War in Ukraine

US unveils tougher Russia sanctions for foreign banks

Measure will discourage financial institutions in countries such as China from doing business with Moscow

Janet Yellen, US Treasury secretary. The expansion of secondary sanctions reflects the US view that the Kremlin has transformed Russia into a war economy since its full-scale invasion of Ukraine © Al Drago/Bloomberg

Chris Cook in London and **Max Seddon** in Riga 10 HOURS AGO

The US Treasury has rolled out a big expansion of its secondary sanctions programme on Russia, and will now treat any foreign financial institution transacting with a sanctioned Russian entity as though it is working directly with the Kremlin's military-industrial base.

A new set of measures will widen a White House executive order that in December gave the Treasury the authority to apply secondary sanctions on foreign financial institutions if they were found to have acted for, or on behalf of, any of about 1,200 entities deemed by the US government to be part of Russia's defence sector.

After this week's change, announced on Wednesday, that number will rise to more than 4,500 and will encompass almost all Russian entities that have already been sanctioned, even if it was for reasons other than direct support of the war in Ukraine. They include banks such as Sberbank and VTB, the country's largest lenders.

The expansion of secondary sanctions reflects the US view that the Kremlin has

The expansion of secondary sanctions reflects the US view that the Kremlin has transformed Russia into a war economy two years after its full-scale invasion of Ukraine.

Janet Yellen, US treasury secretary, said: "We are increasing the risk for financial institutions dealing with Russia's war economy and eliminating paths for evasion, and diminishing Russia's ability to benefit from access to foreign technology, equipment, software, and IT services. Every day, Russia continues to mortgage its future to sustain its unjust war of choice against Ukraine."

US officials believe that as a result of December's executive order, banks in third countries have become reluctant to deal with high-risk Russian customers.

The flow of war-related imports into Russia declined at the start of 2024 as financing cross-border trade in those goods became riskier, even for banks with no links to the US.

"Secondary sanctions are intended to expand the US's ability to pursue circumvention by actors who do not have any legal nexus with the US. It means the US can, in effect, enforce its sanctions on people who aren't otherwise subject to US law," said Emily Kilcrease, a trade and sanctions expert at the Center for a New American Security think-tank.

Russian President Vladimir Putin appointed statist technocrat Andrei Belousov defence minister last month in a surprise shake-up of his security bosses. The Kremlin has said the reshuffle was aimed at making Russia's record Rbs10.8tn ($120bn) defence spending more efficient and less vulnerable to western sanctions.

By broadening the scope of secondary sanctions, the US will increase the risk for financial institutions in other countries doing business with Russia — particularly China, which has drawn closer to Moscow since the invasion of Ukraine.

Putin asked his Chinese counterpart Xi Jinping to strengthen ties between the countries' financial sectors during his state visit to Beijing last month, according to people familiar with the matter.

Though China and Russia are discussing ringfencing a small number of Chinese banks that would transact with Russian counterparties, the scope of the proposed ties remains short of Moscow's requests, a sign that fear of possible US secondary sanctions remained high in Beijing, the people said.

Kilcrease said: "You could see this as strengthening the legal basis under which the

US could apply sanctions to Chinese banks that have assisted the Russian war effort. The Treasury will hope they take notice. But at some point you may need to actually escalate and sanction one of them."

Last month, US deputy secretary of state Kurt Campbell told reporters: "I think where we are primarily focused is on Chinese companies that have been involved in a systematic way in supporting Russia . . . we've also looked closely at financial institutions."

Alongside the expansion of secondary sanctions, the Treasury announced new sanctions designations. The newly listed companies include the Moscow Exchange, which, it says, operates Russia's largest equity, fixed income, derivative, foreign exchange and money market products. According to the Treasury, this follows measures announced by Putin intended to attract capital to Russia from "friendly countries" through the exchange.

Additional reporting by James Politi

Follow the topics in this article

Russian politics

War in Ukraine

US foreign policy

Russian business & finance

Russian economy