



## Highlighting the consequences of ongoing Russia-Ukraine conflict: in the context of Indian economy

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**Abstract:** This study talks about the consequences of Russia-Ukraine war on Indian economy. It discussed how this conflict affected various aspects of Indian economy such as strength of Indian Rupee, inflation, foreign investments and India-Russia bilateral trade. To study the impact researcher used 10 months of data; 5 months before and 5 months after the month of inception of war. Analyzing data using accounting, descriptive and inferential statistical methods found that this ongoing event has impacted significantly by weakening Rupees, making inflation high, causing huge FPI outflow and resulting decline in export of India to Russia.

**Key Words:** Russia-Ukraine war, Rupee, Inflation, FPI and Bilateral trade.

### 1. INTRODUCTION:

Ukraine was the part of USSR. At the end of the cold war between USSR and USA, Soviet Union collapsed and divided into several separate nations in the year 1991. This development gave birth to Russian federation and Ukraine. Post disintegration of Soviet Russia most of the nuclear weapons left with Ukraine. In the year 1991 Russian federation and Ukraine signed Budapest agreement at Budapest, Belarus. As per the agreement Ukraine gave up all its nuclear weapons in exchange of acceptance of independence and territorial integrity of Ukraine by Russian federation. Mostly Ukraine is ruled by pro-Russian leaders that created dissatisfaction among Ukrainians. Eventually in 2014 protest erupted against the former president Viktor Yanukovich at last he was thrown out of his power. Interim government signed a trade deal with European Union for the first time. In that year Russia annexed Crimean Peninsula with Russian federation by launching military action over Ukraine. In the year 2019 former famous comedian of Ukraine, Volodymyr Zelensky elected as the president of Ukraine. He has pro-western mentality that is proven by his foreign policies to join European Union and NATO. This decision of president Zelensky angered Russian president Vladimir Putin because this move of Ukraine was very serious security threat to Russian federation. Another matter was Donbas region of Ukraine, which consists of Luhansk and Donetsk. Since in that particular region there are Russian culture and Russian speaking people who demands independence from Ukraine to go with Russia. To suppress this protest Ukrainian Government used military forces against the citizens of Ukraine in that region. As Russian has been backing these separatist movements in Donbas region, Vladimir Putin declared independence of Donetsk and Luhansk on 21<sup>st</sup> February 2022 and after 3 days on 24<sup>th</sup> February Russian launched attack on Ukrainian military establishments by raining missiles from sky. In response to this event USA and its allied countries including European Union put various economic sanctions by throwing Russia out of SWIFT payments system. As the result of these kinds of action and reactions supply of crude oil and food grains stopped suddenly that lead to surge in inflation and starvation due to food shortage. According to the geostrategic expert Bramha Chellaney, due to proper counter plan of Russia these economic weapon backfired over them, which lead to 40 years of record breaking inflation in USA, UK and other European countries. Weaponization of economic measure forced the world to rethink of dedollarization which started with India-Russia Rupee-Ruble trade negotiations.

### 2. REVIEW OF LITERATURE:

Agarwal (2022) studied the socio-economic impact of Russia-Ukraine war and found that increase in price of crude oil has impacted the day to day life and rising gas price also direct impact on kitchen of people. Since Germany is completely dependent on Russian natural gas and oil it will be affected the most.



**Dole (2022)** studied the impact of Russia-Ukraine conflict on Indian economy and found that India's direct trade exposure to the war is just 1% of total export and 2.1% of total imports. Western sanctions on Russian oil lead to sharp rise in Brent crude oil price (all time high 130 dollar per barrel). Inflation rise to 14 years high and delay in defense imports from Russia.

**Kumar (2022)** studied the impact of Russia-Ukraine war on Indian exports and found that costs of products have increased, rupee has deteriorated and crude oil price has increased.

**Nagarjuna (2022)** studied the impact of Russian invasion of Ukraine on Indian economy and discussed various strategies to mitigate these impacts on economy. He highlighted that inflation has impacted the country's economy, imports and export from and to Russia affected and suspected the possibility of World war III.

**Nazeeruddin (2022)** also studies the impact of Russia-Ukraine war on Indian economy and put the light upon some important aspect. They are; surge in price of crude oil, cooking oil and other commodities like wheat, corn etc.

### 3. SIGNIFICANCE OF THE STUDY:

Russia-Ukraine conflict erupted on 24<sup>th</sup> February 2022; this gave birth to severe economic consequences across the globe. So India is not an exception. Different studies have been conducted at the initial days of the war but it is still continuing and various Government taking major steps to counter these consequences. Most of the studies discussed about crude oil, export only and inflation. So it becomes significant to examine and discuss about the impact on Indian Rupee, Inflation rate in India, foreign investment and bilateral trade between Indian and Russia. It also becomes significant for discussion because it may help the country to tackle the possible recession, overcome the disruption in supply chain, to counter the dominance of particular currency and to manage foreign investment.

### 4. OBJECTIVES OF THE STUDY:

Objectives of this study have been enlisted as following:

1. To review the current scenario of ongoing Russia-Ukraine conflict
2. To study the economic impact of war on various aspects of Indian economy
3. To compare the economic performance of India between pre and post-war days

### 5. RESEARCH METHODOLOGY:

Appropriate research methodology is must required conducting research in correct manner. To conduct this research researcher has used various accounting and statistical methods for analysis of data collected from various sources. Time frame of the study has been taken 10 months; September 2021 to June 2022. Month of inception of the battle is February 2022. In some cases time frame is 8 months; October 2021 to May 2022. Data of these 10 or 8 months are the sample for the study. Data used in this research are secondary in nature. These secondary data collected from various secondary sources and they are; reports published by Ministry of commerce and Industry, RBI, CDSL India, World bank, New York times, Center for Strategic and International Studies. Collected data have been summarized into tables' format to make analysis easier. To analyze the data accounting method; trend percentage has been used by the researcher. To analyze statistically both descriptive and inferential statistics have been used. Descriptive statistics; arithmetic mean, standard deviation, minimum and maximum and standard error have been implemented. To extract an inference from data analysis t-test (parametric test) like inferential statistics has been used. For examine the relationship and the cause of the impacts correlation and regression analyses have been made. For the compilation of data and its analysis various software have been used and they are Microsoft excel, Word and IBM SPSS.

### 6. LIMITATIONS:

In this world no one exists without any limitations. So every research suffers from various limitations. Researcher has put light on certain drawbacks of this study and they are; since data collected from secondary sources there may be some errors, some required data were not available; some of the data used for analysis are provisional in nature it may vary from actual figures and data recorded daily basis represented as average for the month.

### 7. ANALYSIS AND DISCUSSION:

As Russia invaded Ukraine, United States of America and its allies including European Union imposed various sanctions by putting ban on Russian crude oil and natural gas. They also banned Russia form SWIFT payments system



that prevented Russia to do international trade with other countries. As the result of these kinds of economic sanctions price of crude oil exceeded the price of per barrel 100 dollars mark and started touching new highs every day. Huge foods shortages forced people in poor and developing nations to suffer from starvation. While whole globalised world was suffering, India was not an exception. India also suffered a lot economically. In India people witnessed high inflation, weakening of Indian rupee, impact on India-Russia bilateral trade and outflow of foreign investments.

**Dollar vs. Rupee;** India does its trades with the other countries by making payment in Dollar instead of Indian Rupees. Russia-Ukraine war broke out in the month of February 2022. From the month of March 2022, some adverse trends were being witnessed, that Indian rupees are getting weaker every day as compared to dollar. Simply this fact can be understood if the following data are observed thoroughly.

DOLLAR VS RUPEE			
PARTICULAR	YEAR	VALUE OF RUPEE (in Rs.)	TREND PERCENTAGE
BEFORE WAR	Sep-21	73.6089	100.00
	Oct-21	74.9242	101.79
	Nov-21	74.4809	101.18
	Dec-21	75.4303	102.47
	Jan-22	74.4671	101.17
AFTER WAR	Feb-22	74.9863	101.87
	Mar-22	76.2376	103.57
	Apr-22	76.1962	103.51
	May-22	77.3233	105.05
	Jun-22	78.0644	106.05

Before Russia-Ukraine war breaks out, One dollar was equal to 73.6089 Indian Rupees but the value of rupees declined by recording Rs. 78.0644 in June 2022 equals to one dollar, it was highest in last 8 months. Previously position of Indian currency was stable though it was getting weaker still variation/ fluctuation was negligible but now Rupee is getting weaker rapidly with high variation/ fluctuation. According to the above mentioned discussion, it is crystal clear that After Russia-Ukraine war Indian Rupees is significantly weaker than the Rupees before war.

**Inflation;** it is an indicators that indicates the changes in the price of products and services. If inflation is high, it means products and services are getting costlier. Products and services are getting cheaper, in case the inflation is low. Since India is oil driven economy, its dependency on crude oil forced manufacturers to make their products and services costly. This is indicated by the inflation percentages. Clearly it can be understood by the following figures of inflation.

INFLATION (in %)			
PARTICULAR	YEAR	INFLATION	TREND PERCENTAGE
BEFORE WAR	Sep-21	4.35	100
	Oct-21	4.48	103
	Nov-21	4.91	113
	Dec-21	5.66	130
	Jan-22	6.01	138
AFTER WAR	Feb-22	6.07	140
	Mar-22	6.95	160
	Apr-22	7.79	179
	May-22	7.04	162
	Jun-22	7.01	161

In the month of September 2021 when there was no military conflict between Russia and Ukraine, inflation was 4.35%. After the military conflict in the month of June 2022 inflation is 7.01%. But in the month of April 2022 it touched the 7.79% mark by recording highest rate of inflation in last 8 months. During pre-war period, variations/ fluctuations in inflation rate was high as compared to after war scenario. It makes sure that due to the sudden unfortunate event of military conflict, inflation increased suddenly but still now it is under control and stable. If the question is asked that Russia-Ukraine war lead to price hike of products and services in India, the answer is yes. Impact of this conflict is



significant upon the inflation across India because the rate of inflation after war is significantly high than the rate of inflation before war.

**Foreign Portfolio Investment:** These investments come from foreign countries to India for short period of time; investors invest their money in Indian companies by acquiring Equity shares, bonds and mutual funds directly through Indian stock exchanges (NSE and BSE). After the military conflict between Russia and Ukraine started, Indian stock market crashed multiple times because FPIs were selling their stakes in panic. This incident is clearly evident with the figures of net FPI outflow in last 8 months which is mentioned as following.

NET FPI OUTFLOW (in cr.)		
PARTICULAR	YEAR	EQUITY INVESTMENT
BEFORE WAR	Sep-21	-13154
	Oct-21	13550
	Nov-21	5945
	Dec-21	19026
	Jan-22	33303
AFTER WAR	Feb-22	35592
	Mar-22	41123
	Apr-22	17144
	May-22	39993
	Jun-22	50203

On the basis of above summary before Russia-Ukraine war there was net FPI inflow of Rs13154 Crore in September 2021 but after the military conflict net outflow of FPIs in June 2022 was Rs. 50203 Crore. These investments are only equity investments. Outflow of FPIs after the military conflict is significantly high than outflow of FPIs before the war. Weakening of Indian Rupee is one of the main reasons of huge outflow of FPIs. Impact of devaluation of Indian rupees is significant on FPI outflow. By considering the all the facts it is quite evident that impact of Russia-Ukraine military conflict over Indian capital market is humongous.

**India-Russia bilateral trade:** India-Russia bilateral relation is continuing form the time of USSR. Both the countries trade with each other (Import and Export). As Russia went into military operation over Ukraine in the month of February 2022, bilateral trade is being affected due to western sanctions on Russian federation. New scenario emerged that export of India to Russia has decreased and at the mean while import from Russia has increased. The same can be observed from the under mentioned trade figures.

INDIA-RUSSIA TRADE (in lakhs)				
PARTICULAR	YEAR	EXPORT	IMPORT	TRADE DEFICIT
BEFORE WAR	Oct-21	202,242.62	531,584.25	329,341.63
	Nov-21	237,269.61	538,606.75	301,337.14
	Dec-21	271,131.97	724,709.38	453,577.41
	Jan-22	229,025.85	840,892.37	611,866.52
AFTER WAR	Feb-22	243,861.12	623,399.98	379,538.86
	Mar-22	60,303.72	1,013,218.08	952,914.36
	Apr-22	73,410.57	1,775,223.34	1,701,812.77
	May-22	114,944.32	2,089,417.85	1,974,473.53

Figures of export before war in October 2021 were of Rs. 202242.62 lakhs but after war occurred amount of export to Russia was Rs. 114944.32 Lakh, in the month of March 2022 it recorded lowest amount of export to Russia at Rs. 60303.72 lakhs. Import from Russia in the month of October 2021 was of Rs. 531584.25 lakhs but after the occurrence of conflict between Russia and Ukraine sudden surge in import have been witnessed from the month of March to May 2022. In May 2022 it recorded highest amount of import of Rs. 2089417.85 Lakhs. India has the trade deficit with Russia. Before break out of war trade deficit was of Rs. 329341.63 Lakhs in October 2021 which increased to 1974473.53 Lakhs in May 2022. In May 2022 it recorded the highest trade deficit in last 8 months. Impact of War on export of India to Russia is significant because amount of export after war is significantly low as compared to the amount of export before war. Though, the amount of import from Russia has increased after war than the amount of



import before the conflict, still that increment is not significant. Also increase in trade deficit after the conflict is higher than the trade deficit before war; still increment in trade deficit is not significant. This kind of inferences is also supported by the following summary of share in trade with Russia in total trade of India.

SHARE OF INDIA-RUSSIA TRADE (in %)				
PARTICULAR	YEAR	EXPORT	IMPORT	TRADE DEFICIT
BEFORE WAR	Oct-21	0.76	1.32	2.46
	Nov-21	1.00	1.36	1.91
	Dec-21	0.92	1.59	2.86
	Jan-22	0.87	2.15	4.76
AFTER WAR	Feb-22	0.88	1.49	2.71
	Mar-22	0.18	2.11	6.76
	Apr-22	0.24	3.87	10.91
	May-22	0.38	4.27	10.56

Share of export to Russia was 0.76% in October 2021 which became 0.38% in May 2022; almost half decline in last 8 months. Share of Import from Russia was 1.32% in October 2021 that became 4.27% in May 2022; almost 4 times increment in last 8 months. Scenario with trade deficit with Russia is almost same like import, deficit was of 2.46% in October 2021 that became 10.56% in May 2022; almost 5 times increment in last 8 months. On the basis of all the above mentioned facts it is completely evident that Russia-Ukraine conflict has huge impact on the bilateral trade between India and Russia.

## 8. FINDINGS:

Each nation in the world was fighting with Corona virus pandemic, as the situation get better Russia went into the military conflict suddenly with Ukraine. Whole world again suffered a lot by paying heavy economical price due to this conflict. As we all live in the globalised world, this unfortunate event has some consequences over Indian economy. Based on the above mentioned discussion researcher found certain major consequences of this ongoing conflict over Indian economy. These consequences have been highlighted by the researcher and enlisted as following manner.

1. Indian Rupee has become significantly weaker than one US dollar.
2. Inflation across the nation has increased significantly but still it is under control.
3. As the result of devaluation of Indian Rupees, outflow of Foreign Portfolio Investment has increased significantly.
4. Export of goods and services by India to Russia has declined significantly.
5. Import of goods and services by India from Russia has surged but that increment is not significant.
6. There in an increase in trade deficit of India with Russia but that increment is not significant.

## 9. CONCLUSION:

After the pandemic caused by deadly corona virus, Russia-Ukraine war is also an worst chapter of human life in this world. Western sanctions lead to various serious consequences over human being across the globe. People not only in India but also in every place of the world are suffering severely due to the actions and reactions of developed nations to this ongoing unfortunate event. Due to this conflict Indian nationals witnessed that; devaluation of Indian Rupee, multiple stock market crashes for speedy outflow of foreign investments, goods and services became costlier due to surge in inflation, declining in exports to Russian federation and increment in trade deficit with Russia. Based upon the above analysis, discussion and findings it can be concluded that its ongoing military conflict between Russian federation and Ukraine has impacted Indian economy negatively and with no valid reasons, people of India are paying price of this war and economic weapons used by the western countries.

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