

Economic Consequences of the Russia–Ukraine Crisis for India

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Abstract: War, a word that brings humanity to its knees and condemns every humanitarian law, enacted by any great organisation with a diverse range of viewpoints in order to promote harmony among people, to the death bed by violating each law that stood in the way of the ultimate goal of victory in the war. The on- going crisis in Ukraine will have ramifications not only for the countries involved in the conflict but also for the rest of the world, with Asian countries bearing the brunt of the consequences. Every war in this modern world is accompanied by certain sanctions, and Russia has been subjected to these sanctions. However, it is unclear whether these sanctions have had a significant impact on Russia or whether they are simply a step to reduce the heat that has been generated in the political environment. On February 24, 2022, Russian President Vladimir Putin declared war against the United States at a time that corresponded to Indian Standard Time (IST). This resulted in widespread tensions throughout the world, with all of the world's most important authorities taken by surprise by the news. Because of this, various stock market indices have fallen precipitously, with the Russian index plummeting by nearly 50%. As the day came to a close, major European Union countries announced their intention to impose sanctions on Russia, which would have a devastating effect on the Russian economy. Following that, the United States imposed a number of mild sanctions in the hope that Russia would refrain from invading Ukraine. With no success, the United States began to tighten the sanctions. Russia is the world's third-largest supplier of crude oil, and nearly one-third of the world's total energy supply comes from Russia, which is routed through Ukraine. Aside from that, Russia is responsible for nearly 90 per cent of the world's total neon gas supplies, which are used in the manufacturing of semiconductor chips. The international market for major metals supplies is also dominated by Russian monopolies in a variety of sectors, as well as a large share of the domestic market. As a result, tightening such sanctions will cause disruptions in the global supply.

Keywords: Russia–Ukraine War, Economic Sanctions, Global Supply Chain Disruptions, Crude Oil Market, Semiconductor Industry, Indian Economy.

Introduction

Since the invasion, Russia has risen to the status of global villain, provoking the entire world to turn against it, which is a once-in-a-century occurrence. As a result of the sanctions imposed by many countries, the payment system for various procurements has been deferred. With India's economy is 80 per cent exposed to the international market for its energy requirements, a significant portion of that energy is imported from Russia. Due to significant international exposure and the need to comply with US and EU sanctions, India's payment route to Russia is through the State Bank of India (SBI). However, the SBI has already stated that it will not process any payments to Russia. As a result, Indian oil producers will face significant difficulties in obtaining supplies in the future. Also noteworthy is the threat of US Countering America's Adversaries through Sanctions Act (CAATSA) sanctions against India, which would impose sanctions on any country that purchases major defence hardware from Russia, including the S-400 missile defence system, which is currently in operation.

As a result of the rising price of crude oil, India would be forced to deal with a significant increase in inflation. As the price of crude oil rises, the price of edible oil rises as well, and as the price of petroleum rises, it has a negative impact on almost every sector of the economy. In order to keep inflation under control, the Reserve Bank of India intends to raise the interest rate by 90-100 basis points in the near future. This will have a significant negative impact on the growing economy because loans will become prohibitively expensive to obtain.

The chips crunch is already being felt around the world, and it is having a significant impact on the global electronic economy. As a result of the impending sanctions against Russia, this situation will deteriorate even further, given the significant Russian involvement in this industry. The price of electronics commodities will skyrocket if the global economy continues to contract and global supply chains are put under even more strain. This will have a significant impact on the Indian household budget.

Metals, which make a major part of our daily lives, has also been majorly impacted by this war as most of the metals are either

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produced or refined in Russia or Ukraine, which is also witnessing a great price hike globally. With that, the auto sector has seen a major decline in its operating profits and is also seeing a scope of price hikes in coming quarters.

Even worse, travel will become more expensive in the coming days, compounding the problem. Airlines companies are preparing to raise ticket prices if the price of crude oil continues to rise, as it is having a negative impact on the company's operating costs.

In the coming days, pharmaceutical companies will also be impacted by the Russian invasion, and as a result, they will be looking to raise prices. Given that the pandemic is still ongoing, this could be a situation that causes the backbone of Indian households to crumble.

Financial markets are in tailspin in many countries, more importantly after the invasion of Ukraine by Russia on February 24, 2022 pushing the planet into a spate of uncertainty, turmoil and geopolitical risks. The volatility in the global financial markets is unpredictable causing irreparable loss of wealth of millions of investors who are hurriedly protecting their portfolio even at the cost of taking a hit. The rising global inflation, fear of tapering liquidity and rising interest rates by US Federal Reserve was already causing jitters in the global financial markets, when another calamity struck the global economy.

The impact of multidimensional sanctions on Russia are increasing the fear of redistribution of foreign inflows from emerging markets to western financial markets that is handling its worst ramification of Russian invasion of Ukraine. The nagging impact of Covid19 has not yet receded when another man-made diplomatic feud hit the planet, all at a time adding another bout of uncertainty to disrupt the resuscitation.

Adding new magnitude to the sanctions, the delink of Swift messaging services for some of the leading Russian banks is causing not only concern to their local entrepreneurs but is also having impact on other economies that have strong trading ties with Russia. Some of them are contemplating making payments in Ruble to countries that have stronger ties and who have natural inflows/outflows of trading. With Visa and Mastercard halting Russian Operations, there will be untold hardship for interoperability of payment system for card holders having tie up with them.

Impact on Indian financial markets

With active association of large number of foreign institutional investors (FIIs), the external sector shocks and tremors quickly overwhelm the domestic stock markets. The BSE Sensex is down to its lowest level to 52843 on March 7, 2022 from a peak of 61766 in October 2021. The index is down by 14.4 percent from its peak while it is down by 9.3 percent on a year on year (YOY) basis. Similarly, the NSE-Nifty is down to 15863 on March 7, 2022 down from a peak of 18477 in October 2021 recording a fall of 14.14 percent during the period. Even when compared to February 7, BSE Sensex dropped from 57621 to 52543 recording loss of 8.81 percent and NSE Nifty has lost 7.94 percent where investors have lost millions of wealth due to the market gyrations arising out of brewing conflict that started in early February and culminated in invasion on February 24. With razing levels of invasion without any sign of abatement, the losses could be deeper. Though markets will adjust to the downturn and the global central banks will wait to move towards normalisation in view of the conflict, the market uncertainties is poised to exacerbate.

Weak rupee against US \$ is another major macroeconomic concern leading to widening current account deficit (CAD). Rating agency ICRA expects CAD to widen to 3.2 percent in FY23 if the crude prices continue to stay elevated at a threatening level. The bond yields may hover in the range of 7.0 – 7.4 percent during HI of FY23 raising the cost of borrowings of the government to meet the monetization of fiscal deficit.

The USD -INR cross rate may stay range bound between Rs.76 – 79 until the conflict subsides and forex flows are regulated. The continued fall of rupee is pushing exporters into new dimensions of exchange rate risk. It has touched a low of Rs.77 to dollar at its all-time low. Indian rupee lost 3.5 percent during 2022 as against Korean Won (-3.02 %), Philippine Peso (-2.25 %), Taiwan Dollar (-2.10), Singapore Dollar (-1.05) but Chinese Currency Renminbi appreciated by 0.55 percent.

Growth trajectory:

The CPI inflation in India continues to be on delicate foothold increasing to a 7-month high of 6.01% in January of 2022, just on dot of its target moving up from 5.66% recorded in December 2021, and has been in sync with market expectations. But the wholesale price index remained in double digits for the 10th consecutive month. With crude oil prices hitting a mark of US \$ 139.13 to a barrel intraday on March 7 and later coming down to US \$ 130.50 later during the day has been a high since 2008. The West Texas Intermediate (WTI) traded at US \$ 122 mark. and there are indications that if Russia does not sell crude oil and OPEC does not increase supply, there is a hovering further upside risks to inflation. Though crude oil is kept outside the sanctions as of now, consensus is building up to bar countries from sourcing it from Russia. Russia being the third largest oil supplier, its cut off from the supply pool could escalate energy prices to new highs. Analysts at Goldman Sachs expect the crude prices to shoot up to a high of US \$ 150 a barrel causing great concerns to oil importing countries like India.

Though according to National Statistical office (NSO) estimate the Q3 GDP expands at 5.4 percent and estimates that GDP growth for FY22 will end up at 8.9 percent. But ICRA expects GDP to grow at 8.5 percent while India Ratings (Ind Ra) had put it at 8.6 percent. These numbers can go adverse if the war situation continues and inflation spikes well beyond the RBI target and input costs surge. Though consumer sentiments are on rise and opening up the economy after subdued third wave is on full swing, the external sector can harshly douse the growth headwinds.

Way forward

Monetary Policy Committee (MPC) and evolving upside risks to inflation, exchange rate volatility, impact of sanctions, RBI may have to rethink on its next course of action at its upcoming monetary policy meeting. In an increasingly interconnected world, the perils of war do not confine to Ukraine and Russia, it has far more ramifications on other economies.

No one is a winner in a war. Destruction of life, livelihood and property is inevitable in armed conflicts and its economic impact will linger on for a long time to come making people poor and destitute. We are still experiencing the wrath of Covid19.

World leaders should come together not for discussing scale of sanctions but to work out ways to resolve the issue and put an end to the mayhem. Diplomatic channels should be used to have dialogue, negotiate, convince and arrive at amicable solutions to end the conflicts. The increased spate of sanctions on one country

is a pain to other dependent countries and it disrupts the world order. Prolonged armed conflicts will worsen the plight of innocent countries and its people.

Impact of Russia-Ukraine war on Technology Sector

The impact on the businesses due to ongoing war is expected to put a pause in the further hiring plans of IT service providers especially from Europe which could intensify the war for talent in India. Data collected from the quarterly earnings reports of top Indian IT service companies suggests that Europe is the second most important client geography for software service providers to India contributing 20-25 per cent of the overall business. There is going to be a huge amount of work, projects which will be shifted to India, that may temporarily increase the need for local talent in the country and hence we could see huge demand for tech talent in the coming few months. With higher remittances and services exports (Information Technology) we are in a better position to withstand the current account deficit and rupee volatility. Undoubtedly, there will be a dent in growth but it will be bearable pain. Also due to depreciation of Rupee in terms of foreign currency, the IT companies can gain significantly as the majority of these companies have their operations outside India for which they get paid in foreign currencies and if the value of the foreign currency increases in terms of Indian Rupee, then these IT companies will gain through these fluctuations. Companies affected: Capgemini Technologies service India Ltd., abacus computers, Hexaware technologies.

Impact of war on Materials and Logistic Sector

Mining sector and Agrochemicals sector companies will have negative impact due to supply disruptions. Refinery sector companies will have negative impact due to increase in crude oil prices as India imports more than 80% of the crude oil, packaging sector companies will have negative impact due to non-availability of pulp and paper, Chemicals and Real Estate sector companies will have negative impact because of increase in prices of raw materials due to the supply disruptions caused by the war and Airport and Logistics sector companies will have negative impact due to delays due to sanctions on Russia. Companies like Hutti Gold Mines Company Ltd., Epiroc Mining India Ltd., Syngenta India Ltd., Nandan Cleantec Ltd., Parry Agro Industries Ltd., T Stanes and Company Ltd., Indofil Industries Ltd. and PB Global Ltd., Amol Minechem Ltd., Cals Refineries Ltd., Manjushree Techno pack India Ltd., Texel Industries Ltd., India Potash Ltd. Premier Cryogenics Ltd. Mil Industries Ltd. and Bolton Properties Ltd. will have a negative impact. Oxygen sector, Elevator sector, Electronics sector companies will have no impact as these sectors are not dependent on Russia and Ukraine. Companies like Asiatic Oxygen and Products companies like Marino, OTIS Elevators and Auckland International Ltd. will have no impact. Cement sector and Iron and Steel sector companies will have positive impact due to increase in its prices due to supply disruptions due to war. Companies like Srichakra Cement Ltd. APL Metals Ltd. and ESL Steel Ltd. will have a positive impact.

Impact of Russia- Ukraine war on consumer staples

The consumer staples business is on a knife's edge as a result of the Ukraine-Russia conflict. On the one hand, enterprises must fight inflation, which has resulted in high input prices, and on the other hand, they must absorb as much cost as possible, given that a downturn in demand does not support price increases. In India, the

battle will have a big impact on family spending, with many consumer product businesses not ruling out future price rises as the pricier crude oil has a cascading effect on consumer products. Crude oil prices, which have risen beyond \$100 per barrel, will have an influence on practically all consumer-facing items, either directly or indirectly. India imports approximately 80% of its oil, and the current price spike is putting the country at risk of inflation. According to the Reserve Bank of India, every \$10 increase in oil prices causes inflation to climb by 0.5%. As oil prices rise, inflation in India may rise as well, making essential products such as vegetables, fruits, lentils, and oil more costly. FMCG Stock like – Empire Spices and Food, AV Thomas will have a negative impact as the prices of products may increase. Alcoholic Beverages stocks like – Bira, Mohan Meakin, Blossom industries, Ab Inbev, John Oakey & Mohan will have a negative impact on global barley prices, which have already escalated because Russia accounts for the world's second largest production of barley.

Impact of Russia-Ukraine war on Financial Sector

The Russia and Ukraine war has a negative impact on Financial sector. Stock market is constantly showing a downward trend. Financial transactions between India and Russia have come to a grinding halt after Indian banks are forced to stop sending funds to Russian exporters after the European Union and the US and other western partners cut off Russia from the SWIFT system even as Russian companies put pressure on the lenders. Most of the payments to Russian companies that are due are for defense-related items. Companies impacted by this war are Tamilnad Mercantile Bank, Capital Small Finance Bank, Fincare Small Finance Bank. Negative impact of the war on commodities like crude oil has affected commodity exchanges as well in a negative way, as people are currently trying to play safe and are avoiding buying of commodity stocks. Companies affected by the same are Indian commodity exchange and Metropolitan Stock Exchange of India.

Impact of Russia-Ukraine war on Consumer Discretionary

The consumer discretionary sector that involves direct purchases from consumers is witnessing an adverse impact due to war between Ukraine and Russia. Consumer Discretionary are very much sensitive to the macroeconomics environment conditions. FMCG companies always need to fight inflation that leads to higher input costs, that they need to absorb without raising prices due to lower consumption if the prices are raised. Inflation The inflation impact is not mitigating. On top of that, we are again seeing a 4-5 percent inflation. The war has further deepened the input cost rise. With rise in crude oil prices products. Logistics would become more expensive and this will impact availability as well as lower margins for the consumer discretionary companies. Companies that have very logistics dependency like Madbaw, Reliance Retail and Bazaar India will face consequences due to war. Russia and Ukraine account for nearly 20 percent of the global export of steel. In the aftermath of the war, the price of steel has gone up in India by Rs 14,000 per tonne. This has affected construction, auto-parts and bicycle industries adversely but gives more opportunity for steel manufacturers like ESL steel will be able to benefit from the spill over.

Conclusion

Given the numerous sanctions imposed on Russia, as well as the fact that Russia is a close ally of India, India must exercise caution at this time. Despite the fact that India is playing it safe internally in these circumstances, the sanctions will not only have an impact on the economy, but they will also have a significant impact in the long run. The country of India can benefit greatly from the current crisis, despite the fact that there are numerous issues to contend with. As we have seen, every nation on the planet is contributing to the loss of Ukrainian lives.

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