The Cost of Russian Invasion

What is the issue?

Talks to end the Russian war over Ukraine are a must as sanctions on Russia will hurt the wider world.

To know more about Russia's War over Ukraine, click here

What sanctions were imposed on Russia?

- The US, EU, United Kingdom and Canada had announced that the assets of Russia's central bank will be frozen, which would make it difficult for it from selling them overseas to support its own banks and companies.
- With a view to isolate Russia from the international financial system, the western allies decided to block selected Russian banks from the SWIFT messaging system used to validate and complete international payment transactions.
- They also resolved to impose restrictions on the Russian central bank's ability to access and deploy the country's war chest of an estimated 630 billion dollars in foreign exchange reserves.

What are the impacts of the move on Russia?

- **Depreciation of Rouble**- The immediate impact of these moves on Russia's economy and financial markets have manifested in a sharp depreciation in the value of the Rouble (Russian currency).
- **Hike in interest rate**- They also forced the country's central bank to more than double its benchmark interest rate to 20%, the highest in almost two decades, and impose controls on capital flows.
- **Bank run** - Russia's largest lender Sberbank found its European arm facing a run on its deposits, which the European Central Bank warned could lead to the unit's 'failure'.
- **Inflation-** Russians are waiting in long queues outside ATMs on fears of likely cash shortages and the country's citizens face the real prospect of

runaway inflation.

- **Suspension of sell orders**- Russia's central bank ordered professional stock market participants to suspend the execution of all orders by foreign legal entities and individuals to sell Russian securities.
- **Consumer goods shortage-** The impact of these measures would hurt middle class Russians, given that the country remains highly dependent on the West for many of its consumer goods.

What repercussions will it have worldwide?

Russia is the world's second-largest producer of oil in 2022 followed by the U.S.A.

- **Business-** The sanctions have its effect on European banks and companies with significant business exposure to Russia hurting their operations and revenues.
- **Energy security**- Concerns about possible disruptions to Russia's massive exports of oil and gas have pushed the price of Brent crude futures well above 100 dollars a barrel.
- **Inflation**- With most large European economies majorly reliant on energy supplies from Russia, the threat of rising energy costs is accelerating the inflation in Europe and worldwide.
- **Economic recovery**- At a time when a durable recovery from the shock of the COVID-19 pandemic is yet to take hold, the war initiated by Russia, and the consequent sanctions on it pose a challenge to the global economy.

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