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A Story of Russia-Ukraine War and its effects on Indian Economy

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ABSTRACT
The repercussions of Russia-Ukraine war are threatening the global economy, shaking financial markets and making life more perilous for everyone across the world. Despite India's limited direct exposure, the combination of supply disruptions and ongoing terms of trade stock will likely weighon growth, result in a sharper rise in inflation and (lead to) a wider current account deficit and a fallen rupee said Sonal Verma chief economist at Nomura Holdings in a report. As supply disruptions mounted following sanctions on Russian Banks, oil prices surged. The Global economywas straining under a range of burdens, surging inflation, tangled supply chains and tumbling stockprices.
Keywords: Russia, Ukraine, trade, oil, GDP, Economy, inflation, foreign.

1. INTRODUCTION:
Vladimir Putin, President of Russia ordered a military strike on Ukraine declaring war on 24th Feb'22. As the Ukraine-Russia crisis intensifies, it threatens to spark conflict in Europe. Implications were observed in Asia too where several countries depend on Russia for Oil, Gas and Coal. Within a few minutes of the market opening on 24th. Feb'22, theSensex crashed by 2700 pts. People started panic selling. In a few minutes, Rs.7.59 lakh crore of investor wealth wiped out from the markets after Putin announces military operation in Ukraine. The next few months are going to be volatile for the market. What happens in the nextfew months will set the tones for many things in this year. The Russian stock exchange fell by 50% in one day. This impact has been felt in all Asian Markets. The US has put strict sanctions on Russia. As a result of the war, fuel prices across the globe are bound to rise and cripple downthe economy.

2. OBJECTIVE OF STUDY:
i) To examine the increase of crude oil prices.
ii) To study the war crisis between Russia and Ukraine.
iii) To identify the factor which carries impact on Indian Economy.
iv) To study the surge of edible oil prices.
v) To study the overall average change in traded volume of companies listed in NSE due to the above said war.

3. REVIEW OF LITERATURE:
Whelsy Boungou and Alhonita Yatié (2022), as per them provided the first empirical evidence of Ukraine-Russia war on World stock market returns. This paper shows that the countries bordering the two countries, suffered the most. Data from the stock markets of 94 countries hadbeen taken and they documented a negative relationship between Russian-Ukraine war with the stock markets returns.
As per Peter Havlik (2014) the Russian-Ukraine conflict happened in the year 2014 had serious consequences not only on Russia and Ukraine, but also impacted the economy in Europe. That conflict impacted differently to different European country. The impact depended on their exposure to Russian market. The Baltic States, Finland and several new EU countries were most affected. Russia's ban on agro-food product imports from EU impacted highest to the Baltic countries Zaghum Umar et al (2022) in their research paper investigated the geo-political risks involved in the

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Ukraine-Russia conflict on EU, Russian and global commodity markets. They used the time and frequency-based VAR model.

Onur Kemal Tosun and Arman Eshraghi (2022) investigated the reaction of financial markets to the announcements made by companies which remained in Russia after the war started. The research paper shows that the companies were left in Russia underperformed as compared to those which left Russia, within two weeks when the war has been started. Moreover, the investors also imposed penalties and selling pressures on those companies. Through this study the researchers have suggested that when there is a political conflict the equity markets are verysensitive to the corporate decisions.

Ruth Endam Mbah and Divine Forcha Wasum (2022) in their research paper have studied the impact of Russia-Ukraine conflict on key global economic factors. They specifically focused on countries like US, UK, Canada and European Union, which imposed sanctions on Russia for attacking Ukraine. They used the social contract and interest group theories in explaining the whole situation. According to their study, we could see a negative impact of this conflict on household consumption, supply chain disruptions, increasing utility bills, low investments and hurdles in economic growth

Jonathan Federle et al (2022) in their research paper mentioned that the outbreak of war brings risk of military escalation to the neighboring countries too. The stock market declines and risks of disaster increase. The closer countries will have more negative equity returns. In their research paper they have tried to figure out a numeric figure of 1.1 percentage points per 1000KM of distance.

Iana Liadze et al (2022), using the Global Econometric Model estimated that the global GDP will be reduced by 1% by 2023 due to the Russia-Ukraine conflict. And it will also add up to 3% to global inflation in 2022 and 2% inflation in 2023. It will reduce Russian GDP by 1.5% in 2022 and 2.5% in 2023. It is also expected to increase the inflation by 20% in Russia in 2022. According to them the main impact of this conflict would be in the energy sector.

Aman Jindal et al (2020) in their research paper observed the change in share prices of top 20 companies of National Stock exchange due to the Covid-19 pandemic.

Shakil Ahmad (2022) in his research paper has tried to look into the Russian-Ukraine war in a bitmore detail. In his research paper, he has taken some examples from the past and elaborated whathappened to the world markets at those times. He is tried to find which markets are most effected during this time of situations.

Imran Yousaf et al (2022) in their research paper have examined the impact of conflict between Russia and Ukraine on the G20 nations and other major stock markets of the world. They used the event study approach for completing their research study. According to their study, this conflict impacted negatively to the major stock markets, specifically the Russian Market. Most of these markets witnessed abnormal returns before and after the conflict has been started on 24th Feb 2022. In this study the researchers have performed aggregate stock market analysis, country wise analysis and regional analysis of stock markets

4. RESEARCH METHODOLOGY:

This article is largely based on secondary sources, especially from the daily newspapers and from other various web sources, various articles on these recent issues. All the collected information and data are presented systematically to draw a meaningful inference.

5. DATA ANALYSIS:

After World war-II ends in 1945, Russia-Ukraine conflict is probably the largest traditional conflict among human history, not only in terms of days of conflict and implications of military attack causing huge loss of life, infrastructure loss, human rights violations, among others just in Ukraine and Russia, but also because of huge global economic crisis. Having extremely significant trade, diplomacy, nuclear energy, technology, and military relations with Russia. India has taken a neutral stance, with depicting significant concerns for implications of war and calling for resolving issues through diplomacy. However, India, or any other nation in current integrated and inter-connected globalized geopolitical world, cannot remain immune from the ravages of the war. In this study, we analyze the major impacts of war on Indian economy such as impact on Oil Prices, inflation and economic growth, energy and food crisis, as well as impact on Rupees.

5.1 IMPACT ON OIL PRICE:

A major portion of the world demand, including Indian demand, for oil is fulfilled by the Russiaas it is second largest exporters of crude oil, only after Saudi Arabia. However, the Russia- Ukraine war has raised the global prices of Brent crude oil up to $139 per barrel in March, whichlater pulled back to around $107 per barrel. Overall, it has mounted by around 20% from around

$89 per barrel since the war started. Given the adverse impact of pandemic, the rising oil prices could further worsen the manufacturing, tourism, transportation and allied economic sectors, which in turn may create inflationary, fiscal, and external sector crisis in the Indian economy. Onthe other hand, the Russian oil prices also fell down from its pre-war level, due to sanctions andboycott of Russia by US and several European economies. In order to understand the impact of conflict on Brent crude oil prices is from the past experience.

ICICI securities noted that with an expected 60% of the world restricting trade with Russia, worldoil-crude supply is to reduce by 3 mmbd, keeping Brent crude price above $100 per barrel for muchof fy2022. India imports around 85% of its demand for oil, and crude oil related products have adirect share of over 9% in Wholesale Price Index (WPI) basket. Report by Bank of Baroda Chief Economist Madan Sabnavis, a 10% rise in crude would approximately increase WPI inflation by around 0.9%, raising the baseline expected WPI to around 11.5-12% for fy2022. On the other hand, every $1 per barrel increase in oil prices is also expected to raise petroleum prices by 60-70paise per litter in retail fuel prices, leading the rise in proportion of oil imports in India`s total imports to around 25.8%, which is expected to swell further. Moreover, a 10% hike in oil pricesis expected to increase India`s CAD by US$15bn (around 0.4% of GDP) worsening trade deficit. Escalated fuel prices are also expected to reduce consumption directly, which was already affected by pandemic, reducing PFCE to Rs. 80-81 lakh crore in 2021- 2022 from 83.22 lakh crore in 2019-20.

5.2 ENERGY CRISIS:

The real extent of shock is much larger for the real economy as the rate of inflation of fuel pricesis much greater than the inflation of crude oil prices, which is significant for framing monetary policies. A report by Bloomberg states that though crude oil is being traded at around $100 per barrel however, for people not owning oil refinery the real impact on economy is larger as if the crude oil is being traded between $150 and $275 per barrel. This is due to the fact that real economy mostly buys refined petroleum products such as petrol, diesel, jet-fuel etc., rather than the crude oil which is majorly purchased only by the oil refineries. Typically, inflation of Brent crude oil and petroleum product move in a symmetrical manner with difference lying in a small markup ofaround $10 per barrel, however, this relationship is broken due to the conflict. In world market, Diesel is being traded at about $170 per barrel whereas petrol is being traded at $150 perbarrel, primarily due to explosion of refining margin. This, is in turn, happened due to the following factors:

- High demand-supply gap of petrol and diesel,
- US and allied nations released large amount of Crude oil from their strategic reserves, which helped in controlling oil prices, however only a small fraction of emergency release was in the form of refined products and thus have not addressed risingprices of refined products.
- Russia was a major exporter of not only the crude oil but also of diesel and semi- processed oil that were turned into fuel by western refineries. However, sanctions and unilateral embargos of Russian oil has dried this flow in the international market.
- Outside China and Middle East, oil distillation capacity reduced by 1.9 billion barrelsa day since end of 2019 and refining plants in the international market are suffering to process enough crude to

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satisfy world demand for fuel. In addition to sanctions, this is also set off as old refineries struggle to compete, as well as increased cost due to environmental regulations, expectation of future decline in oil demand, fall in demand due to covid, among others, resulting in huge shut down of refinery operations between2020-2022 in US and Europe.

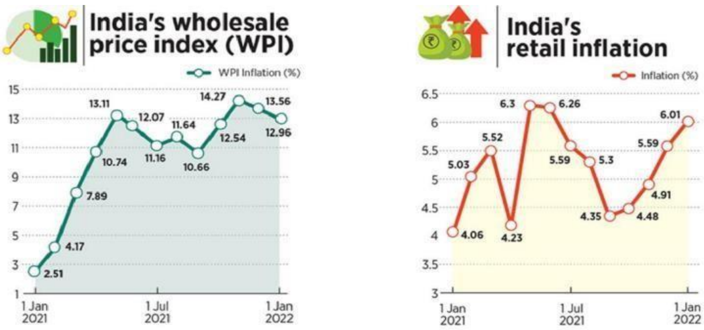
This has benefitted the independent oil refineries with unusual very-high profit margins. This hasalso increased the share prices of U.S. refining giants Marathon Petroleum Corp. and Valero Energy Corp., to a record high and ultimately, has caused a serious shock to the energy sector of India and the international economy.

5.3 GLOBAL FOOD CRISIS:

Retail and wholesale food inflation is also rising in India, with most recent data indicating WPI food and CPI food reaching to 10.33% and 5.43%. Russia and Ukraine supply around 30% of global wheat exports which has fallen due to the conflict and subsequently, bid has risen for acquiring the wheat and agriproducts such as maize, rice and soy, adversely impacting poor. India, as emerging major wheat supplier, is attempting to boost exports of wheat however is severely constrained by shortage of fertilizers. Russia and Belarus produced 40% of international exports of fertilizers and pesticides per year, which is also fallen due to conflict impacting the harvest capacity in India and rest of the world. This along with droughts, floods and heat invigorated by climate change have increased the Wheat and maize prices in March 2022much above than their respective 14-year records. IPES (International Panel of Experts on Sustainable Food Systems) noted that due to climate change, widespread absolute poverty, and conflicts between the nations, the global food security is under serious risk of crisis, which in turn would result substantially high prices for medium to long run, unless appropriate actions are taken. Along with the shortage of wheat and grains due to lack of supply from Russia and Ukraine, the food prices are also driven up by artificially inflating prices as investors and financial speculators jumped into grain futures, before even conflict started in expectations of future profits. In an open interconnected world economy, small changes in expectations can lead to huge impact in the real economy. This has impacted Indiaas well, creating a persistence pressure of food inflation and threatening India with a potential shortage of food supply especially for Wheat, edible oils and grains and may extend to poultry, milk and other dairy products.

5.4 INFLATION AND ECONOMIC GROWTH:

As per a report by financial express Indian manufacturers, with the beginning of verbal assault and expectations of war, have increased the prices of goods in January and early February 2022, well before the actual war started. While COVID shock affected both demand and supply thus the net impact was on the real GDP however, Russia-Ukraine war creates a supply shock for the Indian economy. The oil sector of the economy is deteriorated as a 10% increase in crude oil is likely to increase inflation by 30 basis points. The net impact on inflation could turn to be more structural and complex as high oil prices might create a pass-through impact on other sectors. Conflict has increased the world prices for most of the consumer commodities, with deepened impact on edible oils, wheat and grains, fertilizers, gas, crude oil, and metals.



Source: Adapted by Author using data from MoSPI, trading Economics

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Rising Inflation has also created significant hindrances and uncertainties for the economic growth in India, forcing the expected GDP growth to be around only 7.8%- 9% in fy 2022 from the expected double-digit growth. During the past few decades, India and Ukraine have strong education ties, especially in the medical and engineering fields, which is also severely affected as Indian citizens have returned in view of the conflict.

5.5 DEPRECIATING CURRENCY:

Indian Rupees, along with other currencies, are under serious threat of very high volatility due to Russia-Ukraine conflict. Uncertainty and risk facing INR also risen because of current account deficit with rising oil prices as well as sanctions imposed on Russia. Uncertainties related to the currency and economy in general, especially after pandemic, has also shaken the confidence of the investors which may further depreciate rupees as investors take their capital out of Indian economy. As India follows managed exchange rate system, a direct approach for RBI is through releasing some part of record high stock of foreign exchange of around $598 billion, to control the depreciation of currency and reduce import bills.

Rupees valuation and Foreign Ex stock in India

Source: BS research Bureau, Bloomberg, RBI

Falling rupees will further exacerbate the inflation as per RBI`s calculations, with almost every 5% depreciation in the rupees contributes roughly 10-5 basis points to inflation. The worst impact will be on the people under below poverty line.

5.6 IMPACT ON AGRICULTURAL COMMODITIES AND FERTILIZERS:

Vegetable Oils and Oil seeds: The prices of Vegetable Oils and Oilseeds are also skyrocketing. It includes sunflower oil and its immediate competitor, soybean. The benefits of it should flow to mustard growers in Rajasthan and UP who are set to market their crop. Mustard prices are ruling at Rs.6500/-plus per quintal which is again above the MSP of Rs.5050/-per quintal. Palm oil in Malaysia has also hit all-time highs.

Increase in Brent Oil Prices will make synthetic fiber costlier. As a result, the prices of cotton and agricultural commodity that can be diverted for production of ethanol (sugar and corn) or bio- diesel (palm and soybean oil) will increase. High prices (above MSP) and a hopefully good monsoon will induce farmers to expand the cultivation of cotton, soybean, ground nut, sesamum and sunflower in the upcoming kharif planting season. That will help us achieve the goal of crop diversification.

The economic impact of Russia's war in Ukraine is not confined to oil only but it extends as much as up-to agricultural commodities and fertilizers. Wheat: Skyrocketing global prices have made Indian wheat exports very competitive. Wheat from Gujarat, Rajasthan and Uttar Pradesh are now being sold at Rs.2400-2450 per quintal as against Rs.2100/- per quintal 15 days ago. This is above the Govt.'s Minimum Support Price (MSP) of Rs.2015/- per quintal.

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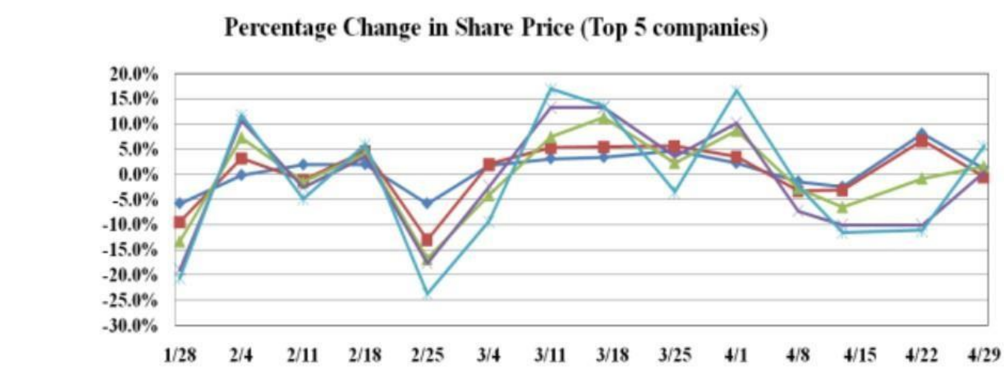
There is a slim positive in the trade world. Ukraine and Russia are huge grain producers. The vacuum from this conflict can be filled by India. By selling wheat in the international market as wheat prices are a 9 year high, India will gain much from export of wheat.70% of India's sunflower oil comes from Ukraine. India imports 2 lakhs to 3 lakh tones sunflower oil every month. This conflict will impact edible oil prices.

5.7 EFFECTS ON SHARE PRICES:

The weekly closing price of top 20 companies (as per Market Capital on 31st December 2021) of national Stock Exchange has been taken for this study and at the same time we have only taken the closing price of Nifty 50 index at weekend for the same period.



	1/28	2/4	2/11	2/18	2/25	3/4	3/11	3/17	3/25	4/1	4/8	4/13	4/22	4/29
HUL	-1.7%	1.1%	-2.2%	2.4%	-6.1%	-6.9%	3.7%	0.3%	-7.0%	6.5%	4.9%	-1.4%	-1.1%	5.0%
Infosys	-5.6%	3.3%	-1.1%	-0.8%	-0.8%	1.8%	5.7%	1.8%	1.2%	1.4%	-4.6%	-3.7%	-9.3%	-1.1%
HDFC Bank Ltd	-3.8%	4.2%	-0.4%	-0.4%	-3.8%	-6.1%	2.2%	6.0%	-3.3%	5.2%	0.6%	-3.3%	-7.5%	2.2%
TCS	-3.8%	3.4%	-3.1%	2.7%	-7.2%	0.2%	2.1%	2.1%	0.9%	1.3%	-1.9%	-0.7%	-1.4%	-1.7%
Reliance Ind	-5.8%	-0.2%	1.9%	2.0%	-5.8%	1.8%	3.1%	3.4%	4.7%	2.2%	-1.4%	-2.5%	8.1%	1.2%

Source: (The impact of Russia-Ukraine War on Indian Stock market -An empirical study, Kawerinder Singh Sidhu, Pradeep Suri)

We know that the Russia-Ukrain war started in the morning of Feb 24, 2022 from this diagram we can see that the performance of top 5 companies (i.e. Reliance Industries, Tata Consultancy Services, HDFC Bank Limited, Infosys and Hindustan Unilever) listed in national Stock Exchangedid not get much affected by the Russia-Ukrain war. Although we noticed a fall in share prices immediately after the war being started but from the third week onward, the prices of shares of these companies' recovery very fast.

6. CONCLUSION:

First Corona and then, Russia-Ukraine conflict have accelerated an ongoing shift in rebalancing of the power. With medium-term to long run consequences of infrastructural and other destruction in Ukraine and Russia; humanitarian, security and food crisis in Europe and US; geostrategic pressures face by Japan, China, India and South Asian economies

As Russia-Ukraine conflict continues, and Ukraine getting economic and military support from the western economy, sanctions and subsequent isolation of Russia in interconnected world, these ambitions are improbable to fulfill. However, both Russian and Ukraine economies are expected to bear a long run cost of this conflict. On the other hand, through continuous hostility towards Russia for over two decades, struggle to reclaim their influence over the world, providing militarysupport, aid, assistance and advice to Ukraine and other economies following anti-Russian sentiments since 2014, adherence to difference between narrative of democracy vs authoritarianism, US economy

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has also created a situation of economic stress for themselves, as they face high oil price volatility, food grain shortage, disruptions in supply chain, economic stagflation, among other disruptions. Huge economic turmoil in Sri Lanka whose impacts are expected to remain for at least medium run, the world order is again recalibrating. In order to recreate a sphere of their influence and for opposition of expansion of western militia power suchas NATO; as well as to create a buffer region for their own security, Russia have attempted to destroy the Ukrainian military infrastructure, create a space for their military forces and enhance control over the black sea.
When the war started it almost shattered all the major stock exchanges of the world. Countries with strong economic values recovered very fast. And their markets were on their values after one or two weeks of trading after the War. Indian stock market, too, strongly recovered back. This is evident from the share prices of Top 20 companies listed in NSE and the Nifty50 index of the NSE. These companies suffered for initial one or two weeks but after that shown a recovery trend.But this war affected the trades all over the world.

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