

Abstract

In this study, we examine the impact of sanctions on investment in Russia over the period 2004-2016. Our objective is two-fold. First, we examine the investment response to the sanctions imposed on entities and firms in 2014 using a rich panel of Russian non-financial firms. We exploit firm-level and sectoral variation in our micro-level dataset that covers both large firms and SMEs. In this analysis, we employ a reduced-form investment equation that allows for the effect of sanctions together with other determinants of investment behavior and control for the heterogeneous effects of the ruble devaluation and oil price decline that occurred concurrently with the sanctions regime. We verify our identification strategy by examining response of investment of Russian non-financial firms during the 2008 invasion of Georgia as well as that of Kazakh firms to the 2014 sanctions. We also model the impact of sanctions in terms of a structural model of a firm that operates in foreign and domestic markets and that faces regime shifts in a model with partially irreversible investment decisions. Using this framework, we conduct a variety of experiments involving the tightening of sanctions on imported intermediate inputs or imposing an oil price cap.