables the exchange or transfer of crypto-assets. This sector-wide ban replaces the previous entity-by-entity approach and limits the ability of sanctioned platforms to evade restrictions by reconstituting under new names. Limited exceptions apply to diplomatic and international organisations and to EU nationals who were already resident in Russia before 24 February 2022. Competent authorities may also authorise transactions strictly necessary for divestment from Russia or the winding-down of business activities there.

In addition, the EU imposed an asset freeze on CJSC TengriCoin, the Kyrgyz operator of the Meer crypto platform, which facilitates significant trading in the A7A5 rouble-backed stablecoin linked to Promsvyazbank and the A7 payment network.

Separately, from 25 January 2026, the expansion of the EU prohibition adopted on 23 October 2025 entered into force, extending the existing ban beyond SPFS to connections with any Russian system providing financial messaging functionality, including the Fast Payment System (SBP) and Mir. Transaction bans on listed third-country entities were correspondingly broadened to cover institutions using SPFS, SBP, Mir or equivalent Russian financial messaging and payment infrastructure.

Under the 21st sanctions package the EU significantly strengthened its restrictions on crypto-assets and alternative payment channels. It imposed transaction bans on 14 third-country crypto platforms and crypto-linked firms based in Georgia, Panama, El Salvador, the UAE, the Marshall Islands, Belarus and Nigeria, including three entities linked to the expansion of the A7 cross-border payment network into Africa. In parallel, two Russia-based entities and two individuals connected to the network were subjected to asset freezes. The A7 network also operates the A7A5 rouble-backed token, which, together with associated exchange and payment infrastructure, had already been targeted under the 20th sanctions package.

Transaction bans were also extended to the SPFS-linked Eco-Islamic Bank in Kyrgyzstan and three other non-Russian banks identified as financial institutions serving sanctioned persons or otherwise undermining EU sanctions: Chinggis Khaan Bank in Mongolia, Sberbank India and VTB Bank (India).

The EU also established a new mechanism allowing it to prohibit transactions with crypto-asset service providers and platforms enabling the exchange or transfer of crypto-assets established in third countries that systematically and persistently failed to prevent crypto services or platforms from facilitating the circumvention of EU sectoral and asset-freeze sanctions. No third country has yet been designated under this framework.

From 25 August 2026, the EU prohibition on Russian and Belarusian nationals and residents owning, controlling or holding positions in the governing bodies of EU crypto businesses will extend beyond wallet, account and custody providers to all crypto-asset service providers covered by the Markets in Crypto-Assets Regulation (MiCA).

Sanctions Against Russia's Shadow Fleet In 2026

Sanctions targeting Russia's shadow fleet intensified further in 2026, reflecting a strategic shift from broad restrictions on the Russian energy sector towards direct measures against the maritime infrastructure enabling circumvention of oil sanctions and the G7 price cap. Sanctioning jurisdictions increasingly designated individual vessels transporting Russian crude oil, petroleum products and liquefied natural gas (LNG). These measures aim to raise operating costs, restrict access to insurance, financing and port services, and disrupt the repeated replacement and rotation of vessels used to sustain sanctioned energy exports.

	AU	CA	EU	NZ	UK
Oil Products Tanker	4	55	20	12	11
Chemical/Oil Products Tanker	9	68	20	20	13
Crude Oil Tanker	48	140	36	65	47
Floating Storage and Offloading (FSO) Units, Oil	0	2	0	0	0
Chemical Tanker	0	1	0	0	0
LNG Tanker	0	0	2	2	6
Bunkering Tanker	0	1	1	0	0
Other (General Cargo Ship, Bulk Carrier, Offshore Supply Vessel, Ro-Ro Cargo, Container Ship)	0	54	8	1	0
TOTAL	61	321	87	100	77

Source: KSE Institute analysis

Canada

Canada maintained the broadest vessel sanctions regime among the jurisdictions reviewed, designating 321 vessels linked to Russia's shadow fleet. The listings comprised a wide range of vessel categories, including 140 crude oil tankers, 68 chemical/oil products tankers, 55 oil products tankers, 54 support or auxiliary vessels, two floating storage and offloading (FSO) units, one chemical tanker and one bunkering tanker. This broad coverage extends beyond conventional oil transport and targets the wider maritime logistics infrastructure supporting Russian energy exports.

New Zealand

New Zealand maintained the second-largest vessel sanctions list, covering 100 vessels. Its measures focused primarily on 65 crude oil tankers, alongside 20 chemical/oil products tankers, 12 oil products tankers and two LNG carriers, demonstrating a strong emphasis on disrupting Russian crude exports while also extending sanctions coverage to the emerging LNG shadow fleet.

EU

The EU maintained sanctions on 87 vessels, comprising 36 crude oil tankers, 20 chemical/oil products tankers, 20 oil products tankers, eight auxiliary vessels and one bunkering tanker. Although the EU sanctioned fewer vessels than Canada and New Zealand, its measures complemented broader restrictions on maritime services, insurance, port access and transactions involving designated ships.

In parallel, the EU delisted 11 vessels that had ceased engaging in sanctionable activities.

The EU also broadened its vessel-listing criteria in 2026. The 20th sanctions package extended designation grounds to vessels transporting Russian mineral products, while the 21st package added ships that service listed vessels, including through bunkering, refuelling or tug services, or conduct ship-to-ship cargo transfers with them.

UK

The UK sanctioned 77 vessels, including 47 crude oil tankers, 13 chemical/oil products tankers, 11 oil products tankers and six LNG carriers. The UK's inclusion of the largest number of sanctioned LNG tankers among the jurisdictions examined reflects growing attention to attempts by Russia to develop alternative shipping networks for Arctic LNG exports in response to Western restrictions.

The UK also revoked sanctions against *Millerovo*, which had been designated in May 2025 for transporting Russian-origin oil or petroleum products to third countries. This removal directly concerned a tanker previously identified as part of Russia’s shadow fleet.

Australia

Australia designated 61 vessels, with its sanctions heavily concentrated on 48 crude oil tankers, alongside nine chemical/oil products tankers and four oil products tankers. Australia's approach focused primarily on vessels transporting crude oil in violation of the price-cap regime.

Across all jurisdictions, crude oil tankers accounted for the largest category of sanctioned vessels, representing between two-thirds and three-quarters of all designations in most sanctions regimes. Chemical/oil products tankers constituted the second most frequently targeted category, reflecting their growing use in transporting both crude oil and refined petroleum products. By contrast, sanctions against LNG carriers remained relatively limited and were adopted only by the UK and New Zealand, indicating that restrictions on Russia's LNG shadow fleet are still at an earlier stage of development than those targeting crude oil exports.

US

Although the US did not significantly expand sanctions against Russian shadow fleet vessels under its Russia-related sanctions programmes in 2026, it increasingly targeted ships transporting Russian oil through other sanctions authorities, particularly the Iranian sanctions regime. On 15 April 2026, OFAC designated eight vessels under Executive Order 13902 (Iran) for their role in the sanctions-evasion network operated by Mohammad Hossein Shamkhani, son of former senior Iranian official Ali Shamkhani. According to OFAC, the designated crude oil and oil products tankers were used to transport millions of barrels of Russian oil and petroleum products as part of shadow fleet operations designed to circumvent international sanctions and the G7 oil price cap.

In 2026, OFAC also removed seven Russia-linked vessels from the SDN List, but most were not part of the shadow fleet transporting Russian oil. Five were container or general cargo vessels designated primarily because of their links to sanctioned Russian leasing and state-owned transport companies, including PSB Lizing, Alfa-Lizing and GTLK. The Vietnamese tanker *Astra* was also delisted without a public explanation. Only *Linda*, a Russia-flagged crude oil tanker linked to Russian oil exports, was directly relevant to the shadow fleet.

Overall, the 2026 sanctions demonstrate increasing international coordination in addressing Russia's shadow fleet. While jurisdictions continue to differ in the scale and scope of vessel designations, the common trend has been the systematic expansion of sanctions from individual ships to the wider maritime logistics ecosystem supporting Russian energy exports. This progressively narrows the pool of vessels available for sanctions evasion, increases compliance risks for maritime service providers, and strengthens enforcement of the international oil price-cap regime.

Energy Sanctions

US

In response to the Strait of Hormuz closure, the US Treasury Department temporarily waived sanctions on Russian oil through several general licenses, which have been subsequently extended. Specifically:

- Issuance of a 30-day waiver (General License 133) on March 5, authorizing the sale to India of crude oil and petroleum products of Russian origin already loaded on vessels as of that day. The measure explicitly applied to all shipments, including those on OFAC-designated shadow tankers.[45]
- Issuance of a 30-day waiver (General License 134) on March 12, broadening the scope of General License 133 by authorizing the sale to all destinations of crude oil and petroleum products of Russian origin already loaded on vessels as of that day, including those designated by the US.[46]
- Extension of the waiver for an additional 30-day period (General License 134B) on April 17.[47]
- Extension of the waiver for an additional 30-day period (General License 134C) on May 18.[48]

UK

Closing Energy Sanctions Loopholes

The central objective of the May 2026 package was to reduce Russia's energy revenues by addressing remaining sanctions circumvention channels. The UK introduced a prohibition on the import of refined petroleum products manufactured in third countries from Russian-origin crude oil, thereby targeting a longstanding loophole that allowed Russian crude to re-enter Western markets after processing in foreign refineries. The restrictions also extend to related technical assistance, financial services and brokering services, bringing the UK regime closer to comparable EU measures.

Simultaneously, the UK introduced a carve-out from the ban, creating limited exceptions to new UK restrictions on Russian energy-related flows. The General Trade Licence authorizes the import into the UK of specified petroleum products – diesel (under HS codes 2710 19 42 and 2710 19 44), and jet fuel (under HS code 2710 19 21) – processed in third countries from Russian-origin crude oil. It also covers certain related technical, financial and brokering services. The licence was initially issued as an open-ended carve-out, but later it was amended to include a fixed expiry date of 1 January 2027.

The processed-oil licence effectively deferred the full application of the UK's planned ban on diesel and jet fuel refined from Russian crude in third countries. The measure was presented as a temporary supply-security response amid energy market disruption, rising prices and concerns over fuel availability, while preserving the broader UK sanctions framework against Russian crude oil and petroleum products.

[45] See here.
[46] See here.
[47] See here.
[48] See here.

In addition, the UK introduced comprehensive restrictions on Russian uranium. The new measures prohibit the import, acquisition, supply and delivery of Russian-origin uranium, as well as related technical, financial and brokering services. At the same time, narrowly defined exemptions allow the continued operation of existing nuclear facilities outside Russia and the handling of uranium exported before the entry into force of the restrictions.

EU

Expansion of Energy Import Restrictions

From 1 January 2027, the EU prohibition on purchasing, importing or transferring Russian crude oil and petroleum products will extend to natural gas condensates under CN code 2709 00 10 produced at LNG facilities and originating in or exported from Russia. The related ban on maritime transport and associated services will also apply to these products, closing a previous exemption from the crude-oil restrictions.

The 21st sanctions package froze the Russian oil price-cap adjustment mechanism until 14 July 2027 and introduced limited derogations for confiscated oil and certain imports into EU outermost territories.

Maritime And Shipping Sanctions

UK

Strengthening Maritime and Shipping Sanctions

The UK significantly reinforced its maritime sanctions framework by expanding restrictions on designated vessels and Russia's shadow fleet. The package introduced comprehensive prohibitions on providing or procuring services relating to designated vessels, including technical assistance, crewing, chartering, ship management, brokering, financing and other commercial services. These measures further isolate vessels designated under the UK's shadow fleet regime from international maritime services. Importantly, the amendments removed the previous requirement for the Secretary of State to assess whether designation was appropriate in light of the overall objectives of the sanctions regime, allowing vessels to be designated solely on reasonable grounds of involvement in sanctioned activities. These changes lower the evidentiary threshold for designation and strengthen the UK's ability to respond rapidly to sanctions evasion involving maritime transport.

Restricting Russian LNG Transportation

For the first time, the UK introduced comprehensive restrictions on the maritime transportation of Russian liquefied natural gas (LNG). The measures prohibit the maritime transport of Russian LNG from Russia to third countries and between third countries, together with associated financial and brokering services. Although transitional exemptions remain available for certain long-term contracts concluded before 17 June 2025, the measures represent a significant expansion of UK sanctions beyond import restrictions and directly target Russia's ability to export LNG through international shipping networks.

Simultaneously, the UK issued a General Trade Licence providing a temporary exemption from the UK’s new restrictions on the maritime transportation of Russian LNG, valid until 1 January 2027. It permits the shipment of LNG originating exclusively from the Sakhalin-2 and Yamal LNG terminals to third countries, or between third countries, together with related financial services, funds and brokering services. The authorization applies only where the relevant activity is carried out under contracts with a duration of one year or less and the LNG originates solely from the two named Russian terminals.

EU

Restrictions on the Acquisition of Detained Transport Assets

The 20th sanctions package introduced a new prohibition on the acquisition of detained transport assets from designated persons or Russia-connected entities. The measure is intended to prevent sanctioned Russian owners from recovering value from maritime and aviation assets that have been detained, seized or otherwise immobilised as a result of sanctions or enforcement actions, thereby further limiting Russia's ability to monetize transport assets affected by international restrictive measures.

Maritime Infrastructure and LNG Transport Restrictions

The EU's 20th sanctions package substantially strengthened restrictions on the maritime infrastructure supporting Russian energy exports and sanctions circumvention. For the first time, the EU imposed transaction bans on two Russian ports – Murmansk and Tuapse – and the Karimun oil terminal in Indonesia, prohibiting EU operators from engaging in direct or indirect transactions with these facilities. According to the European Council, the designated ports have been used by Russia's shadow fleet to circumvent the G7 oil price cap, including through ship-to-ship transfers and other high-risk shipping practices. Notably, Karimun became the first third-country port targeted by EU sanctions for facilitating sanctions evasion, marking a significant expansion of the EU's anti-circumvention policy beyond Russian territory.

The EU also introduced a phased prohibition on providing LNG-terminal services to Russian counterparties and Russian-controlled entities, requiring EU operators to wind down relevant commercial relationships before the restrictions take effect. The measure complements the EU's broader effort to reduce Russia's access to European energy infrastructure and constrain its ability to handle and export LNG through EU terminals.

The 20th sanctions package prohibited, from 1 January 2027, the provision of LNG-terminal services, including offloading, storage, regasification, loading, bunkering and ancillary services, to Russian entities and EU-established entities majority-owned or controlled by Russian persons. The 21st package clarified that the prohibition also covers third-country entities owned or controlled by Russian persons. From the same date, EU operators will be prohibited from maintaining existing contracts for such services, although the contractual consequences will depend on the applicable governing law and termination provisions.

The 20th package introduced new restrictions on services related to icebreakers and LNG tankers supporting Russian energy exports. From 25 April 2026, EU operators are prohibited from providing technical assistance, brokering services, financing or financial assistance for vessels that are Russian-flagged, certified by the Russian Maritime Register of Shipping, or owned or managed by Russian persons, operating in Russia or intended for use in Russia. From 1 January 2027, the prohibition will extend to LNG tankers operating in Russia or intended for use there, irrespective of flag, certification or ownership. The measures target icebreakers that are essential to maintaining oil and gas exports from Russia's Arctic regions, as well as LNG tankers supporting Russian export logistics. Together with transaction bans on designated ports, they restrict access to specialised maritime capacity and infrastructure used for Arctic exports and shadow-fleet operations.

The restrictions complement the broader EU ban on Russian LNG imports, which took effect on 25 April 2026 for most contracts and will apply from 1 January 2027 to long-term contracts concluded before 17 June 2025. Natural gas derivatives remain outside the scope of the import ban.

The 21st sanctions package introduced two exemptions from the prohibition on transporting or transferring Russian LNG to third countries. LNG originating from the Sakhalin-2 project may continue to be transported to Japan and South Korea until 31 March 2028. A separate temporary one-year exemption, subject to renewal, permits transfers of Russian LNG and related purchases under long-term contracts concluded before 24 February 2022. This exemption is intended to support the orderly phase-out of existing activities and is subject to notification, reporting and annual volume limits preventing transfers from exceeding their 2025 level.

Tanker Sales and Transfer Controls

The 20th sanctions package introduced mandatory due-diligence and contractual requirements for sales of crude-oil and petroleum-product tankers by EU persons. Sales or transfers to Russian persons or for use in Russia are prohibited. For transfers to third-country buyers, EU operators must assess and document the risk of onward transfer to Russia and include a contractual prohibition on resale or retransfer to Russian persons, entities or for use in Russia. The buyer must impose the same restriction on any subsequent transfer.

The 21st package introduced a separate notification requirement for transfers of ownership of LNG tankers to third countries. EU nationals, residents and entities must notify the competent Member State authority, allowing closer scrutiny of possible diversion for Russian use. Following a Commission assessment within three months, the Council is expected to consider whether additional restrictions, including a full ban on LNG-tanker sales to Russia comparable to those applicable to oil tankers, should be introduced.

Critical Infrastructure Transaction Ban

EU

The 21st package imposed transaction bans, effective from 24 July 2026, on the Russian ports of Olya and Vysotsk and on four airports – Sheremetyevo, Ulyanovsk-Vostochny, Rostov-on-Don Platov and Mineralnye Vody. The measures target infrastructure used to support Russia’s military logistics, defence-related trade and broader economic resilience.

Trade-Related Restrictions

Expansion of Professional and Business Services Restrictions

UK

The UK further expanded the list of prohibited professional and business services by introducing a ban on the provision of construction services to persons connected with Russia. The prohibition covers virtually all categories of construction, civil engineering and installation services supplied to persons connected with Russia, subject to limited exemptions for pre-existing contracts and essential maintenance activities necessary to protect public safety or critical infrastructure.

EU

The EU expanded restrictions on professional services by adding managed cybersecurity services to the list of prohibited services supplied to Russian entities. Similar restrictions were simultaneously introduced for Belarus, further aligning the two sanctions regimes. The package also introduced limited exemptions allowing services necessary for the functioning of diplomatic and consular missions.

Expansion of Export Controls

UK

The UK substantially expanded export controls targeting Russia's military-industrial capabilities and long-term technological development. New restrictions cover industrial chemicals, advanced semiconductor materials, missile precursor chemicals, carbon fibre products, quantum computing technologies, artificial intelligence hardware, engineering biology equipment and a wide range of strategic research materials. Many of these additions align UK controls more closely with EU export restrictions while also incorporating recommendations developed by Ukraine and G7 partners. The measures are designed to limit Russia's access to emerging technologies with both civilian and military applications and further constrain long-term industrial modernisation.

EU

The 20th sanctions package significantly expanded the export control regime with the objective of further restricting Russia's access to technologies and industrial goods supporting its military-industrial complex while strengthening measures against sanctions circumvention through third countries. The amendments broaden the lists of controlled advanced technology and industrial goods, introducing export restrictions on laboratory glassware, energetic materials, high-performance lubricants and their additives, industrial chemicals used in lubricant and solvent production, rubber products, metalworking tools, industrial tractors, and various engineering components with potential military or dual-use applications. These additions further align export controls with Russia's evolving procurement needs and target supply chains supporting defence production.

The 21th sanctions package expanded export restrictions on advanced technologies and materials used by Russia’s and Belarus’s military-industrial sectors. Newly controlled items include nickel powders, nickel metal, and alloys of nickel used in corrosion-resistant coatings in jet engines, beryllium powders used in propellants and high-performance alloys, self-adhesive films, tapes, and strips used in the aerospace and defense sectors, and UAV-related equipment such as launch systems, jamming and interception systems, servomotors, ground-support equipment and flight-termination systems.

Anti-Circumvention Measures

EU

A key innovation of the EU’s 20th sanctions package is the introduction of enhanced anti-circumvention mechanisms. For the first time, the EU activated the anti-circumvention instrument established under the 11th sanctions package by imposing targeted export restrictions on Kyrgyzstan, following evidence of systematic re-export of controlled goods to Russia. The new measures prohibit exports of selected computer numerical control (CNC) machine tools and telecommunications equipment to Kyrgyzstan, marking the first country-wide application of the EU's anti-circumvention tool.

Import Restrictions

EU

Targeting Russia's Non-Energy Export Revenues

The 20th sanctions package significantly expanded the EU's import restrictions on revenue-generating goods, further reducing Russia's ability to earn export revenues from non-energy commodities. The list of prohibited imports was broadened to include a wide range of raw materials, metals, minerals, chemicals and industrial products, including iron ore, copper, processed aluminium products, silicon, quicklime, salts, steel, aluminium, copper and nickel scrap, iron ore slag, chemicals, articles of vulcanised rubber, tanned fur skins and ammonia.

The package also introduced a tariff-rate quota for Russian ammonia, exempting imports of up to 688,000 metric tonnes per year from the general import prohibition. Imports exceeding this annual quota remain subject to the ban. The quota reflects the EU's effort to gradually reduce its dependence on Russian ammonia while avoiding abrupt disruptions to the European fertiliser sector, which continues to rely on ammonia as a critical input for nitrogen fertiliser production.

The 21th sanctions package expanded import bans on Russian and Belarusian revenue-generating goods, including copper, nickel, lead and precious-metal ores, unwrought zinc, alkaline-earth metals, zinc and chromium oxides, tall oil, glassware and car parts. Contracts concluded before 24 July 2026 may be executed until 25 October 2026.

The EU also removed tanned or dressed sable furskins (Martes zibellina) under CN code 4302 from the import restrictions, while retaining the ban on other furskins covered by the same code. The reversal, introduced only months after the restriction, reflects Russia's dominant position in global sable supply and the limited availability of alternative sources, as well as concerns raised by fur-processing industries in Italy and Greece. The exemption is limited to sable inputs and does not remove separate restrictions applicable to finished fur products or luxury-goods trade with Russia.

Strengthened Traceability Requirements for Polished Diamonds

The 20th sanctions package further strengthened the EU's restrictions on the diamond trade by tightening the traceability requirements for imports of polished diamonds. Instead of relying on certificates, importers must now submit a due diligence statement confirming that the diamonds were not mined, processed or produced in Russia. The new requirement shifts greater responsibility onto importers to verify the origin of diamonds throughout the supply chain and demonstrate compliance with EU sanctions through documented due diligence procedures.

The revised framework is intended to enhance the reliability of the G7 diamond sanctions regime by replacing document-based certification with a broader risk-based compliance approach. Importers are expected to maintain supporting evidence, including traceability records and supply-chain documentation, capable of substantiating the due diligence statement if requested by competent authorities. The measure aims to reduce the risk of Russian diamonds entering the EU after processing in third countries.

Enhanced Enforcement And Anti-Circumvention Measures

UK

Strengthening Enforcement

The UK strengthened the overall enforcement architecture of the UK sanctions regime. It expanded civil and criminal enforcement powers, extended licensing provisions to newly prohibited activities, introduced additional emergency exceptions where justified, and enhanced measures targeting sanctions circumvention through third countries. Collectively, these amendments reflect the UK's strategic shift from expanding the scope of sanctions to improving their enforceability, closing remaining legal loopholes and increasing pressure on Russia's energy exports, transport networks and military-industrial supply chains.

EU

Strengthening Protection of Economic Operators

The 20th package strengthened the EU's legal framework for protecting European businesses. New mechanisms enable the EU to impose transaction bans on entities benefiting from Russian expropriation measures, unauthorized use of EU intellectual property or attempts to enforce sanctions-related judgments outside the EU.

The package also introduced anti-suit injunction provisions, expanded compensation mechanisms for EU companies harmed by Russian countermeasures.

The 21st package strengthened legal protection for EU operators facing retaliatory litigation linked to compliance with EU sanctions. EU companies may recover direct and indirect damages, including legal costs, before Member State courts where claims are brought against them in third-country jurisdictions and effective remedies are unavailable there. EU courts may also order claimants to discontinue abusive proceedings or refrain from seeking the recognition or enforcement of resulting judgments in any jurisdiction, with financial penalties for non-compliance. Member States are additionally prohibited from recognising, giving effect to or enforcing Russian court or administrative decisions concerning contracts or transactions affected by EU sanctions.

Other Measures

EU

Restrictions on Russian Government Funding

The 20th sanctions package prohibited the acceptance of Russian government funding for research and innovation activities. The measure bars EU entities from receiving donations, financial assistance or other economic support provided directly or indirectly by the Russian Government or Russian state-controlled entities, further limiting Russia's ability to finance research cooperation and technological development within the EU.

Visa Restrictions

The 21st sanctions package established the legal basis for a future EU-wide refusal of short-stay visas to serving and former members of the Russian Armed Forces and associated paramilitary, military-affiliated or irregular groups who have directly contributed to combat operations supporting Russia’s war against Ukraine since 24 February 2022. The measure requires an individual conduct assessment and is based on public-policy, internal-security or international-relations grounds. Exceptions apply where entry or transit is required for humanitarian purposes, national interests or international obligations, or where the applicant provides conclusive evidence of being a dissident or defector; in such cases, a visa with limited territorial validity may be issued. The restrictions are not yet applicable and will enter into force only after the necessary implementing arrangements, including any required changes to the EU visa framework, have been completed and the Council adopts a separate decision.