EU/RUSSIA: Momentum building for significant new sanctions on Moscow

- On 19 September, the European Commission (EC) unveiled its 19th sanctions package on Russia, primarily targeting Moscow's energy export revenues.
- Political momentum is also building to halt Russian pipeline oil imports to the EU and expand the use of frozen Russian sovereign assets in Europe.
- If adopted, the new sanctions would add pressure on Russia's slowing economy and deteriorating public finances but are unlikely to force the Kremlin to end the war in the near term.

The key proposed measures by the EC include:

- A full transaction ban on key energy companies – Rosneft and Gazprom Neft.
- A proposal to halt LNG imports from Russia at the start of 2027, a year earlier than the previous proposal.
- Imposing restrictions on 118 additional sea vessels, considered part of the Russia's 'shadow fleet'.
- Restrictions on crypto networks and Russian banks related to sanctions evasion.
- Restrictions on 45 companies in Russia and third countries supporting Russia's military-industrial complex.

The package requires unanimous support from all 27 EU member states and will likely be a key agenda item for the next Council summit on 23-24 October. In the meantime, the proposed measures will likely be discussed and coordinated with the US and G7 member states.

The EC is reportedly considering additional restrictive measures that would ban Russian oil shipments to Hungary and Slovakia—a key demand voiced by US President Donald Trump. Both countries have the technical capacity to replace Russian energy supplies, but lack political will to go down this route, citing legal issues, security-of-supply concerns, and higher costs of alternative imports. A cut in Russian energy supplies would threaten economic interests of influential interest groups supporting Viktor Orban's and Robert Fico's governments in Hungary and Slovakia respectively. However, as on multiple occasions in the past, a mix of political pressure and financial incentives could soften Budapest's and Bratislava's positions.

In addition, political momentum is building in Europe to make greater use of frozen Russian central bank assets. EU countries are reportedly exploring ways to fully tap the frozen funds without formally seizing them. One option under discussion involves replacing the frozen assets with zero-interest "reparation bonds" backed by all or most EU member states. Progress on this long-debated issue is facilitated by a more flexible German stance, continued pressure from the Trump administration, and Ukraine's vast financing needs. For example, Ukraine's 2026 budget requires at least USD 49bn in external financing, excluding military spending.

However, additional Western steps to channel frozen Russian assets toward Ukraine would likely trigger a harsh response from Moscow, which has pledged to retaliate by seizing European assets and contesting such measures through legal channels.

Hitting where it hurts

Additional Western sanctions would heighten pressure on the slowing Russia's economy and strained public finances. According to official data, real GDP growth slowed to 1.1% y-o-y in Q2 2025, prompting the Ministry of Finance to cut its full-year growth forecast to 1.5%, down from 2.5%. Weakening growth is weighing on budget revenues, already under pressure from oil and gas income that is more than 30% lower compared to 2024. The current budget deficit has already exceeded

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the upwardly revised full-year target of 1.7% of GDP and is far above the originally budgeted figure of 0.5% of GDP for 2025. Expanding Ukrainian drone strikes on refining and oil export facilities is another source of concern for Moscow, which could negatively affect economic activity and heighten inflationary pressures.

To balance the 2026 budget, Russian authorities are reportedly discussing another round of tax hikes for consumers and businesses, likely combined with additional spending and investment cuts in non-essential areas. In addition, the government will continue to tap into the National Welfare Fund, which held USD 48.9bn in liquid assets at the start of September, as well as draw on the domestic financial market. Finally, Russian companies are seeking access to the Chinese bond market, which would provide a much-needed capital injection to the business sector and signal Beijing's growing economic support for Moscow.

While targeting Russia's energy export revenues remains the most promising long-term approach to weakening Putin's ability to sustain the war, its effectiveness depends on broad international coordination and strict enforcement. Until now, coordination and enforcement have been lacking, while growing exports to China have helped to partially offset export losses to other markets, particularly Europe. Moscow appears to still have sufficient reserves to continue its military campaign well into 2026.

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