



# Leibniz Institute for Financial Research SAFE

Dear Marius Luta,

In this edition of SAFE Update, the digital newsletter of the Leibniz Institute SAFE, we look at the effectiveness of sanctions against Russia and at research on how judicial enforcement affects private-sector employment.

We hope you enjoy this newsletter and welcome your feedback at [newsletter@safe-frankfurt.de](mailto:newsletter@safe-frankfurt.de).

## Explaining Russian resilience to international sanctions



### **A SAFE Policy Letter examines pre-war data to show why the sanctions against Russia have failed to achieve their aims**

The European Union has implemented eleven sanction packages since Russia's 2022 invasion of Ukraine, including the freezing of foreign assets, the removal of Russian banks from SWIFT, and import and export bans. These measures sought to cripple Russia's economy and thus impair its ability to wage war. Yet in contrast to expectations, Russia hasn't experienced a significant decline in GDP or high unemployment rates. Why has the Russian economy stood up so well to Western sanctions?

SAFE Research Affiliate [Konstantin Egorov](#) investigates this question in a recent SAFE Policy Letter by examining pre-war data. Specifically, Egorov presents findings from two event studies that testify to the resilience of the Russian economy in the face of economic shocks such as sanctions:

- In 2018, Russia experienced a sharp drop in domestic zinc production, but this did not lead to a slowdown in the domestic steel industry, which relies heavily on this resource.
- In 2020, Russia experienced a substantial increase in the price of mazut, a low-quality fuel oil. However, this had a minimal impact on Russian businesses, even in regions with limited access to alternative fuels.

The former SAFE postdoctoral researcher attributes the resilience of the Russian economy to its focus on commodities. In 2021, only 6.6 percent of Russian exports and 49.3 percent of imports consisted of highly specialized manufacturing goods, while the bulk of trade involved commodities such as oil, gas, zinc, chemicals, food, and textiles. Commodity suppliers are easier to substitute than manufacturers, and their high profit margins enable them to endure cost increases. Consequently, the sanctions imposed after the outbreak of the war had a considerably lower impact on Russia than they would have had on economies with larger manufacturing sectors, less substitutable inputs, and smaller profit margins.

However, Egorov emphasizes the importance of distinguishing between the short- and long-term impacts of sanctions. While most commodity producers do not require inputs of new manufacturing goods in their day-to-day operations, they must eventually upgrade or replace their equipment. Significantly increased reinvestment costs could impact future decisions concerning whether to stay in business or wind down operations.

[Read SAFE Policy Letter No. 102 here](#)

## Notable Research: How court cases affect firm employment



### The Real Effects of Judicial Enforcement

By [Vincenzo Pezone](#), SAFE Research Affiliate and Associate Professor of Finance at Tilburg University.

In his paper “The Real Effects of Judicial Enforcement”, published in the *Review of Finance*, Vincenzo Pezone documents how judicial enforcement exerts a substantial effect on firm employment decisions. The former SAFE postdoctoral researcher uses changes in the average duration of court proceedings as an indicator of enforcement quality and

harnesses an instrumental variable approach to identify the causal effect of judicial enforcement on employment.

The existing literature has shown that judicial enforcement is correlated with increased firm financing, greater external investment, and accelerated firm growth. However, Pezone aims to broaden our understanding of the effects of judicial enforcement by examining its impact on firm employment. He hypothesizes that increased enforcement creates conditions conducive to firm expansion and increased hiring.

A notable contribution of the paper is its investigation of the potential for stronger enforcement to mitigate the impact of adverse demand shocks on firm employment. Robust enforcement mechanisms may enable firms to maintain stable employment levels by facilitating credit access during periods of reduced demand.

The natural experiment at the center of the study – namely, the merger of Italian court districts – allows Pezone to examine the causal effects of changes in judicial enforcement. His analysis shows that firm employment is significantly elastic to average trial length. This suggests that judicial enforcement plays a substantial role in influencing firms' employment decisions. Moreover, the results are particularly pronounced for firms that rely heavily on external capital, further underscoring the importance of access to finance.

Pezone shows that more vigorous enforcement contributes to firms' ability to stabilize employment during economic downturns, as it augments their ability to access external financing during cash flow shortfalls, thus allowing them to avert layoffs. The study also examines effect heterogeneity across industries, firm leverage ratios, and local conditions in the banking sector. In addition, the study finds that industries with greater capital–labor complementarities experience larger employment effects.

[Read the full paper here](#)

## #SAFEHappenings



## Loriana Pelizzon joins SAFE's Management Board

The composition of SAFE's three-member Management Board has changed: Loriana Pelizzon, the Director of SAFE's Financial Markets Research Department, has replaced Uwe Walz, effective 1 October 2023. Pelizzon will act as Deputy Scientific Director of the Institute alongside Scientific Director Florian Heider and Administrative Director Muriel Büsser. [Read more here.](#)



## SAFE welcomes Peter Andre

Peter Andre joined SAFE as an Assistant Professor of Behavioral Finance on 1 October 2023. Before joining SAFE, he was a postdoctoral researcher at the Behavior & Inequality Research Institute at the University of Bonn, and was a visiting researcher at Harvard. [Meet him here.](#)

## Upcoming event in November

SAFE, Deutsche Bundesbank, and the Centre for Economic Policy Research (CEPR) will host their Annual Autumn Conference 2023 on 9 and 10 November 2023 in Frankfurt. The conference, titled "Challenges for Financial Intermediaries and their Supervisors in the New (or Old?) Monetary Policy Normal," will discuss current issues from a research perspective, including the abrupt end to low interest rates, the unintended consequences of QE, dislocation caused by the Russian invasion of Ukraine, and new climate-related risks. [Register for the event here.](#)

## Handpicked Literature

**Tobias Tröger, Director of the SAFE Research Cluster Law & Finance and a chaired Law Professor at Goethe University Frankfurt, recommends *The Economics of Financial Markets and Institutions* by economist Oren Sussman:**



"Oren Sussman's 'The Economics of Financial Markets and Institutions' has been making waves in the world of finance and economics – and not without good reason, for it is a remarkable work that offers a comprehensive understanding of the

intricacies of financial markets, making it essential reading for interdisciplinary analysis, particularly in the realm of financial regulation. Why? Sussman integrates economic, financial, and regulatory perspectives, giving readers a holistic view of the subject. As a result, the book bridges the gap between theory and practice with practical examples and case studies that equip readers with the tools they need to effectively navigate the complex landscape of financial regulation. You'll find in-depth coverage of financial instruments, markets, and institutions, an analysis of current issues and recent developments in finance and regulation, and thought-provoking discussions of the challenges and opportunities in the financial world. Whether you are a student, a professional, or simply curious about the intersection between finance and regulation, don't miss this opportunity to enrich your understanding of financial regulation."

[You can find the book here](#)

## Further Content

- **News:** [Education and income have different effects on the life cycle in Germany.](#)
- **Video:** [SAFE-CEPR Policy Web Seminar with Enrico Perotti \(University of Amsterdam\)](#)
- **SAFE Finance Blog:** [The EU banking package on the verge of being put to the test \(by Florian Heider\)](#)
- All [upcoming events](#) and [SAFE publications](#)



### About SAFE

The Leibniz Institute for Financial Research SAFE ("Sustainable Architecture for Finance in Europe") promotes interdisciplinary research and independent policy advice about the international financial system with a focus on

Europe. The institute aims to contribute to a sustainable, crisis-proof financial architecture that stimulates innovation and serves economic and civil needs. Researchers from the fields of economics, law, and political science collaborate at SAFE on questions in the areas of Financial Intermediation, Financial Markets, Household Finance, Macro Finance, and Law & Finance.

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