

## Effects of Russia-Ukraine war

Priyanka Shah, Prof Pallavi Gedamkar

*Student of MBA - Finance Department, MIT World Peace University*

*Professor of MBA Department, MIT World Peace University*

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**Abstract** - The Ukraine crisis can be understood as one of the most controversial events in the today's global political debate. The ongoing conflict has come to affect and influence Europe's as well as the rest of the world's foreign-and security policies. From a historical perspective Ukraine has been torn between East and West ever since the country became independent from the Soviet Union in 1991. The International Monetary Fund warned Russia's war with Ukraine and the subsequent sanctions imposed upon President Vladimir Putin's country will have a "severe impact" on the global economy. Having built up a large military presence on the border from late 2021, Russia launched a full-scale invasion of Ukraine on 24 February 2022, which is ongoing. Price shocks will have an impact worldwide, especially on poor households for whom food and fuel are a higher proportion of expenses. Russia's ultra-rich who rank among the world's 500 wealthiest people have now lost a combined \$83 billion this year. The war resulted economic loss which has a huge impact on the global economy.

**Key Words:** Russia, Ukraine, gold, stock market, war

### 1. INTRODUCTION

With the demise of the Soviet Union in 1991, Ukraine became an independent country. It was once part of the Russian empire, but after becoming the Soviet Republic and shedding its Russian imperial past, it developed strong links with the West. Since independence, the country has struggled with corruption and internal strife. The western half of the nation wants to integrate with the West, while the eastern half wants to integrate with Russia. The crisis began after Ukrainian

President Victor Yanukovich rejected a European Union alliance in lieu of deeper relations with Russia. In the so-called "Revolution of Dignity," protestors removed him.

In exchange, Russia grabbed Ukraine's Crimean Peninsula and backed separatists in eastern Ukraine. It then launched an offensive on Donbas, the country's industrial heartland, not long after. The armed battle between Ukrainian army and rebels backed by Russia claimed the lives of almost 14,000 people.

Ukraine and the West have accused Russia of providing troops and weapons to the rebels, which Russia has denied. Russia, on the other hand, slammed the US and NATO for assisting Ukraine with weapons and joint military exercises. President Putin has also expressed reservations about plans by several NATO countries to create military training centres in Ukraine, arguing that this will help NATO gain a presence in the area even if Ukraine does not join the alliance. By 2019, 7% of Ukraine's territory was classified by the Ukrainian government as temporarily occupied territories, while the Russian government had indirectly acknowledged the presence of its troops in Ukraine.

In its security demands, Russia stated that it does not want Ukraine to join NATO and that all NATO operations along its borders be halted, as well as the evacuation of NATO forces from Central and Eastern Europe. It should be mentioned that Ukraine's accession to NATO would require the 30 member nations' unanimous consent. In addition, Russia regards Ukraine as a region inside its "sphere of influence," rather than an independent state. The US and NATO, on the other hand, have rejected Russia's requests. The West is backing Ukraine and has threatened to financially

punish Russia. Much of the international community and organizations such as Amnesty International have condemned Russia for its actions in post-revolutionary Ukraine, accusing it of breaking international law and violating Ukrainian sovereignty. Many countries implemented economic sanctions against Russia, Russian individuals, or companies, especially after the 2022 invasion.

**2. BODY OF PAPER**

Ukraine has become a point of conflict between the United States and Russia. Russia wants the West to keep Ukraine and other former Soviet republics out of NATO, to stop weapons deployments near its borders, and to withdraw troops from Eastern Europe. Ukraine aspires to join NATO, which has been met with opposition from Russia. If Ukraine is permitted to join NATO, Russia believes the alliance will march closer to its borders. If Ukraine joins NATO, it will be entitled for assistance from the alliance's members in the event of an external invasion.

As a result, Russia fears that if Ukraine joins NATO, it will strive to reclaim Crimea. Putin has stated his own worries in this way. As a result, Russia insists that the West remain out of Ukraine, as Putin seeks to re-establish Moscow's dominance in the post-Soviet sphere. Furthermore, Russia lost control of 14 former Soviet republics, including Ukraine, after the breakup of the Soviet Union. Putin sees this as unfortunate because the two countries formerly shared a "historical and spiritual area." The Russian President seeks assurances from the West and Ukraine that Russia would not participate and that Ukraine will stop arming and become a neutral country.

**Global Economic Impact due to Russia-Ukraine Crisis**

*Impact on Ruble Currency*

The ruble hit a new low against the dollar after credit rating agencies slashed Russia's credit rating to junk status.

The central bank was compelled to apply capital restrictions and temporarily close the country's equities and bond markets as a result of international sanctions imposed in reaction to Russia's invasion on Ukraine. In a shorter daily session, only currency trading takes place.

Individual purchases of foreign currency on currency exchanges are now subject to a 30% charge imposed by the Russian central bank. Since Russia's invasion of Ukraine began, the rouble has plummeted, shedding a third of its value in Moscow trade, causing the central bank to more than increase interest rates to 20% and take additional emergency measures.

USD/RUB AS ON 5<sup>TH</sup> MARCH 2022

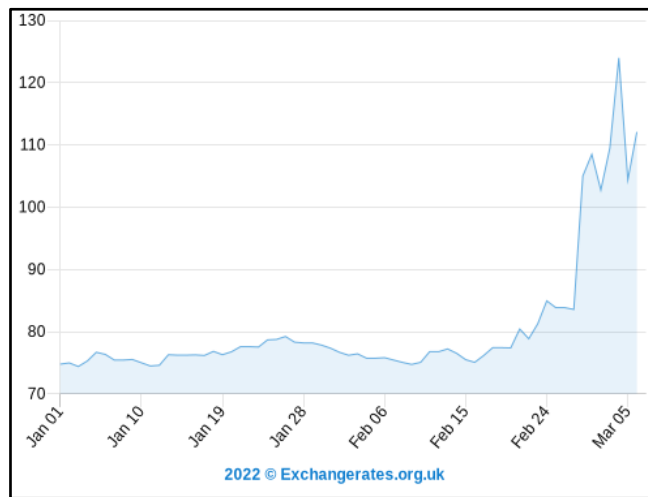


Chart 1

RUB/INR AS ON 4<sup>TH</sup> MARCH 2022

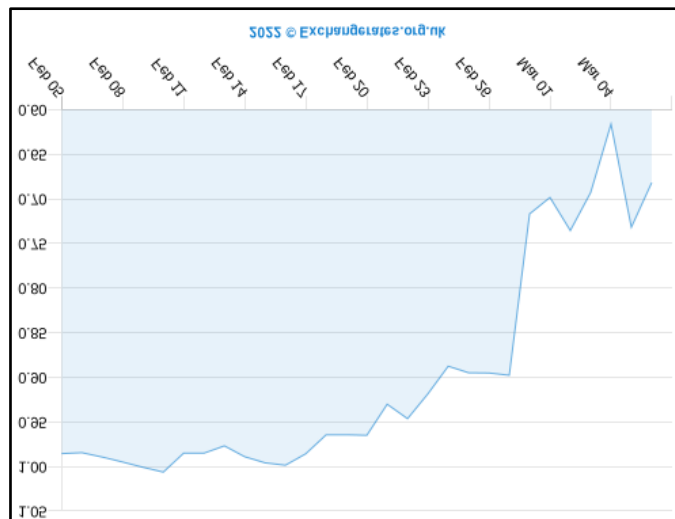


Chart 2

The depreciation of the ruble might result in huge inflation in Russia, putting strain on the Russian financial system and having a significant influence on the stock market (Refer to chart 1). Inflation will also imply that the cost of everyday essentials would rise, straining the average person's budget.

This could also mean that import and export in the country will be disrupted, resulting in a supply-chain problem. According to economic analysts, foreign travel might become prohibitively expensive, lowering the quality of life for the typical Russian.

### Impact on Gold

During the continued market instability that pushed up the world gold price, inflationary worries spurred a rush for safe haven assets (Refer to chart 3). As a result, worries of supply shortages as a result of the Russian-Ukrainian war, along with strong demand, have kept prices high. Furthermore, sanctions against Russia, a major gold producer, are projected to limit supplies. Gold is commonly thought of as an inflation hedge.

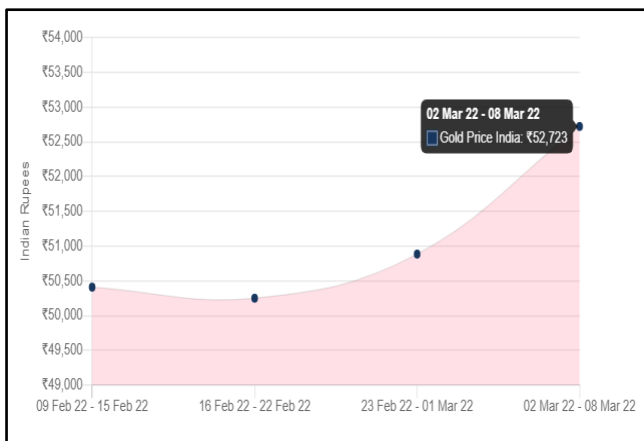


Chart 3

Western nations imposed harsh penalties on Russia this week, including the exclusion of several institutions from the SWIFT international payments system. On Sunday, Russian President Vladimir Putin activated Russia's nuclear deterrent. So, this could spur the Bank of Russia to buy gold again. Bank of Russia said that it will resume buying gold again, some two years after it had concluded a long run of purchases. India is currently the world's top gold importer, absorbing one-third of the global supply on a yearly basis. Gold is, in reality, the second-most-bought commodity outside of the United States, behind oil.

### Impact on Crude Oil Prices

Russia's invasion of Ukraine has caused prices to soar for oil and other commodities where the region is a major producer. As a result of Russia's invasion of Ukraine, prices for oil and other commodities in which Ukraine is a key producer have skyrocketed.

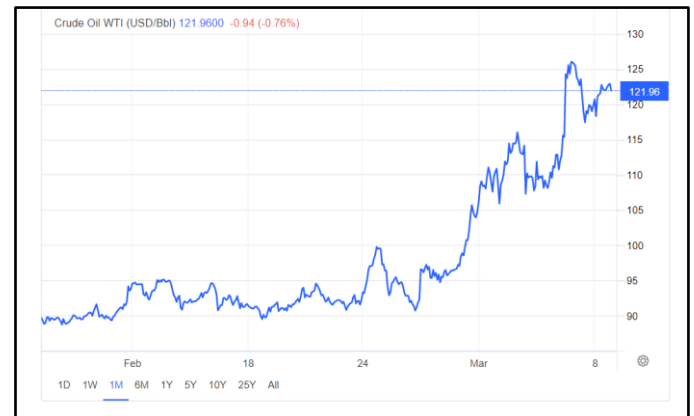


Chart 4

After the United States and Saudi Arabia, Russia is the world's third-largest producer of petroleum and liquid fuels. It is also a major crude oil exporter. The geopolitical danger of Russia's subsequent attack over Ukraine has led to higher and more volatile crude prices from mid-January 2022. (Refer to chart 4) Global crude oil prices have been pushed higher by higher petroleum demand and weaker crude oil output growth. India imports more than 80% of its oil needs, although oil imports account for just around a quarter of its overall imports. The current account deficit — the gap between the values of goods and services imported and exported — will be impacted by rising oil costs.

### Impact on Stock Market

The S&P BSE Sensex dropped 382.91 points (0.66%) to close at 57,300.68, while the Nifty 50 dropped 114.45 points (0.67%) to 17,092.20. Both indexes had started the day with big losses, with the BSE benchmark falling to 56,394.85 and Nifty falling to 16,843.80. Throughout session, they traded in the declining stage. The India VIX, which gauges projected equity market volatility, has risen to 27.2. Nifty's bank index, financial services index, auto index, and IT index

were some of the worst performers, with losses ranging from 1% to 2%. (Refer to chart 5)

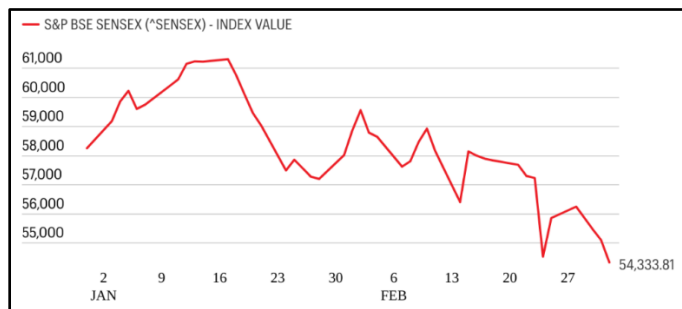


Chart 5

*Companies pulling back from Russia*

Apple has stated that it has halted all product sales on its Russian website, meaning that Russian consumers will no longer be able to purchase Macs, iPhones, iPads, or other Apple gadgets. Ford has declared that it is ceasing operations in Russia. Volkswagen has halted car manufacturing in Russia and halted exports to the Russian market. This decision impacts the Russian manufacturing facilities in Kaluga and Nizhny Novgorod. Boeing and Airbus have announced that their parts, maintenance, and technical support services for Russian airlines would be suspended. Sputnik, a Russian news site, has been blocked by Facebook.

Intel has declared that all shipments to Russia have been halted. All software and hardware shipments have been paused, and purchases on Sony's online PlayStation shop in Russia have been temporarily blocked. Shell has also chosen to cease importing Russian oil and gas, and its service station network will be shut down. Visa has announced that it is ceasing all operations in Russia. All Visa operations within Russia's borders will be stopped, and Visa cards issued in Russia will no longer operate outside the nation. Furthermore, all Visa cards from throughout the world will no longer operate in the Russian Federation. McDonald's is shutting its Russian locations for the time being. McDonald's owns and operates 84 percent of McDonald's restaurants in Russia. Marriott has halted operations in Moscow and has shuttered its corporate headquarters and paused the opening of upcoming hotels and all future hotel development and

investment in Russia. Ikea, the world's largest furniture company, is closing its 17 stores in Russia.

Other companies that have suspended, paused, or exited the Russian market include General Motors, Toyota, Nissan, Amazon, Hitachi, IBM, Microsoft, Netflix, Spotify, Twitter, Accenture, Deloitte, EY, KPMG, PwC, Exxon, American Express, Moody's, Goldman Sachs, JPMorgan Chase, PayPal, Coca-Cola, Nestle, PepsiCo, Hyatt, Disney, H&M, P&G etc.



Figure 1

**3. CONCLUSION**

Considering the current state of the fight, future conclusions can be divided into two categories: short run and long run. Russia's military efforts may be escalated in the short term. More indiscriminate artillery and rocket strikes, as well as massive cyber-attacks, are transpiring across Ukraine. Power and telecommunication networks have been disrupted. President Zelensky is slain or escapes, maybe to western Ukraine or even abroad. President Putin announces victory and pulls back some soldiers, leaving enough to hold control.

In the long term, Russia may not be able to supply enough troops to cover such a large country. Ukraine's defence troops develop into an effective insurgency which is well and backed by the local community. Arms and ammunition are still being supplied from the West. Then, perhaps, Russian military will withdraw from Ukraine. In the current circumstances, the rise in crude oil prices would boost India's oil import bills, and gold imports may rise again, putting pressure on the rupee.

Rather than dividing the globe and returning to the days of the Cold Conflict, all sides should take a step back and refocus on avoiding an all-out war. The two crucial questions are first, how will Russia's and Ukraine's regimes evolve, and how will this affect their ties with each other and with the West? However, for the time being, western administrations will have to live with the harsh reality that military intervention is now a factor of these nations.

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