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# IMPACT OF THE RUSSIA-UKRAINE WAR ON THE INDIAN ECONOMY: A REVIEW

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**ABSTRACT**

*The current tensions between Russia and Ukraine have significantly affected global trade. Supply chains across the world have been affected and experts are of the opinion that such disruptions will have a negative impact on the Indian economy as well. The current research paper describes how the global economy has been affected by the Russo-Ukraine war, as well as how the Indian economy has been affected and the key sectors that have been affected (inflation, imports, exports, agriculture, banking, steel, crude oil, share market) but It is explained in detail about how and how it has been affected. How much and for how long can the impact of this war on the Indian economy be in the future. And what steps should be taken by the Government of India to reduce its effect.*

***Keywords:*** *Global Trade, Global economy, Inflation, Imports, Exports, Agriculture, Banking, Crisis.*

## Introduction

When there is a situation of war, the world starts spending more on buying weapons than on development. In such a situation, India will have to register its presence on the world stage in such a way that our economic priorities can be further strengthened.

The Russia-Ukraine war is having a profound effect on the global economy. This comes at a time when the world's economies were trying to stabilize prices and re-establish supply chains due to the COVID pandemic, but the Ukraine war has made their possible solutions more difficult. For India along with other countries, maintaining the economic balance between America-Europe and Russia is no less than a challenge. Even though this war is being fought thousands of km away from India, but its effect is visible on the Indian economy. In response to the attack on Ukraine, economic sanctions by the US and Western countries as well as Russian banks have been banned from using the SWIFT payment system. This can also cause trouble for other countries including India.

Russia produces about 13 percent of the world's petroleum and 17 percent of natural gas. Due to supply disruptions due to sanctions, the prices of crude oil in the international market are increasing continuously. India imports 85 percent of its crude oil requirement. With the rise in crude oil prices, India will now have to pay more dollars, which will make the dollar stronger and the rupee weaker. The weakening of the rupee will make India's imports expensive, which will increase inflation. This type of inflation is called imported inflation. India's current account deficit will widen, which will also upset the balance of payments. Fiscal deficit will increase due to increase in prices of petrol, diesel and LPG and reduction of subsidies. Apart from crude oil and gas, some other commodities will also become costlier. Airfares are also expected to increase by about 30 to 35 percent due to a 19 percent increase in the cost of aviation turbine fuel.

India meets more than 70 percent of the edible oils demand through imports. More than 70 percent of our sunflower edible oil needs come from Ukraine. Due to disruption in the supply of edible oils, its direct effect is visible in the form of price rise. Similarly, Russia is a major producer of plearium needed to make semiconductors and Ukraine is a major producer of lyan. Disruption of the supply of

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Plearium and Liane will also make the semiconductor or chip expensive. As a result, smartphones, laptops, washing machines, microwaves, fridges, TVs, cars, digital cameras, etc., which are dependent on semiconductor technology, will become expensive. It is noteworthy that India is the fifth largest market in the world in terms of vehicles. It is feared that our automobile sector, which contributes 7.1 percent to the GDP, will be affected.

After the Ukraine war, HDFC Bank in its latest report has projected India's GDP growth rate to be 7.5 to 7.8 per cent in the fiscal year 2022-23 from 8.2 per cent. To contain inflation in changing circumstances, RBI has to change its monetary policy provisions in such a way that changes in interest rates have minimum impact on the pocket of common man. Amidst economic sanctions on Russia, India can slightly reduce the adverse economic effects of the war by striking a balance between Moscow and Washington. The trade between India and Russia is about $8 billion, while our trade with the US is about $100 billion. In the current situation, any Indian investor would avoid doing business directly with Russia. In 2018, trade between India and Iran was done in riyals and rupees instead of dollars after the sanctions on Iran during Trump's time. Now in the new situation, India will have to strengthen the possibilities of trade with Russia in ruble-rupee. At the same time, our government should assure people that this is a short-term situation and investors should have faith in the market.

Ukraine and Russia export 30 percent of wheat, 19 percent of corn and 80 percent of sunflower oil globally. Trade of about 80 billion euros has been disrupted due to the disruption of supplies from the Black Sea port due to the war. The demand for other agricultural products including steel and engineering, wheat, coarse cereals, tea, coffee and fruits and vegetables has increased in European countries. India can mitigate some of the damage caused by the war by increasing exports of these items.

Due to its unique identity in the software sector, today India's digital payments have made their mark all over the world. According to the Economic Intelligence Unit Report 2021, the UPI (United Payments Interface) system has today positioned India as a leader at the global level. Countries like Bhutan, Myanmar, Singapore, UAE, Africa etc. are adopting India's UPI system. With some modifications, India can place the UPI system as a new alternative to Swift before the world.

On February 28, crude oil prices crossed $120 a barrel for the first time since 2014, a direct result of Russian action. European countries are largely dependent on Russia for gas. There are apprehensions that its results may be visible for a long time. For example, Germany has blocked the approval of Russia's Nord Stream 2 gas pipeline. Now due to Russia-Ukraine crisis, not only will fuel prices increase, but it will also affect many other things. Russia is also one of the most important wheat producing countries in the world. Due to which food items will also become expensive.

The ongoing war between Russia and Ukraine will continue to affect the world economy for a long time. Its effect is already being felt.

Russia's announcement of 'military action' on Ukraine is not only causing havoc all around but it has also started shocking the global economy. The effects of Russia's attacks are being felt in the commodity, equity and currency markets, but the impact is unlikely to end there. This long-term effect depends on how NATO member countries, including the US, react to this crisis. India's economy can also be affected by this.

**The Crisis will Continue for a Long Time**

The global economy has undergone major changes after the fall of the Soviet Union. After spending decades in the Cold War with the Soviet bloc, the US and its allies have not only strengthened the global order but have also become more economically viable. The world's second largest economy, China alone can compete with America. The facts show that China's economic future is closely tied to that of the US economy. The US is still the largest exporting market for China and China has the largest dollar reserves in the world. Knowing these things, it does not seem that a big crisis will arise because of Russia. but it's not like that.

Russia's decision to militarily challenge the US and its NATO allies by attacking Ukraine may seem mutually beneficial. He is trying to make the world realize that he is the most powerful country standing in front of America. Because the picture of Russia as a strong country was getting blurred and in its place the picture of China was clearly visible. But Russia's action on Ukraine could change the fundamentals of the global economic order.

Russia is a very small player in terms of global GDP (its level of GDP is lower than that of India) and will likely suffer huge economic losses for its current decision. Experts say that Russia will not only reduce its dollar reserves due to its antics, but will also suffer its economic consequences.

When a situation of war ensues, the world spends more on buying weapons than on development. In such a situation, India will have to register its presence on the world stage in such a way that our economic priorities can be further strengthened.

**Literature Review**

**Finance Minister told Big Challenge**

Union Finance Minister Nirmala Sitharaman has said that the ongoing war between Russia and Ukraine has brought major challenges to global peace for the first time since World War II. This situation will also present new challenges for the development of India. After the economic damage caused by the epidemic, now recovery is taking place. War of such a large scale is creating new challenges not only for world peace but also for us.

Dr. AS Nain, Director Research of the University of Agriculture and Technology, Pantnagar University of Uttarakhand, is worried about this war between Russia and Ukraine. The impact of the war can also affect India's agriculture. According to Director Research, about 2.5 million tonnes of edible oil (sunflower oil) is imported in the country. Of which 70 percent comes from Ukraine and 20 percent from Russia. Similarly, our country imports about $235 million of fertilizers from Ukraine. These mainly include potassic, mixture of NPK and organic fertilizers. Because units, production and supplies have come to a standstill in Russia's attack on Ukraine. Therefore, imports will be affected from there and their availability in the country is also likely to be affected negatively. He said that if there is a negative impact on availability, it will be difficult to meet the demand of farmers for fertilizers. Due to which its prices can also increase exponentially. It is also expected to have an impact on the agricultural productivity of the country. Similarly, tea, medicines and medical equipment are exported in large quantities from our country to Russia and Ukraine. He said that both the countries are at war and they will need large quantity of medicines and medical equipment in the coming times, due to which there is every possibility of increasing exports.

According to Nomura's report - Japan's research company Nomura has said in the report that India is a big oil importer and this is the reason why the war will increase for India if the war is prolonged. According to the report, for every 10 per cent jump in oil prices, the growth rate of the Indian economy will decline by about 0.20 per cent. Apart from this, the wholesale inflation rate may increase by 1.20 percent, while the retail inflation rate may increase by 0.40 percent. Apart from this, the pressure on the government will also increase regarding the supply of domestic coal.

**Big Steps will have to be taken by RBI**

According to Nomura, as the report has come out that due to the current geopolitical tensions, there may be a further jump in inflation in the coming months. In such a situation, the responsibility of controlling it will be on the shoulders of Reserve Bank of India (RBI) and for this the central bank will have to take big decisions. Economists in the report have predicted that due to this, the RBI may increase policy rates in the MPC meeting to be held in June.

- **National Desk**

The Russia-Ukraine crisis will not have any direct impact on India in terms of bilateral trade, but the rise in oil prices may pose a risk to the economy. This apprehension was expressed in the Bank of Baroda (BOB) economic research report released on Friday. It said, "International crude oil prices have reached above $100 per barrel. This poses a risk to the stability of the external level and the activities of the rupee. "Russia has launched a military attack on Ukraine. With this affecting the life of the people, various problems will increase in the area. Western countries are imposing financial sanctions on Russia in protest against the move. Economic effects in other parts of the world can be seen in the form of higher commodity prices, accelerating inflation and negative effects on growth ie stagflation.

- **Invesco Report**

"If this crisis escalates and Russia, like Iran, is ousted from the Western Payments and Instant Messaging System (Swift), disruptions in energy supply could lead to severe stagnant inflation," Invesco said in a report. Russia supplies 40 percent of Europe's gas, while it accounts for half of the supply of solid fuels, including coal. It also supplies one third of the oil. So far the US has not banned Russia from using the global payment system. According to the BOB economic research report, "The Russia-Ukraine crisis will not have any direct impact on India in terms of bilateral trade, but the rise in oil prices poses a major risk to the economy." The RBI's bi-monthly monetary policy, both introduced before this crisis, does not take into account the impact of higher crude oil prices.

Even though India's strategic interests are not associated with this war, but it will have an economic impact on India. Services to Europe will be negatively impacted. The sanctions on Russia may also affect tea and other regular products exported from India. Prices of precious metals like gold, platinum and palladium will increase. Ukraine is a major exporter of agricultural products. If imports stop, the prices of wheat, corn and urea may increase.

**Impact of Russia-Ukraine war on Indian Economy: Major Sectors to be affected Crude Oil**

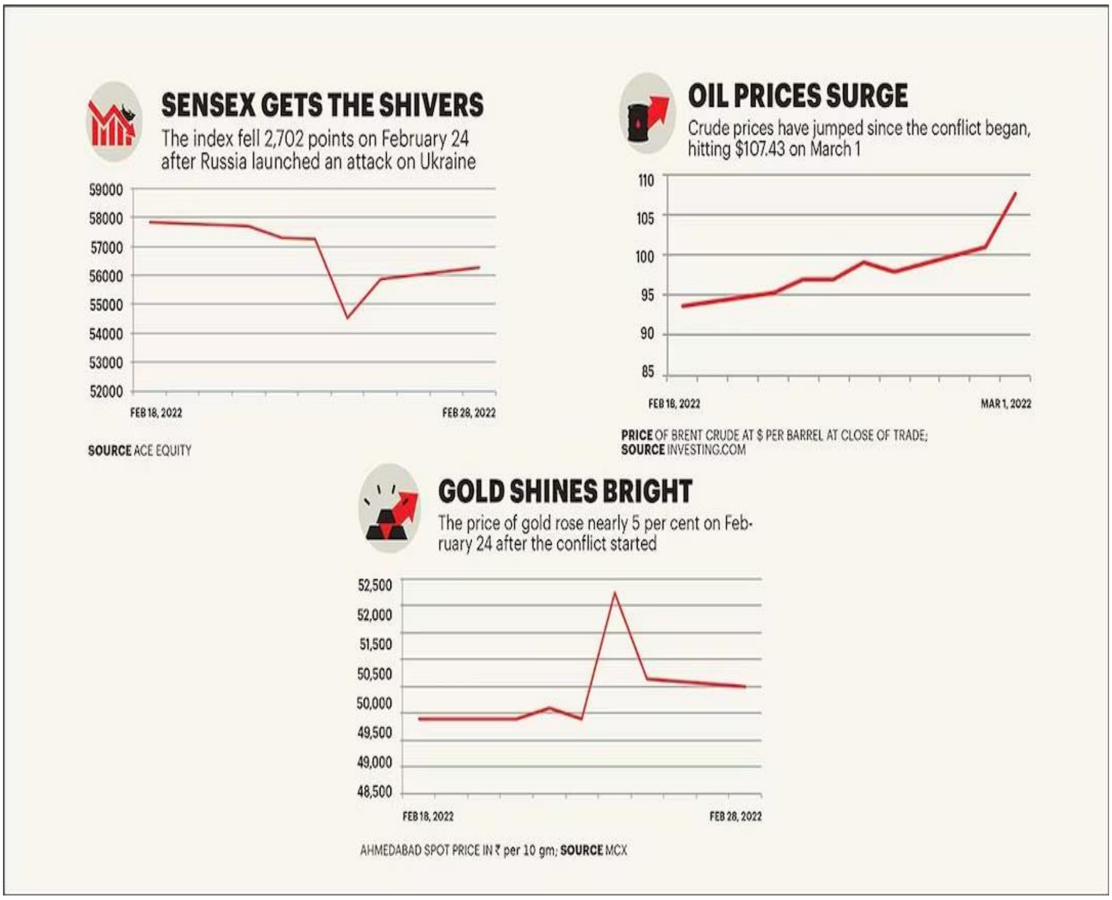
Oil is a major component of our import basket from Russia. The sanctions could sour prices to a new level, which could result in higher prices of petroleum products domestically.

Rise in fuel prices may further aggravate the issue of inflation in the country.

Specifically, the Economic Survey 2021-22 has pointed to 3 challenges for the Indian economy - reappearance of COVID-19, supply chain disruption and inflation.

Due to increase in fuel price, our import bill will get bitter and similar situation will be in our current account deficit.

Russia-Ukraine Warfare Crude Prices Immediately after Russia's invasion of Ukraine on February 24, 2022, stock markets around the world crashed, gold prices soared and crude oil reached record levels. Crude was trading at around $100 on the day of the war, which has now reached 140. That is, crude oil has become 40% expensive in just 13 days. At the same time, the average price of crude in December 2021 was close to $73. Russia is a major producer of oil and natural gas. According to the DP Statistical Review, Russia was the second largest producer of crude oil and natural gas condensate in 2020. During this period, Russia produced 10 point 1 million barrels per day.



**Petrol or Diesel Prices mainly Depend on Four Factors**

- Crude oil price
- Price of US Dollar against Rupee
- Tax to be collected by the Central and State Governments
- Fuel demand in the country
- India Depends on other Countries for 85% of crude supply

India is dependent on other countries for more than 85% of its crude oil supply. Nearly half of Russia's oil exports, about 2.5 million barrels per day, are sent to European countries including Germany, Italy, the Netherlands, Poland, Finland, Lithuania, Greece, Romania and Bulgaria.

Although India imports very little oil from Russia, in 2021, India imported 43400 barrels of oil per day from Russia. It accounts for only 1% of India's oil imports. India's oil supply will not be affected much due to the sanctions imposed on Russia, but the increase in crude prices will have a direct effect.

**Export**

If the fuel price remains high for a long time, the prices of other items imported by India will also increase in the international market.

Due to this pressure on the global economy, demand may get affected which may also affect our exports.

**Agriculture**

- Russia and Ukraine are major global producers and suppliers of wheat, corn and sunflower oils.
- India imports most of its sunflower oil from Ukraine.
- Inflation in India is likely to rise further with the increase in sunflower oil prices keeping in mind the demand for oil in India.
- A sustained rise in oil and food prices will have an adverse effect on Asian economies, manifested in the form of high inflation, a weak current account and fiscal balance and pressure on economic growth.
- In such a scenario, India, Thailand and the Philippines would be the most affected countries, while Indonesia would be a friendly beneficiary nation.

**Edible Oil and Fertilizer Prices will Increase**

If there is a war between two countries, then it has a big impact on the economies of the world and for India already troubled by inflation, then it will be nothing less than a double whammy. Let us tell you that the country imports a large amount of edible oil from Ukraine. Yes, Ukraine is the largest producer of sunflower oil. Talking about India, the price of edible oil is already in the sky for some time now and if the supply is stopped due to war, it is possible that its prices will catch fire. Apart from this, Russia feeds India and its imports may also be hindered in the midst of war situations. If there is already a urea crisis in the country, then the situation will get worse, this problem will have a direct impact on the farmers.

**Banking**

Till date, the banking sector has been resistant to the ongoing struggle.

Indicators of financial health – profitability, asset quality and capital adequacy – have reached a new peak, thus showing a sound banking outlook.

Additionally, there is ample liquidity of Rs 7 lakh crore and reasonable cash balance of Rs 2.8 lakh crore, which should keep the banking sector safe from the current criss.

**Steel**

The expected reduction in the international markets due to the ongoing war is likely to propel steel prices in the near future, which will benefit the participants of the Indian steel sector.

Simultaneously, the export opportunities will allow major steel companies to operate at higher capacity utilization rates.


**Weakness in Rupee will have an Effect**

Significantly, India is dependent on imports from other countries for gadgets including mobile-laptops along with essential electric goods and machinery. Most mobiles and gadgets are imported from China and other East Asian cities and most of the business is done in dollars. If the rupee continues to depreciate in the same way during the war, imports will become expensive in the country. Due to imports from abroad, their prices are sure to increase, which means inflation on mobiles and other gadgets will increase and you will have to spend more. Also, let us tell you that India buys 85 percent of its crude oil from abroad. Its payment is also done in dollars and due to the cost of dollars, the rupee will cost more. Due to this, freight will be expensive, due to its effect, inflation will be hit further on everything needed. India's trade with Russia-Ukraine

India's trade with Ukraine and Russia is at a decent level. In such a situation, if the ongoing war between the two countries is prolonged, then its effects in India can be seen in the form of inflation on some important things. Let us tell you that India buys things from Ukraine like edible oil to fertilizers and nuclear reactors. If there is a war, there will be no trade between the two countries and trouble will increase for India. Experts say that in the event of war, India will suffer a loss of exports, while the things that India buys from Ukraine will have to be hit by inflation due to the imposition of sanctions. He said that due to increase in crude oil prices, the cost of imports will increase and the risk of increasing inflationary pressure at the domestic level will increase.

**Automobile Sector will be Affected**

Let us tell you that the country's automobile sector is facing a shortage of semiconductors. In such a situation, the ongoing war between Russia and Ukraine is sure to have an impact on this region. Indeed, Ukraine will be the country to influence the automobile sector. This is because Ukraine produces palladium and neon, a special semiconductor metal. In the event of a war, the production of these metals would be affected and this crisis of semiconductor shortage would be exacerbated.

**Oil and Gas Supply Affected**

We know that Russia is the largest producer and supplier of natural gas, producing about 10 percent of global demand. The war between the two countries will naturally have a negative impact on the supply of natural gas and increase fuel prices. Europe is heavily dependent on Russia. More than 40 percent of the gas in Europe comes from Russia. This will have a direct impact on the common man.

In addition, Russia is the third largest producer of crude oil in the world. Countries in Europe get more than 20 percent of their oil from Russia. In addition, Russia also produces 10 percent of the world's copper and 10 percent of the world's aluminum.

**Stock Market Crash**

Due to the Russia-Ukraine war, the stock market is witnessing a huge decline, due to the fall in the market, 5.68 lakh crore rupees of investors were drowned in a single day. The biggest reason for the decline in the market is the Russia-Ukraine war. Because of this, investors are selling heavily. The war is affecting the prices of not only gold and crude oil but of everything around the world. Gold and crude oil prices have risen sharply due to new sanctions against Russia, raising concerns about inflation again.

Here are 4 ways investors can protect their investment portfolio in the midst of the Russia-Ukraine war.

There was an estimate about the Russia-Ukraine war that it would end in just four-five days, but now it seems that this conflict will go on in the meantime, in the meantime the scope of Western countries' power and sanctions on Russia is increasing. This is having a profound effect on the global financial system, as a result volatility has increased in the stock markets, meanwhile the prices of commodities like oil, gas, wheat, edible oil and some metals are touching new records.

Due to rising inflation, central banks of countries like the European Union and Britain have started raising interest rates. The US Central Bank Federal Reserve is about to do this soon. India will also not be untouched by this. In such a situation, debt instruments and assets like gold have become increasingly important for investors as the stability of the portfolio and reducing the impact of inflation on it is proving to be a big challenge.

According to Anirudh Gupta (CEO Ashiana Financial Services) S Naren (CEO ICICI Prudential AMC), investors should take the following measures to deal with this situation-

- Continue SIP
- Make new investment in debt
- Adopt Multi Asset Fund
- Keep investing in large cap stocks

**After Effect**

Experts believed that the war on trade could also have a cascading effect as India is one of the strongest allies of both Russia and the US. In 2021, the US was India's top trading partner with a value of $112.6 billion. India, along with the United Arab Emirates and China, stayed away from the UNSC resolution on Russia's aggression towards Ukraine. The resolution was supported by 11 members of the UNSC but vetoed by Russia. “This crisis is not just about India's bilateral trade with Russia and the US. Many more issues may come to the fore regarding India's equation with both the countries. This issue cannot be viewed in isolation. If you are found to be taking a particular stand it may upset the other colleague. India will have to handle the situation diplomatically, with Indian exporters facing uncertainty over $500 million worth of exports to Russia, CIS countries, with credit guarantee protections on goods withdrawn, amid sanctions on Russian banks and Ukraine war Disruptions at Baltic ports, Indian exporters facing uncertainty over $500 million worth of goods to Russia and Commonwealth Independent States (CIS). India's annual commerce with Russia, European Union and CIS countries is estimated to be around $90 billion. As the conflict broke out, oil prices jumped more than $7 in early trade on February 28, while several countries imposed economic sanctions on Russia. Meanwhile, Vladimir Putin ordered his defense chief to put his nuclear "resistance forces" on high alert, triggering further alarm. The Export Credit Guarantee Corporation of India (ECGC), a government-owned export credit provider, canceled coverage for exports to Russia. According to industry data, India exports $2.5 billion worth of goods to Russia each year, and another $1.5 billion to CIS countries. In terms of bilateral trade, India imported $6.9 billion from Russia and exported $2.5 billion during the first nine months of FY22. The most common imports are fuel, mineral oil, pearls, precious or semi-precious stones, nuclear reactors, boilers, machinery and mechanical equipment. Pharmaceuticals, electrical equipment and equipment, organic chemicals, as well as vehicles are among the items exported to Russia. Additionally, between April and December 2021, according to reports, India's trade with Ukraine stood at $372 million. Ukraine's major exports to India were vegetable fats and oils (73.3%), fertilizers (10.6%), nuclear reactors, boilers and machinery (5.3%). Pharmaceutical products (32.8%), electrical machinery (7.7%) and other items were the most common Indian imports by Ukraine. However, experts had earlier claimed that a three-month struggle with higher crude oil prices could widen India's trade imbalance by at least 200 basis points. Now, as per reports, traders are fearing an increase in freight charges, which have already increased due to port closures during the COVID-19 outbreak. There has been an increase of 82 per cent in container charges last year.

The ECGC, citing a near-term commercial outlook, said it has agreed to revise Russia's country risk classification under the short and medium term with effect from February 25. The United States Office of Foreign Assets Control's sanctions on Russian banks, as well as equivalent moves by European governments, have made it impossible for Russian dealers to transact in the dollar and possibly the euro, as well as the pound. However, SC Ralhan, who distributes hand tools to Russia, is reportedly one of the affected Indian exporters due to the current situation. For exporters like him, the development has created huge uncertainty in the coming months. Several other industry experts are of the view that India's trade with Russia, especially through containers, is a small percentage of the total and the impact will be minimal. Meanwhile, officials from India's foreign affairs and commerce ministries are currently reviewing punitive measures by the United States and its allies to see how they could affect India. The Directorate General of Foreign Trade (DGFT) on February 25 set up a helpdesk to monitor the situation and constraints being experienced by the stockholders.

**What efforts should be made by the Government of India to Control Inflation?**

The government should cut the tax excise duty on petrol and diesel. The central government had twice increased the excise duty on petrol and diesel by ₹ 15 per liter in the wave of coronavirus.

However, after this on November 3, excise duty was cut by ₹ 5 on petrol and ₹ 10 per liter on diesel. If the government does not cut excise duty after the increase in prices, then inflation may become uncontrollable.

## Conclusion

Some sectors such as oil and gas and both ferrous and non-ferrous metals may benefit from this trend, while sectors that rely on oil as a major input such as chemicals, fertilisers, gas utilities, refining and marketing will be negatively impacted.

The Ukraine-Russia war could ruin the budgets of countries around the world. All countries will start spending more on their army. This will reduce the real growth comparatively and there will also be a huge reduction in revenue. Tax collection increases due to inflation, but due to this the revenue deficit increases, after which the governments start pulling their hands from the social sectors. This naturally affects the poor people of the country. It is possible that even when the governments start withdrawing from the concept of globalization, which will especially harm the developing countries like India.

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