

Impact of Russia-Ukraine War upon Bangladesh Economy

“Divides are growing deeper. Inequalities are growing wider. Challenges are spreading farther,” –this statement of António Guterres, the General Secretary of UN, on Ukraine-Russia War at the annual gathering of leaders at the United Nations General Assembly in New York hints us the present situation we are getting along with.

"Demilitarise and de-Nazify Ukraine" – is what Vladimir Putin told the Russian people his goal for sending up to 200,000 soldiers into Ukraine from the north, south and east on 24 February. His declared aim was to protect people subjected to what he called eight years of bullying and genocide by Ukraine's government – in other words - an attempt at preventing Nato from gaining a foothold in Ukraine.

"It's crazy, sometimes not even they can explain what they are referring to," complained Ukraine's foreign minister Dmytro Kuleba denying the claims of Russia for the invasion.

The Economic impact of war is so bad on this integrated interdependent economy is costlier than the war itself. We have been experiencing this since the onset of the Russia-Ukraine war. With the responses of many countries, the situation emerged with uncertainties and challenges from many fronts. Since the war between Russia and Ukraine began on February 24, 2022, the global economy has entered a new terrain of uncertainty. The war-induced challenges have surfaced on various fronts. With global economic integration, a crisis of such nature, which involves a country like Russia, is bound to impact other economies. Being an import dependent country Bangladesh's economy was mostly affected negatively which also hampered the recovery from pandemic stress.

Background:

The Very First Spark: In early 2014, shortly after Yanukovych's, pro-Russian Ukrainian president, overthrow and exile to Russia, pro-Russian unrest erupted in Ukraine's eastern and southern regions- rendering Russia soon annexed Crimea after a highly disputed Crimean status referendum. Ukrainian attempts in late 2014 to retake separatist-held areas were unsuccessful, leading to a protracted war in Donbas. Although Russia continued to deny involvement, Russian troops directly participated in the undeclared war. In February 2015, the Minsk II agreements were signed by both Russia and Ukraine in an attempt to end the conflict, but the agreements were never fully implemented in the years that followed. The war in Donbas settled into a violent but static conflict between Ukraine and Russian proxies, with frequent brief ceasefires but no lasting peace and few changes in territorial control.

Recent Development: Beginning in 2021, Russia built up a large military presence near its border with Ukraine, including from within neighboring Belarus. Russian president Vladimir Putin criticized the enlargement of NATO and demanded that Ukraine be barred from ever joining the military alliance. He also expressed irredentist views and questioned Ukraine's right to exist. On 21 February 2022, Putin announced a "special military operation" in Ukraine during a televised broadcast, marking the start of a full-scale invasion of Ukraine. The invasion was internationally condemned, leading to many countries to impose sanctions against Russia and ramping up existing sanctions. Russia abandoned an attempt to take Kyiv in early April 2022 amid fierce resistance. In late September, Russia announced its annexation of several parts of southern and eastern Ukraine, drawing widespread condemnation. Ukrainian counteroffensives in the south and northeast have recently retaken significant areas. The ongoing full-scale war has resulted in a major refugee crisis and tens of thousands of deaths.

Areas of Russian military control in Ukraine



Concerns:

The current conflict has severely strained U.S.-Russia relations and increased the risk of a wider European conflict. Tensions are likely to increase between Russia and neighboring NATO member countries that would likely involve the United States, due to alliance security commitments. The conflict will also have broader ramifications for future cooperation on critical issues like arms control; cybersecurity; nuclear nonproliferation; global economic stability; energy security; counterterrorism; and political solutions in Syria, Libya, and elsewhere. Additionally, Russia's increasing isolation has not only destabilized global energy and resource markets but also pushed the country to seek stronger strategic ties with those states (e.g., China) still willing to partner with it, largely in opposition to the West. The war has also compounded other global crises, with military operations and violence hindering the delivery and distribution of much-needed aid, including food, and exacerbating an already severe shortage of available global humanitarian assistance and resources.

Immediate Impact:

Russian Side: Following Russia's invasion of Ukraine, Western nations have imposed a number of sanctions on Russia. According to a BBC report, the USA and Western countries have frozen almost half of Russia's central bank's \$630 billion foreign currency reserves, leaving the Russian currency, the ruble, devalued against the US dollar. As a result, Russia's inflation rate has risen by 14-percent.

Rest of the World: Major countries including the US, the UK and Japan, and the European Union (EU), have all suspended economic ties with Russia. Sanctions have been enforced on Russian financial institutions to disrupt transactions with the country. As Russia is the third largest oil-producing country in the world, the global economy is suffering from high oil prices. Though developed countries are sourcing their requirements from other oil-producing countries, small and poor countries are finding it difficult, with their limited financial abilities, to meet their energy requirements. In addition, high oil prices have a knock-on effect on other prices, leading to further inflationary pressure.

The ramifications of these challenges are seen in higher commodity and oil prices. Food prices have skyrocketed. Petroleum prices have been on the rise for quite some time. The war has pushed them upwards. Depending on the duration of the war, its impact at country level will depend on the economic links with Russia and Ukraine, and their exposure to the global economy.

Bangladesh is already bearing the brunt of the Russia-Ukraine war in many ways. If the war continues for a longer period, the impact will intensify.

As an Oil Importing Country: We are feeling the impact through reduction in exports and rise in import bills. Being an oil-importing country, Bangladesh is already feeling the pressure through high import payments. The Bangladesh Petroleum Corporation (BPC) reported that it was losing about Tk 19 crore per day. With high oil prices, the chain effect is felt through a hike in the prices of gas, fertilizer, and other essentials. The government raised diesel prices in November 2021 by about 23 percent, which has already been reflected in the high transport costs and prices of other essential items.

As the RMG Importer: costs of other imported products have also gone up significantly. This will push the production costs up, resulting in higher prices for consumers. Global sanctions on Russia implies that Bangladesh's trade with Russia is going to be affected. Russia is a market for Bangladesh's ready-made garment (RMG) products. In FY2021, Bangladesh's export to Russia was to the tune of USD 550 million, and imports from Russia amounted to USD 480 million. Bangladesh imports wheat and maize from Russia. Sanctions mean Bangladesh will have to import these items from somewhere else.

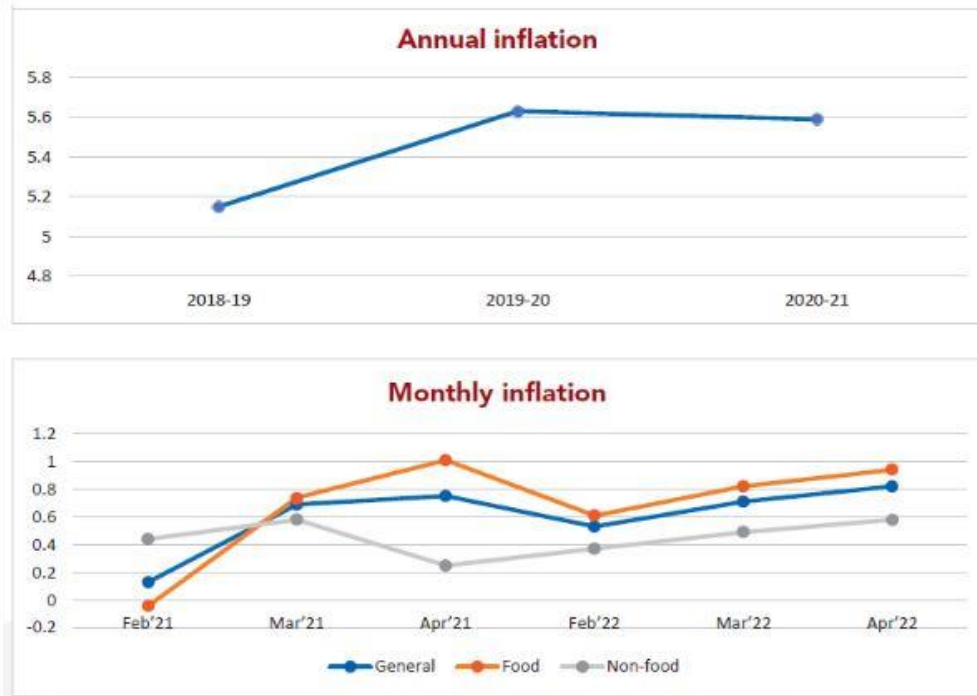
As the Other End to Russia: Russia is also implementing several projects in Bangladesh. The Rooppur Nuclear Power Plant (RNPP) is a large project being implemented by Russia that involves USD 12.65 billion and is scheduled to be completed by 2025. The ongoing war and economic sanctions against Russia could delay this expensive project, which means cost escalation in Bangladesh. This implies higher loans and burden on the country.

As an Importing Country: The balance of payment will be under pressure due to high prices and trade sanctions. At the end of January of FY2021-22, the current account deficit reached USD 10 billion due to an increase in import payments and reduction in remittances. If the high current account deficit persists for a longer period, the exchange rate will also fall under pressure.

Inflation: Annual inflation spiked a bit in 2019-20 from 2018-19 mainly due to COVID 19 impact first outbreak in China from December 2019. the spike curbed through opening trade and borders in 2020-21. However, the scenario is much different now since the rate of inflation is undergoing above 7% in 2022. the Domino effect from multiple factors starting from the war between Russia and Ukraine faired commodity prices higher and higher. Following the other parts of the world, Bangladesh is also going through the troughs of supply crisis, forex volatility and blown remittance. Policy responses have played an instrumental role, but Bangladesh is a price taker compared with developed economies. The difference in inflation made BDT weaker historically, however, now coupled with other crises, BDT got far weaker ever crossing 100 BDT per

dollar. this might be temporary but still shows the vulnerability of the economy.

Consumer Price Index (CPI): Rural (Over Previous Year/Month)



Ending Remark:

Policymakers in Bangladesh will have to monitor the market closely. The country should quickly source commodities from the global market at competitive prices, and distribute essential commodities at reduced prices through open market sales. Prudent macroeconomic management will be required to create fiscal space. As the government is in the process of formulating the budget for FY2022-23, it should allocate adequate resources for social safety net programmes at a larger scale for poor and low-income families. In this respect, subsidies for critical commodities, such as fuel, power and agriculture, need to continue for a few months. The economic recovery will depend on the extent of public expenditure. However, waste of public resources and unnecessary public expenditure should be curtailed. Efforts should be given to expedite projects that are near completion, rather than initiate new ones. The government should carefully use its foreign currency as import payments continue to rise in the uncertain period of war and beyond.

And in fine, we have to keep in our mind the Hon'ble PM Sheikh Hasina's request to us to face the current crisis-

'We have to be economical'.



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