



The President of the Russian Federation, Vladimir Putin observing the entire territory that makes up Russia. #NATO #Russia

THE ECONOMIC IMPACT OF THE UKRAINIAN CONFLICT

Jorge González

War not only involves loss of life and property, it also affects the economies of surrounding countries, and therefore the entire world given the great interdependence in the global economy.

This time, it is about the military aggression of the Russian Federation, which has the third largest army in the world (first the USA, second China) with 900,000 active soldiers and a population of 144 million inhabitants, which however, it has a GDP of 1.4 billion USD, lower than that of Italy and slightly higher than that of Spain. The attacked country, Ukraine, 44 million inhabitants and 0.155 billion USD of GDP, a huge country, which has no possibility of defending itself, as it was impossible for them to oppose the annexation of part of its territory, Crimea last 2014, through a referendum not recognized by the international community.

It will be a short-lived conflict, since Ukraine does not have military support on the ground, although it receives international technological and economic support. Neither can Ukraine invoke Article 4 of the NATO Treaty to request the support of its partners.

Next, I will expose the economic effects that the Ukrainian conflict is generating and the supposed economic effects that can happen if the conflict worsens.

The economic sanctions

Currently, the escalation of geopolitical tensions has mainly generated the rise in gas and oil prices in Europe. This price increase is likely to have an impact on inflation. This is due to the fact that domestic economies are going to have to pay the price increase, which results in a negative impact on the demand for goods and services.

Indeed, Russia is one of the largest exporters of natural gas, supplying 40% to Europe. Russia is using its oil/gas exports as an element to destabilize its adversaries. The context is complicated by the closure of the Algeria-Spain gas pipeline, which runs through Morocco and which has interrupted its services due to the rivalry between these two Maghreb countries. Likewise, Germany, with its decision to end nuclear power generation, increases the susceptibility of this economy to this problem.

In addition, Ukraine, the US, Russia and NATO partners are investing millions of euros to finance the transfer of their soldiers, weapons, etc. to the Ukrainian border. It is estimated that in recent years, Russia and Ukraine spent 4.3% and 4.1% of GDP on this type of spending.

On the other hand, geopolitical tensions generate uncertainty in financial markets. This means that indices such as the Spanish (IBEX-35) or other European indices such as the French (CAC 40) or the German index (DAX 30) have lost approximately 2% of their listed value in recent months. Very unpromising results for the stock market world. On the day of the declaration of war, the European markets have fallen in approximately one day, although the biggest drop is that of the Russian stock market, 33%.



Representation of a cent, implying the economic situation that we are experiencing in Europe due to the Ukrainian conflict. #NATO #Europe

The uncertainty surrounding this conflict has generated great concern for the US and Europe, which are mobilizing and developing a series of measures to try to prevent a future armed confrontation. These two powers have developed the following sanctions in the event of an armed war.

In the first place, the US has announced that it will sanction Russian financial institutions from the cessation of access to the Swift global payment service (system by which international operations are carried out quickly, safely and reliably). Likewise, Russian sovereign debt transactions will be prohibited to prevent the Nord Stream 2 gas pipeline from coming online in Western Europe. Similarly, Russian energy sectors such as power and raw materials will be put in the way, as will direct sanctions on Putin and his inner circle. In Europe, on the other hand, the visibility of its sanctions points to a growing convergence with those of the US, although it is limited due to the consensus that must exist between the 27 States.

Conclusion

The Ukrainian conflict is an exceptional situation that is causing economic, social and political consequences that may worsen in a not too long period. That is why we have to remember past wars to realize that an armed conflict is never a good solution. Therefore, it is necessary that the high officials of Russia, NATO, Ukraine, Europe and the US, among others, try to reach a peaceful solution to this conflict so that we can return to peace.

To paraphrase Churchill, a thick iron curtain is falling again on Eastern Europe. Estonia has demanded the application of Article 4 of the NATO Treaty, as it feels its security is compromised. Other surrounding countries have shown their concern, Belarus has allowed Russia to attack Ukraine through its territory, etc.

Hopefully the situations that occurred in the last century, with Austria, Czechoslovakia and finally Poland, which led to the declaration of war against Germany and World War II, will not be repeated. Nor do we want Russia's victory to encourage China to undertake another similar aggression, the invasion of Taiwan.

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