



## The Impact of Russia's Invasion of the Ukraine in 2014 on the Global Economy

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## Objective

Russia's invasion of the Ukraine on 24 February 2022 will be of global economic consequence for all; manifest in surging global oil and natural gas prices; renewed global stock market volatility, escalating global wheat and maize prices; higher inflation; and lower economic growth as sanctions intensify against the world's 11<sup>th</sup> largest economy and one of its largest commodity producers. The possibility of further disruptions to global supply chains stands to further impede the global economy's recovery.

While the outcome of current geopolitical developments between both the two countries *and* region remains largely unknown, this narrative reflects on the consequences, costs and outcomes that the annexation of Crimea by Russia in March 2014 and the subsequent invasion of Eastern Ukraine by the Russian army had on both a regional and global scale.

### 1. Background

The Ukraine formed part of the Soviet Union until 1991, at which point it declared independence from Russia. However, since then, it has been an imperfect democracy with a weak economy and foreign policy that wavers between pro-Russian and pro-European identification. In November 2013, the Ukraine experienced an internal crisis when its then President Viktor Yanukovich rejected a deal for greater integration with the European Union (EU) which sparked mass protests and ultimately resulted in the exile of the President. With this, Russia tried to salvage its lost influence, invaded the Ukraine and annexed Crimea in March 2014. In April 2014, pro-Russia separatist rebels began seizing territory in Eastern Ukraine and fighting intensified between the separatist group and the Ukrainian military. In August 2014, Russia's military invaded Eastern Ukraine to support the rebel group, which resulted in stringent economic sanctions imposed on Russia by the United States and EU. However, the burden of these sanctions fell on the EU, which is heavily reliant on Russian natural gas exports.

The Russia-Ukraine conflict and sanctions imposed on Russia by the US and Europe had serious consequences not only for Russia and Ukraine, but for Europe. The US imposed a number of sanctions including travel bans, asset freezes of Russian individuals, bans on borrowing by leading Russian banks and companies, as well as restrictions on exports of military and dual-use goods to Russia. These sanctions dampened Russia's investment climate and economic growth, which resulted in Russia's GDP contracting by EUR20bn in 2014, EUR30bn in 2015 and EUR60bn in 2016 – a one percentage point loss in GDP. In contrast, the Ukraine's GDP contracted by 6% (EUR6bn) due to the conflict, with industrial production coming to a standstill, largely attributed to power cuts and railway disruptions. The effects of the conflict on individual EU countries varied by its degree of reliance on the Russian export market. Even though the EU as a whole has relatively low trade exposure to Russia, some EU countries, such as the Baltic States, trade heavily with Russia, and accordingly, were hard hit by the export ban.

### 2. Commodities

The deployment of the Russian military to the Ukraine in 2014, together with concerns of war and the perturbation of economic sanctions on Russia had significant consequences for commodities, with investors expecting short-term pressure on prices in anticipation of supply shocks, and countries such as the Ukraine stockpiling commodities to mitigate a risk of food shortages.

#### 2.1 Oil and gas

As anticipated, oil prices increased amid worsening geopolitical tensions between Russia and Ukraine in April 2014. Since Russia, at the time, was one of the largest producers and exporters of oil accounting for 13% of global production and export, the concern was that a drop in the supply of oil could lead to a sharp increase in the price of oil. This is immediately evident from Figure 1 below, where the price of Brent crude oil rose sharply in April 2014 following U.S and European sanctions on Russia which resulted in a supply shock, resulting in Brent crude oil climbing to over \$111 per barrel in May 2014.

Figure 1: Effects of Ukraine crisis on Brent crude oil prices, 2014

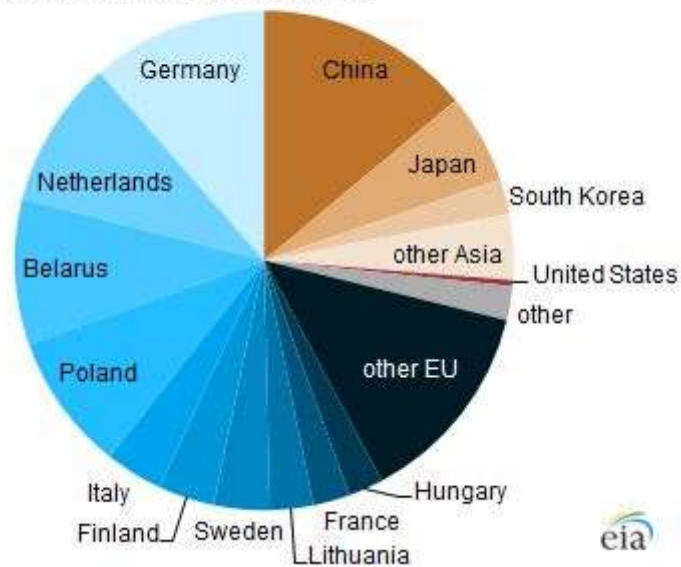


Source: <https://www.macrotrends.net/2480/brent-crude-oil-prices-10-year-daily-chart>

Countries such as China, Germany, the Netherlands, Belarus and Poland and Germany, which are all highly reliant on Russian oil, experienced a rise in their import bill and were forced to tap into their foreign reserves.

Figure 2: Largest importers of Russian oil, 2014

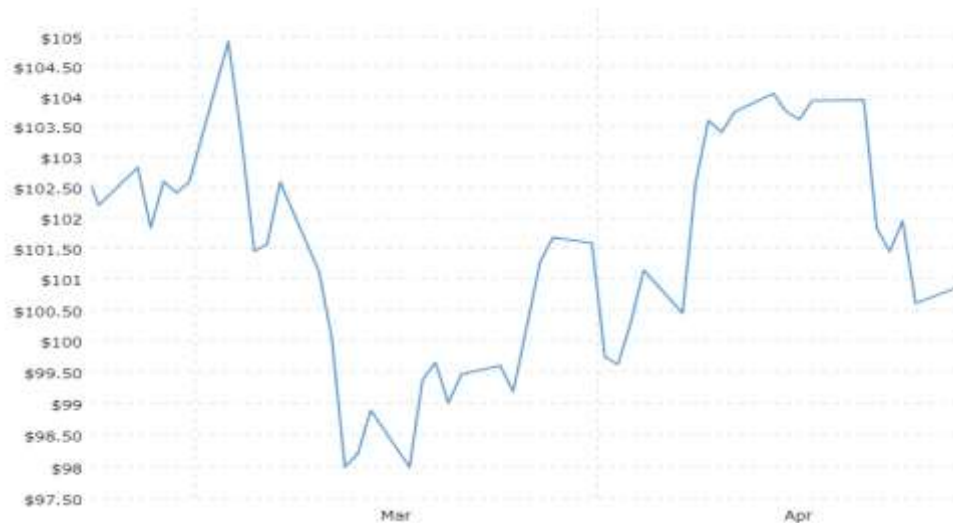
**Russia crude oil exports by destination**  
total 4.75 million barrels per day



Source: <https://www.eia.gov/todayinenergy/detail.php?id=22392>

Similarly, the US' West Texas Intermediate (WTI) crude oil price spiked by 56 cents to settle at \$104 a barrel in April 2014, as traders and investors anticipated a rise in demand for US oil in response to a shortage of Russian supply.

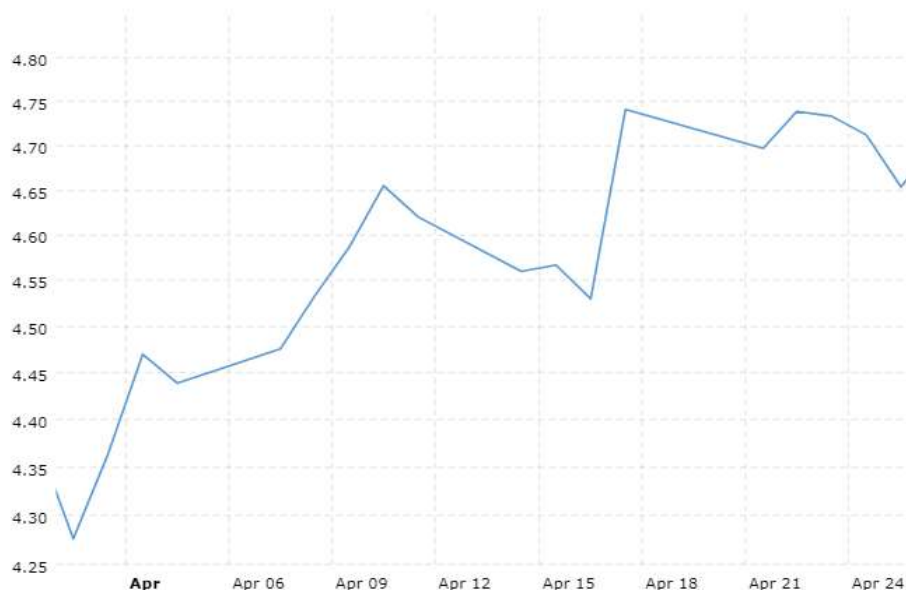
Figure 3: Effects of Ukraine crisis on WTI oil prices, 2014



Source <https://www.macrotrends.net/2516/wti-crude-oil-prices-10-year-daily-chart>

Europe at the time imported more than 35% of its natural gas from Russia through Ukraine. The invasion of Ukraine saw gas prices rising sharply in April 2014 amid fears of supply shortages as seen below in Figure 4. In response, prices of natural gas rose sharply on the 17 April 2014, the day Russia annexed Crimea, from \$4.55 per 100 cubic meters to just under \$4.75 per 100 cubic meters. Although Europe felt the brunt of the increase, the impact of this price shock reached far across the globe. In the U.K, the delivery price for natural gas jumped 10% on the ICE Futures Europe exchange in London. This was the biggest gain in more than two and a half years. Natural gas prices in the Netherlands likewise gained 10%, this being its largest increase in history, while gas prices in Germany gained 8.1% in April 2014.

Figure 4: Effects of Ukraine crisis on natural gas prices, 2014



Source: <https://www.macrotrends.net/futures/natural-gas>

## 2.2 Gold and precious metals

Spot gold rose as much as 1.4% to reach a six-month high and settled at its highest level at \$1,387.90, as investors turned to bullion as a safe haven from Ukraine tensions. Moreover, U.S gold futures settled up \$6.60 at \$1,379 an ounce, with trading volumes above its 30-day average. Among other precious metals, silver followed in tandem to gold, rising by 1% to \$21.35 an ounce. In contrast, platinum declined by 0.6% at \$1,463 an ounce, while palladium fell by 0.5% to \$769.50 an ounce. [JB1]

Figure 5: Daily movements in gold prices, 2014



Source: <https://www.keralagold.com/daily-gold-prices-april-2014.htm>  
prices-historical-chart-data

Figure 6: Platinum price changes, 2014

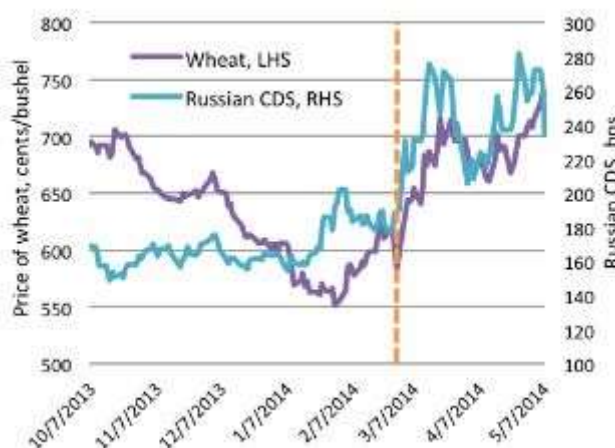


Source: <https://www.macrotrends.net/2540/platinum-prices-historical-chart-data>

## 2.3 Food prices

Following Russia's annexation of Crimea, the effects on food and commodity prices were felt globally, particularly by countries that relied heavily on agricultural imports from Russia and the Ukraine. In 2012, Russia and the Ukraine were large producers and exporters of agricultural goods, accounting for 11% and 5% of global wheat exports, while the Ukraine accounted for more than 14% of global maize exports – making it the third largest global exporter of maize at this time. As evident in Figure 7 below, wheat prices rose by 21%, while the price of maize rose by 10% in 2014.

Figure 7: Effects of Ukraine crisis on wheat and corn prices, 2014



Source: <https://www.institutionalinvestor.com/article/b14zbkpfztw941/ukraine-crisis-commodities-prices-go-against-the-grain>

Closer to home, the price of wheat futures traded in South Africa reached a record high, and the price of yellow maize rose to record high.



### 3. Stocks and Commodities Market

The reality of war between Russia and the Ukraine quickly reverberated through international markets, with global stock markets reeling and commodities soaring. Russian markets reacted negatively to the prospect of war with Ukraine, with the Russian Rubel experiencing its all-time low at that time - declining by 2.5% against the dollar and 1.5% against the Euro in March 2014. Further, Russian stocks also plunged almost immediately, with the MICEX Index diving to its lowest level since the global financial crisis in 2008. The said index declined by 9.8%, while Gazprom declined by 10.7%. In response to the decline, the Russian Central Bank raised interest rates by 1.5%, from 5.5% to 7% in March of the same year. In contrast, Ukraine's Hryvnia reached record lows against the dollar, with the anticipation of war causing them to abandon its unofficial peg of \$12.95 against the dollar. Resultantly, the exchange rate weakened by 11.7% to close at \$14.47 at the time of invasion.

Figure 8: Effects of Ukraine crisis on Russia's MICEX index



Source: <https://www.theguardian.com/world/2014/mar/03/ukraine-crisis-russian-stock-market-falls>

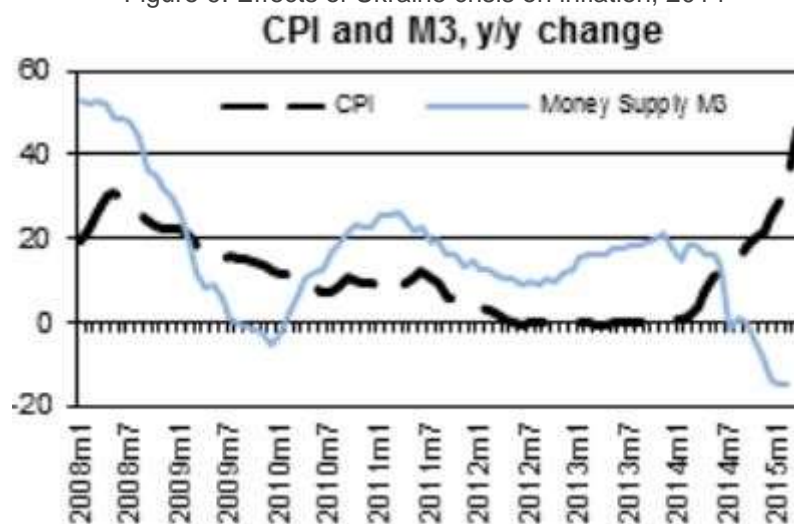
In the global front, equities took a hit in response to rising tensions in the Ukraine, particularly where companies had the greatest exposure to Russia and the Ukraine. To this end, the EURO Stoxx 50 Index of European Blue chips closed 3% lower, while the United States' Dow Jones Industrial Index went down by 1%. Further, the Standard and Poor's 500-stock index declined by 0.7%, and the FTSE 100 Index fell by 1.43%, while the German DAX and the Japan's Nikkei fell by 3% and 1.27%, respectively.

Stocks with direct exposure to Russia and Ukraine likewise took massive hits. Stocks of major Western oil companies such as BP, who had significant interest (20%) in the Russian state-controlled oil company Rosneft, fell by more than 2% during the period of Russo-Ukraine conflict. European banking shares were not excluded from impact either, with shares from major lenders who had high exposure to Ukraine and Russia being impacted mostly. Australian Raiffeisen Bank (with deep roots in Ukraine) fell by 9.6%, along with Italian lender, UniCredit, falling by 6%, while France's BNP Paribas and Piraeus Bank of Greece declined by more the 3% each.

#### 4. Ukraine Inflation

Russia's invasion of the Ukraine in 2014 caused the Ukrainian economy to enter a deep recession. Faced with accumulated fiscal and external balances, Ukrainian authorities were forced to abandon its fixed exchange rate, which resulted a sharp devaluation of the currency. This sharp devaluation, compounded by an increase in gas and utility tariffs pushed 12-month inflation to 24.9% in 2014.

Figure 9: Effects of Ukraine crisis on inflation, 2014



Source: <https://www.worldbank.org/content/dam/Worldbank/document/eca/ukraine/ua-macro-april-2015-en.pdf>

#### 5. Baseline impacts on global economy

In developing Europe and Central Asia, growth declined sharply to 2.4% partly due to the crisis in the Ukraine. Growth declines, particularly in Central Asian countries, can broadly be attributed to sluggish demand from Russia, a major trading partner and a key source of remittances for many countries in the region. More broadly, tensions between Russia and the Ukraine had far-reaching impacts on the global economy, with global growth, as estimated by the World Bank declining by 0.1%; Europe and Central Asia declining by 0.9%; while developing countries' growth declined by 0.1%.

Figure 10: Effects of Ukraine crisis on global economy, 2014

Table B1.6.1 Baseline impacts from the Ukraine crisis on the global economy			
	Real GDP (% change)	Current Account Balance (change, % of GDP)	Fiscal Balance (change, % of GDP)
Europe & Central Asia	-0.9	0.3	-0.3
Europe & Central Asia(excl Ukraine)	-0.2	0.0	0.0
High Income countries	-0.1	0.0	-0.1
High Income countries(excl Russia)	-0.1	0.0	0.0
Developing countries	-0.1	0.0	0.0
Developing countries (excl Ukraine)	-0.1	0.0	0.0
World	-0.1	0.0	-0.1

Source: World Bank.

Source: <https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2014b/GEP2014b.pdf>



## 6. Current impact on the global economy

Russia is the world's third largest oil producer and second largest oil exporter. To this end, any disruptions in Russia's, and by association the global oil supply would cause global oil prices to fluctuate significantly. This became a reality on 24 February 2022, as U.S oil prices spiked to over \$105 per barrel following the Russian invasion of the Ukraine – the highest since Russia's annexation of the Crimea in 2014 – which exacerbated concerns about disruptions to global energy supply.

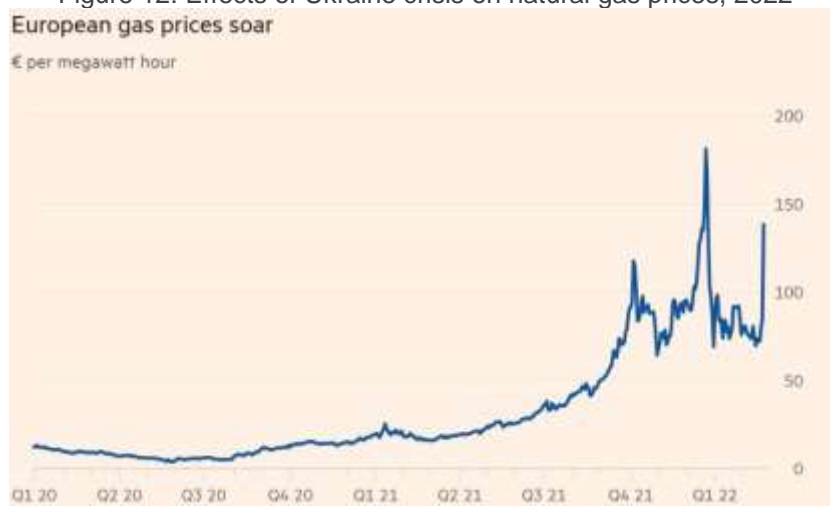
Figure 11: Effects of Ukraine crisis on oil prices, 2022



Source: <https://www.ft.com/content/c6303127-5edf-4256-9c25-ffa75766002>

Similarly, European wholesale gas prices surged as much as 69% to €142 per megawatt hour from just €16 just one year ago in February 2022. This stems from the fact that Russia is still a major supplier of natural gas, and no single country can replace the volume of gas that Russia can supply. To this end, any disruptions in gas flow from Russia can potentially see prices surging even higher.

Figure 12: Effects of Ukraine crisis on natural gas prices, 2022



Source: <https://www.ft.com/content/c6303127-5edf-4256-9c25-ffa75766002>

Russia's invasion of the Ukraine has also had a notable effect on commodity markets underpinned by the fact that Russia and the Ukraine are still the leading exporters of grain, producing 14% of global wheat and accounting for just under 30% of global wheat exports. Moreover, the two countries are also large exporters of maize and sunflower oil. To this end, fears of supply issues due to the war-like conditions sent wheat prices soaring by 6% to \$9.26 a bushel in February 2022, its highest level since 2012.

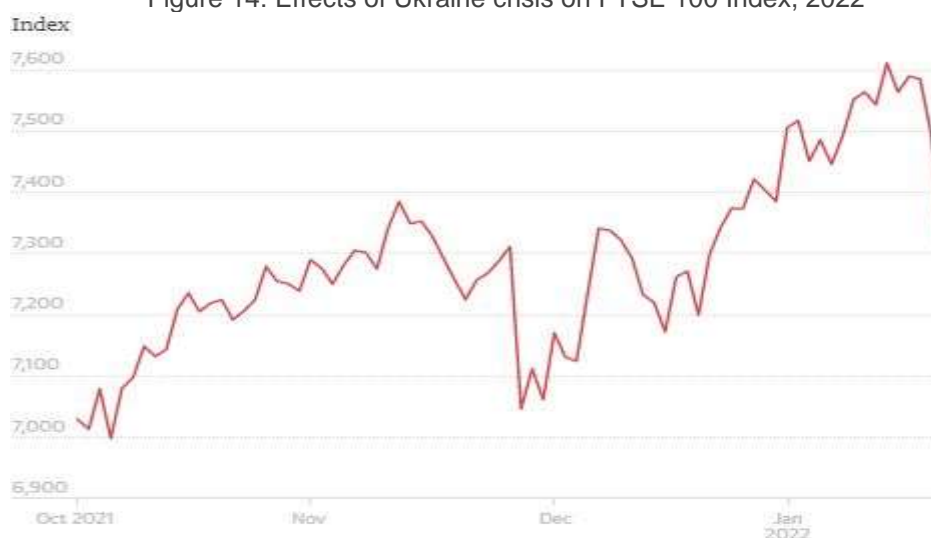
Figure 13: Effects of Ukraine crisis on wheat prices, 2022



Source: <https://www.ft.com/content/c6303127-5edf-4256-9c25-ffa75766002>

Furthermore, fears of military confrontation in Ukraine wreaked havoc on global markets, with aggressive selling by jittery investors wiping £53bn off UK's blue chip share index in late February 2022. Meanwhile, European markets declined by 3.8% in response to NATO reinforcing its Eastern borders with military forces. Further, Germany's Dax index fell by 3.8%, while France's CAC declined by 4% and London's FTSE 100 index fell by 2.6% - its biggest fall in two months.

Figure 14: Effects of Ukraine crisis on FTSE 100 Index, 2022



Source: <https://www.ft.com/content/c6303127-5edf-4256-9c25-ffa75766002>

Additionally, the New York Stock Exchange saw heavy selling by US investors, which caused the S&P 500 index to fall by over 3%. Investors rushed to safe haven assets such as the dollar, which caused the US currency to appreciate.

## 7. What does this mean for South Africa?

The US dollar appreciated against rand amid rising tensions in Ukraine, gaining 0.3% to trade at R15.03 on 17 February 2022. The depreciation of the rand, coupled with surging global oil and food prices will place upward pressure on inflation, thereby eroding household's purchasing power further. Additionally, if rising inflation is exacerbated by economic sanctions against Russia, the South African Reserve Bank could potentially hike interest rates further to combat inflationary pressure, causing dire financial stress for the average South African citizen. This in turn weighs negatively on economic growth prospects.

To conclude, while the outcome of the current invasion by Russia of the Ukraine remains unknown, the immediate consequences and costs are increasingly apparent, from surging global commodity prices, to global inflation fears, to a humanitarian disaster, all of which run in parallel to that seen in 2014. The difference today perhaps however is that the Ukraine's resolve to fight for the freedom of their country seems higher than ever, with the global backing for this country strengthening daily. Perhaps the painful and recent memories of 2014 underpin this unwavering resolve to maintain their independence; the strength of which has possibly caught Russia by surprise for now.

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