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**Javier Cifuentes-Faura**

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## A brief overview

- 1 There are several keys and arguments, from the historical point of view, behind the Russian military intervention, where Putin questions the sovereignty of Ukraine and underlines the historical linkage of Russia with Ukraine.
- 2 The Russian leader considers that Ukraine is not just a neighboring country, but an inalienable part of Russia's history, culture and spiritual space, and that modern Ukraine was created entirely by Russia (Kuzio, 2018).
- 3 The confrontation and tension between the two countries has been present since 2014. North Atlantic Treaty Organization (NATO) expansion and military development of the territory of Ukraine by the Alliance is also unacceptable to Russia. Moscow tries to prevent Ukraine's turn to the West (Tamilina, 2022; Astrov et al. 2022). If Kiev joins NATO it will lose the possibilities of influence in the country.
- 4 Pro-European and anti-corruption protests in Kiev against former pro-Russian President Viktor Yanukovich were violently suppressed. Russian President Vladimir Putin took advantage of these clashes in 2014 to invade the Crimean peninsula (Bebier; 2015; Ingelevič-Citak, 2015) in southern Ukraine and organized a referendum there to annex it deemed illegal by the international community.
- 5 With the rapprochement of the current Ukrainian president Volodomir Zelenski to NATO, alarm bells have gone off in the Kremlin and the war has finally begun.

- 6 President Putin announced on Thursday, February 24, 2022, the beginning of a military intervention in Ukraine in order, according to him, to protect the Russian population from abuses and genocide by the Ukrainian government for the last eight years.
- 7 The war is enormously tragic, first of all, for Ukraine, but also for Russia and the whole world. The Russian invasion of Ukraine is dramatic and its economic consequences will be very serious.
- 8 The financial markets have reacted quickly to the news of the Russian invasion, with sharp falls. The price of oil rose to over \$100 per barrel, while in Europe natural gas prices rose by almost 70%. Rising energy prices will have a negative impact on the economy. In addition, Europe is highly dependent on Russian gas.
- 9 Oil-importing countries will be hurt by higher prices. Higher prices will hurt consumers and higher prices will also contribute to inflation worldwide. Prices for oil futures are lower than spot, suggesting that markets expect this rise to be transitory. Central banks may decide not to take action because of the Ukraine-Russia conflict, either delaying or accelerating adjustments in response to higher headline inflation.
- 10 Russia is well prepared to cope with sanctions in the short term, as it has a large current account surplus, although Russia is dependent on revenues from Europe, and continued restrictions, vetoes and sanctions by European and global institutions on the country may take a heavy toll in the medium term. On the other hand, the Europeans are dependent on Russian gas and oil, so they may be even harder to replace in the short term. In the long run, however, Russia is likely to be the biggest economic loser from the conflict. The Russian economy and the welfare of its citizens have been stagnant since the Kremlin's annexation of Crimea in 2014. Sanctions on the Russian country are increasing and Russia's growing isolation, as well as greater uncertainty for investors, will weaken trade and other economic ties.
- 11 The long-term economic consequences will also be severe. There is a risk that higher short-term inflation will become embedded in increasingly unanchored inflationary expectations, and this situation will become persistent, further complicating the task of central banks.
- 12 In addition, defense budgets around the world are likely to increase, which may cause other items to be reallocated and redistributed differently, leading to a decrease in the total volume allocated to items such as education or healthcare.
- 13 The United States, the European Union and other countries have imposed sanctions, but it remains to be seen how Russia will react to them or whether new, harsher punishments will be imposed. If the number of sanctions increases, the costs will be higher for Russia, but also for all countries.
- 14 International relations are highly positive for the economic development of countries, and Russia's isolation will reduce economic transactions and increase uncertainty.
- 15 The tension between Russia and Ukraine seems to have reached a point of no return. An easing of the situation would require one of the two sides to give in and reach an agreement in negotiations. The financial markets will be one of the hardest hit by the crisis, in addition to the price of spot commodities and their derivatives. On the other hand, higher defense spending would give rise to a new drive towards de-globalization.
- 16 The Russian conflict and sanctions will lead to a further increase in inflation, which, together with economic uncertainty, could lead the European Central Bank (ECB) to act

with caution. Interest rate hikes in the Eurozone could be delayed. The ECB could extend its net bond purchase program and keep it open-ended to cushion the fallout from any conflict in Ukraine.

- 17 Even if all of the above did not trigger a recession in the eurozone and the EU, gasoline, electricity and other commodities would most likely reach new all-time highs.
- 18 In conclusion, the shock is fully affecting the financial markets with falls in stock markets, on the one hand, and rises in the price of raw materials on the other. These movements will be accentuated by the increase in European Union and US sanctions on the Russian economy.
- 19 In the short term, there will be risk aversion in the markets in the face of growing uncertainty, which will cause a temporary decline in business and consumer confidence.
- 20 In the short and medium term, Russia can cope with Western sanctions, but in the long term they would cause considerable damage to its economy. Russia is the EU's most important supplier of some crucial imports, which cannot be replaced quickly or cannot be replaced at all, such as natural gas, for example.
- 21 In the long term, energy imports would be diversified to allow for less dependence on Russian oil and gas, also increasing spending on renewable energies, NATO and many countries are likely to increase their defense spending, and there would be a regionalization of trade, i.e., greater relations between countries in the same region versus a decrease in relations with third parties, taking a step backwards in globalization.
- 22 The economic decoupling between the West and the East, accelerated by the Ukraine crisis, will bring about reindustrialization by each country or economic bloc to satisfy its demand on its own, so governments will resort to regulation and subsidies. This is the case of the US or EU governments' bets on the chip industry, in which they are trying to source their own supplies and generate their own technologies.
- 23 It is desirable for the future that countries diversify their sources of supply, for example, in the case of natural gas, on which the European Union is largely dependent on Russia.

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## ABSTRACTS

At the end of February 2022, Russian President Putin announced the beginning of a military intervention in Ukraine. The Russian invasion of Ukraine is dramatic and its economic consequences are very serious. This article reviews some of the early economic consequences this conflict is having. The shock is affecting the financial markets with falls in the stock markets, on the one hand, and producing rises in the price of raw materials, on the other. Russia is the European Union's most important supplier of some crucial imports, which cannot be replaced quickly or at all, such as natural gas. Russia is prepared to deal with the sanctions in the short term, but in the long term it could take a heavy toll and become economically isolated. This conflict also highlights the importance for countries in the future to diversify their sources of supply and not rely heavily on a single source.

No final de fevereiro de 2022, o presidente russo Putin anunciou o início de uma intervenção militar na Ucrânia. A invasão russa da Ucrânia é dramática e suas consequências econômicas são muito graves. Este artigo analisa algumas das primeiras consequências econômicas que esse conflito está tendo. O choque está afetando os mercados financeiros com quedas nas bolsas de valores, por um lado, e produzindo aumentos nos preços das matérias-primas, por outro. A Rússia é o fornecedor mais importante da União Europeia de algumas importações cruciais, que não podem ser substituídas rapidamente ou de forma alguma, como o gás natural. A Rússia está preparada para lidar com as sanções no curto prazo, mas no longo prazo pode cobrar um preço alto e ficar economicamente isolada. Este conflito também destaca a importância de os países no futuro diversificarem suas fontes de abastecimento e não dependerem fortemente de uma única fonte.

A fines de febrero de 2022, el presidente ruso Putin anunció el comienzo de una intervención militar en Ucrania. La invasión rusa de Ucrania es dramática y sus consecuencias económicas son muy graves. Este artículo repasa algunas de las primeras consecuencias económicas que está teniendo este conflicto. El shock está afectando a los mercados financieros con caídas en las bolsas, por un lado, y produciendo alzas en el precio de las materias primas, por otro. Rusia es el proveedor más importante de la Unión Europea de algunas importaciones cruciales, que no se pueden reemplazar rápidamente o en absoluto, como el gas natural. Rusia está preparada para hacer frente a las sanciones a corto plazo, pero a largo plazo podría cobrar un alto precio y quedar aislada económicamente. Este conflicto también destaca la importancia de que los países en el futuro diversifiquen sus fuentes de suministro y no dependan en gran medida de una sola fuente.

## INDEX

**Keywords:** economy; economic consequences; war; Russia; Ukraine.

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**Palavras-chave:** economia; consequências econômicas; guerra; Rússia; Ucrânia

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