

Changes in cash and trade flows and the implementation of financial sanctions following the start of full-scale war between Russia and Ukraine

Executive summary

I Purpose and data

- The **study provides an overview of the changes in cash flows and the application of international financial sanctions after the start of the full-scale war between Russia and Ukraine as of 30 September 2023**. The study focuses on international financial sanctions as their implementation falls within the competence of the Financial Intelligence Unit (FIU).

An **international financial sanction** is foremost a targeted restrictive measure or a set of measures against specific legal or natural persons or countries/regions (the subject of an international financial sanction), under which an obligation is undertaken to freeze and make unavailable the subject's funds and economic resources, as well as, in cases provided for by law, providing financing (credit or loans), opening a savings account, payment account, a securities account or any other account, carrying out securities transactions, concluding an insurance contract, investing, or the starting or continuing of business relationships, consultancy or the provision of other financial services related to the activities listed above (§ 14 of the International Sanctions Act¹).

- As of 30 September 2023, the EU had adopted an 11th package of sanctions, including financial sanctions, since 24 February 2022 in response to Russia's military aggression against Ukraine. Financial sanctions are also **targeted sanctions** imposed on individuals which are targeted against those responsible for supporting, financing or implementing activities that undermine Ukraine's territorial integrity, sovereignty and independence, or who benefit from such activities².
- The study uses a variety of data sources, including cross-border payments, exports and imports, cash declared and undeclared at the border, and deposits of Russian and Belarusian persons over 100,000 euros, in addition to the data derived from reports to the FIU.

II Main results

Changes in cash and trade flows

1. **Since the start of Russia's full-scale war in February 2022, cash flows to Russia have been on a steady downward trend**. While in 2021, payments in the amount of 1.47 billion euros were made from Estonia to Russia, in the first nine months of 2023 only 24

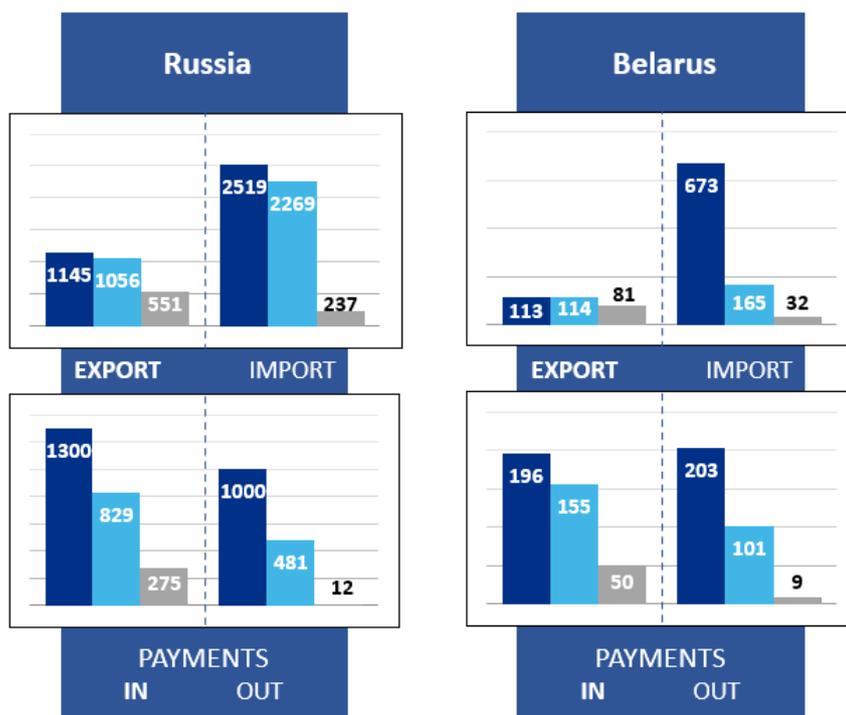
¹ International Sanctions Act RT I, 19.03.2019, 11. – RT I, 30.06.2023, 61.

² <https://www.consilium.europa.eu/et/policies/sanctions/restrictive-measures-against-russia-over-ukraine/>

million euros in payments were made to Russia. In 2021, the volume of payments received was also 1.55 billion euros. There was a major drop in payments to Russia in June 2022 and then a larger decrease in March 2023, with 321 million euros in payments received by the end of September. Since these downturns, monthly cross-border payments have clearly been lower (between 0.6 and 30 million euros).

2. **The volume of cross-border payments between Estonia and Belarus is dropping.** An eightfold drop (from 20 million to 2.5 million) in payments from Estonia to Belarus occurred in the summer of 2022 and has fallen further in 2023. **Payments received from Belarus, though, have not shown a sharp downward trend.** While in January 2022, payments received amounted to 14 million euros, the same amount was received in August 2022, 9.8 million euros in June 2023 and 2 million euros in September 2023.
3. The number of all payments over 10,000 euros³ made to and from Russia in 2022 was on average half of that in 2021, and about a third less to and from Belarus. In 2023, payments regarding both countries had fallen even further (by around 80% on average compared to the previous year as a whole). Looking at the dynamics of trade flows in addition to cash flows, **both Russia and Belarus have experienced a large decline in the volume of imports of goods and services.** In the first nine months of 2023, the drop was on average 80% compared to 2022. Before the war, imports were several times higher than exports. In 2021, goods and services worth around 1 billion euros were exported to Russia and 100 million euros to Belarus, and around 2.5 billion euros were imported from Russia and ca 700 million euros from Belarus.

Chart 1: Trade and cash flows of 2021, 2022 and 2023 (months 1 to 9) in sequence, in millions of euros, including only cross-border payments above 10,000 euros per payment. Source: Statistics Estonia and reports on payment statistics of Estonian credit institutions



4. The **first year of full-scale war did not change Estonia's cash flows with Ukraine.** It can be estimated that the volume of payments received in 2023 will exceed that of the previous years, as in 2023, 242 million euros worth of payments from Ukraine were received in three quarters, compared to 250 million euros in the previous year.

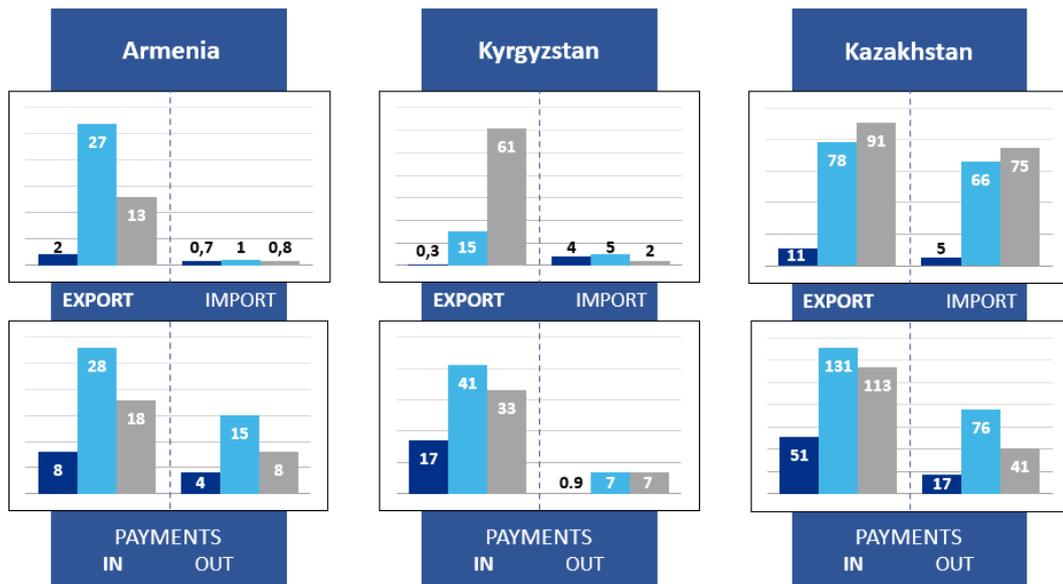
³ Cross-border payments over €10,000.

5. **Payments with bank cards issued by Estonian credit institutions (both by physical cards as well as digital wallets⁴) in Russia** started to decline both at the point of sale and in e-commerce in the spring of the first year of the war, falling to zero or close to zero in the summer of the same year, where they have remained.
6. **Payments in Estonia with physical bank cards and digital wallets issued by Russian credit institutions**, both at the point of sale and in e-commerce, have followed the trend of payments with Estonian bank cards in Russia.
7. **Cash withdrawals with Estonian bank cards in Russia and with Russian bank cards in Estonia** have been almost non-existent since the first spring of the war.
8. **By contrast, the volume of cash declared at the Estonian-Russian border inbound has doubled in the last two years from 2.5 million euros in 2021.** The share of declarers with Russian Federation citizenship has decreased from 2021 compared to the end of October 2023 by around 60%. Declarers who are citizens of the Republic of Estonia, Ukraine and a few other countries have been added. Relatively larger increases have been seen in the declaration of roubles and US dollars in particular. **Outbound, the amount declared at the border in the first 9 months of 2023 was the same as the total in 2022.** (around 3.3 million euros). The impact of the sanctions is clear: as the EU imposed sanctions on the transfer of cash to Russia in EU-denominated currencies, the outbound flows of euros have been replaced by US dollars and Russian roubles. In isolated cases, the transfer of euros to Russia for personal use has been declared.
9. The **volume of payments with Estonian bank cards and digital wallets in Belarus has not changed much over** the last two years, with card payments of around 200,000 euros per month. Similarly, payments made with Belarusian bank cards in Estonia have continued through the last three years.
10. **Cash withdrawals with Estonian bank cards in Belarus** have fluctuated between 50,000 and 100,000 euros in one month. The highest number of cash withdrawals was in April 2022. **Withdrawals with Belarusian bank cards in Estonia** peaked in March 2022, reaching 300,000 euros, with the amounts never coming close since.
11. For the countries that stood out in the financial sanction reports to the FIU, the changes in cash and trade flows were presented and are summarised in Charts 1 and 2. Cash flows only include large (exceeding 10,000 euros) payments.

For example, by 2022 **export volumes to Armenia have risen significantly** (from 2 million to 27 million euros), **Kyrgyzstan** (from 0.3 million to 15 million euros) and **Kazakhstan** (from 11 million to 78 million euros). At the same time, the volume of payments received also increased by several times: In 2022, they were 28 m, 41 m, and 131 m euros respectively. **At the same time, import volumes have remained stable** (at around a few million euros), with **the exception of Kazakhstan**, where the increase in imports (from 5 million euros to 66 million euros) has been higher than that of exports. In **January to September of 2023**, trade with Kazakhstan continued to be active in both directions, exceeding the previous year's total in nine months, and exports to Kyrgyzstan also grew strongly. However, exports to Armenia have decreased. The **volumes of payments** generally exceeded the volumes of exports and imports in the full years of the reference period. This study does not focus on the comparison between trade and cash flows.

Chart 2: Trade and cash flows of 2021, 2022 and 2023 (months 1 to 9) in sequence, in millions of euros, including only cross-border payments above 10,000 euros per payment. For imports, foreign countries as countries of consignment. Source: Statistics Estonia and reports on payment statistics of Estonian credit institutions.

⁴ A digital wallet payment is a payment made with your phone, watch or other mobile device instead of a bank card.



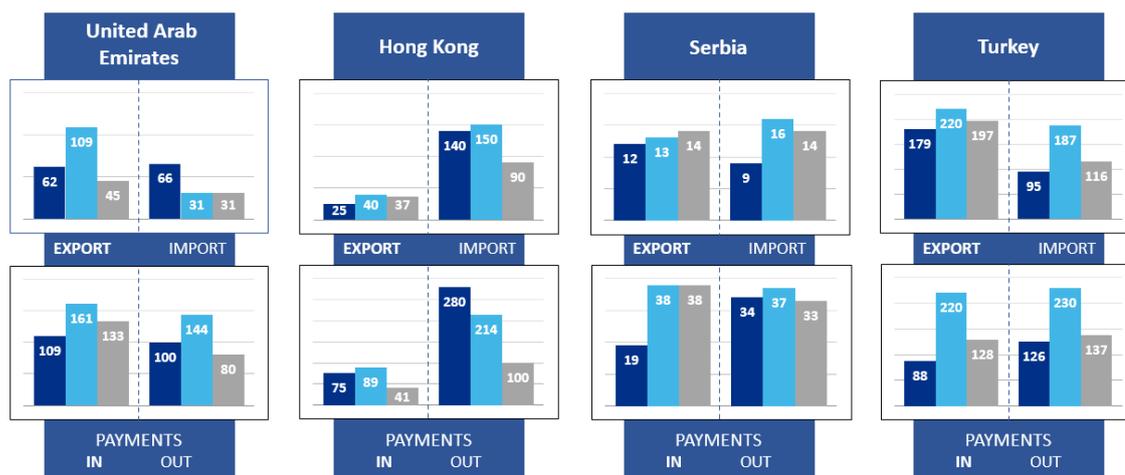
The volume of exports to the United Arab Emirates increased in 2022, while imports decreased. In 2023, no further upward or downward trend is foreseen. Payments received from the UAE broadly follow the same trend as exports. However, payments made to the mentioned country were clearly higher in 2022 than in 2021.

Export volumes to Hong Kong have increased slightly for three consecutive years and imports have remained rather stable. In full years, the volume of cross-border payments to and from Hong Kong has been much higher than the volume of moving goods. The level of payments made has been decreasing year on year over the period described.

Exports to Serbia have been growing steadily, while imports have shown a clearer increase. The volume of large cross-border payments received doubled in 2022 and was at the same level during Q1 to Q3 2023. Payments made have been on a slight upward trend.

Export volumes to Turkey have grown moderately, while imports doubled in 2022. The volume of payments received also increased 2.5-fold in the first year of full-scale war. A decline is projected for 2023, but the volume of payments received will still be clearly higher than in 2021. Payments made were also at a record high level in 2022.

Chart 3: Trade and cash flows of 2021, 2022 and 2023 (months 1 to 9) in sequence, in millions of euros, including only cross-border payments above 10,000 euros per payment. For imports, foreign countries as countries of consignment. Source: Statistics Estonia and reports on payment statistics of Estonian credit institutions.



Application of international financial sanctions

12. **Since the start of the full-scale war between Russia and Ukraine, the number of International Sanctions Reports (ISRs) sent to the FIU has increased almost tenfold.** While 99 ISRs were received in 2021, the total number of ISRs for the period 24 February 2022 to 30 September 2023 was nearly 1,400 (898 in 2022). The majority of ISRs (nearly 70%) were sent by credit institutions, and a tenth by virtual asset service providers (VASPs). The share of other reporting entities was lower.
13. **The content of the reports has changed over time.** Where at the beginning of the war, reporting entities mainly reported on customers who had been added to the sanctions list and informed the FIU that they had frozen the person's assets or rejected funds, **increasingly, suspicions of evading sanctions have been reported.** These reports are a valuable source of information for the authorities to prevent such attempts at evasion. A common typology is ownership obfuscation, where sanctioned Russian citizens are removed or replaced from the management of companies in an attempt to avoid the use of restrictive measures against them. In these cases, the FIU will thoroughly assess whether the ownership and inspection criteria are met.

The FIU has also received reports where credit institutions in particular have identified card payments made to sanctioned entities, in particular Belarusian companies with large state holdings. The number of such reports is likely to decrease as several Estonian banks have significantly restricted card payments in Belarus. This is because it is very difficult in practice to establish whether a payment has been made to a person listed in the sanctions list.
14. **There are few Russian and Belarusian persons in Estonia holding deposits in excess of the limit allowed in Estonia⁵ and their number decreased by nearly 75% in 2023 compared to the previous year.** In 2023, Estonian credit institutions had 67 customers with a deposit balance exceeding 100,000 (116 in 2022).
15. The FIU has analysed cases where a person has tried to bring cash to Russia, for example to relatives, and in the cases analysed has taken the view that **the exception for the export of cash for personal use set out in Council Regulation (EU) 2022/345 of 1 March 2022 cannot be used to bring cash to Russia for acquaintances, friends,**

⁵ EU Council Regulations 833/2014 and 765/2014 set deposit limits for Russian and Belarusian citizens without EU citizenship or residence permits and for majority-owned companies. It will be forbidden for these persons to accept new deposits of more than 100,000 euros in EU banks.

children or parents, and constitutes a breach of the restrictions in Articles 5i and 12 of EU Regulation 833/2014⁶. The EU takes the same view.

MAIN CONCLUSIONS

- The full-scale war between Russia and Ukraine has led to significant changes in cash flows towards Russia. The cascade of EU sanctions has gradually dried up cross-border payments to and from Russia.
- Payments and cash withdrawals with Estonian and Russian bank cards in Russia and Estonia fell to extremely low levels or even to zero in spring 2022. This was strongly influenced by the decision of Visa, Mastercard, and American Express to stop doing business with Russia in the early spring of 2022. A similar decision was not taken in Belarus, and so there were no such major changes in card payments in 2022 and in the first half of 2023.
- There was a sharp drop in payments made to Belarus in the summer of 2022, due to a sharp fall in the volume of goods and services exported from Belarus to Estonia as a result of the trade sanctions. A similar sharp drop also characterises the exports of Russian goods and services to Estonia in the reference period after the start of full-scale war.
- With the third countries highlighted in the financial sanction reports submitted to the FIU, trade has been picking up since 2022, as well as cash flows. Noteworthy is the surge in exports to Kyrgyzstan and Armenia, as well as an increase in the volume of goods exported to Kazakhstan. Some of the trade and cash flows are linked to sanctions evasion, which can be inferred from the files analysed by the FIU.
- Market participants have been active in applying sanctions. After the start of the war, the number of reports of suspected international sanctions increased almost tenfold. Most of these reports were sent by market participants in the two sectors – credit institutions and VASPs. The number of reports from banks suspecting the use of sophisticated schemes to evade sanctions has increased over time.

⁶ By way of exception, it can be done for the personal use of natural persons travelling to Russia or members of their immediate families travelling with them, or for the official purposes of diplomatic missions, consular posts or international organisations in Russia enjoying immunities in accordance with international law.