The United States has taken what, on first read, looks to be a significant step today, extending sanctions to block new debt and equity issuance by a number of energy, financial and military companies. It is not quite full “sectoral” sanctions—both because it is limited in what it blocks (new debt and equity of maturity greater than 90 days) and because it excludes Sberbank, which holds the majority of Russian deposits. But I would argue that the reach of this new executive order in terms of institutions covered is sufficiently broad that the effects on the Russian financial system could be systemic.

Europe chose not to match these sanctions, so it is critical that large European banks not fill the gap left by the withdrawal of U.S. banks. Moral suasion from European leaders on their banks (and the desire of those banks not to run afoul of U.S. law in this space post BNP/Citi fines) should be effective, and U.S. officials appear confident that the easy loopholes are closed. In addition, if any leg of the transactions require U.S. institutions, the deals will fail based on U.S. action alone. In this sense, the U.S. can go ahead of Europe and pull them along. If Europe, as reported, follows by blocking new loans from the European Investment Bank and European Bank for Reconstruction and Development (something my colleague Heidi Crebo-Rediker has forcefully argued for), we have a comprehensive new set of measures that could have material costs in the long term for a Russian economy that is already in recession.

As my colleague Stephen Sestanovich has noted, now also is the time to supplement sanctions with positive measures to ensure Ukraine succeeds. Perhaps the Europeans could expand and accelerate their bilateral aid, so the Ukrainian government can ensure provision of critical public services. This would also require acknowledging that the current IMF program needs a major rewrite. But that can come later.

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