

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

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**Abstract:** The impact of the Russia-Ukraine conflict on the European economy is multi-faceted and multi-disciplinary, with energy and the SWIFT settlement system being the most significant ones. Russia is a major global energy supplier, and the Russia-Ukraine conflict has directly triggered global concerns about energy supply, resulting in significant increases in oil and gas prices, with European countries, which are particularly dependent on Russian energy, bearing the brunt, and Europe's own economy being severely impacted. During this conflict, for the first time, the United States and European countries actually used SWIFT sanctions against Russia, completely isolating Russia from the international financial system and bringing about a profound impact on the global economic and financial landscape.

**Keywords:** Russia-Ukraine conflict, Global Economy, SWIFT.

## 1. Introduction

Russia attacked Ukraine on 24 February 2022, and there are many causes for this invasion: the first was Ukraine's desire to join NATO, which the Russian leadership saw as a grave danger and actively opposed. The second factor would be the resistance of the United States and Ukraine to the development of Nord Stream 2, which would diminish Ukraine's economic and geopolitical position and the EU's demand for natural gas from the United States (Celermajer, 2017). The third factor would be Russia's desire to increase the price of international commodities and seize control of the vital resources of the former Soviet region by means of an invasion, so as to gain the time and opportunity to overcome the challenges posed by the New Energy Revolution, the new industrial revolution, and the global energy transition.

Despite the fact that Russia's invasion of Ukraine has altered the global economy in a variety of ways, including energy, grain, trade, finance, etc., I believe that the most far-reaching effects have been on the energy supply chain and the SWIFT settlement system, so this paper will only focus on these two changes.

## 2. Effect on the Energy Industry

Due to its proximity and abundant natural gas resources, Russia has historically been the largest natural gas supplier to the EU. Between 2016 and 2020, almost one-third of the EU and UK's natural gas supply came from Russia. However, when Russia was sanctioned by several European nations after its invasion of Ukraine, the Russian government responded by reducing its natural gas exports to Europe. This decline increased the price of natural gas instantly. In March, the price hit a record high of €300 per megawatt-hour. Despite a decline in the price of natural gas during the second quarter of the year, the price rose dramatically to over €230 per megawatt-hour in August, and it is anticipated that the price will continue to climb as winter approaches in Europe when natural gas will be in high demand.

In addition, the Russian government enacted a program requiring the EU and other nations, including the United

Kingdom, the United States, Canada, and others, to pay for natural gas supplied by Russia using rubles. This approach instantly increased the exchange rate of the ruble, which on May 30 was 0.0122 RUB/USD, which was similar to the exchange rate before the invasion. Besides, an increasing number of EU enterprises who sign contracts with the Russian natural gas giant Gazprom have begun to pay for natural gas in rubles. According to the vice president of Russia, almost fifty percent of these businesses established rouble accounts with Russian banks in May. These payments in Rubles have unavoidably increased demand for Rubles, resulting in a further rise in Ruble's exchange rate. On July 20th, the Ruble exchange rate hits its peak of 0.0190 RUB/USD, which is even higher than the exchange rate prior to the invasion.

Russia's invasion of Ukraine has increased crude oil prices. Russia is the third biggest oil producer in the world, behind the United States and Saudi Arabia. Russia's total oil output in January 2022 was 11,3 mb/d. After the invasion, the price of crude oil skyrocketed, hitting a peak of 123.70 dollars per barrel on March 8th. Although there has been a decreasing trend in the price of crude oil till August, the price is still greater than it was before the invasion.

Moreover, the price increase of crude oil and natural gas has generated inflation in Europe, America, and the whole globe. Crude oil and natural gas are both essential commodities whose price increases directly impact the cost of transportation (International Energy Agency, 2018). In light of the globalization of commerce, the increase in the price of crude oil and natural gas is crucial, since the majority of commodities need transportation nowadays. In July, annual inflation in the 19 nations of the eurozone jumped to 8.9%, up from 8.6% in June.

## 3. Effect on Global Finances

The SWIFT system facilitates the execution of financial transactions and payments between institutions throughout the globe. On March 2, seven Russian banks were excluded from the SWIFT system, except energy transactions. Prior to now, Russia relied heavily on SWIFT to trade with other nations; it ranks sixth internationally in terms of payments

made on the network. Since all transactions using cards issued by the main credit card networks (VISA, Mastercard, American Express, etc.) function via SWIFT, these cards are no longer usable in Russia. Consequently, the Ruble faced a significant risk of devaluation. People withdrew up to a trillion rubles (about 6.5% of the monetary base) when the SWIFT penalties were announced and followed by greater withdrawals afterward. This withdrawal had a significant influence on Russia's financial stability, but the decline in the ruble's exchange rate was eventually offset by the high price of natural gas and crude oil.

The SWIFT punishment has significantly altered the world economy. As previously stated, disruptions to Russia's banking system diminished the energy supply from Russia to Europe. Consequently, the price of commodity exports to global markets increased, which contributed to inflation in Europe and the United States, as well as internationally.

Moreover, the banning of the SWIFT system has significantly impacted Russia's national economy. The sanction has inevitably made Russia's participation in the global economy harder because all the banks in Russia have to search for and use another payment system to trade with other banks around the world. This is especially hard in Europe and America, where the SWIFT system is very popular. Consequently, the price of commodities in Russia rose, which leads to a harsh impact on Russia's Economy. According to Alexei Kudrin, Russia's former finance minister, being cut off from Swift could shrink Russia's economy by 5%.

In addition, the SWIFT sanctions have increased Russia's usage of the Chinese Cross-Border Interbank Payment System (CIPS), which might reduce the dollar's hegemony and increase the RMB's appeal. Given that RMB accounts for barely 3% of worldwide commerce while the dollar and euro continue to account for 77% of global payments, the situation has not changed lately. However, the effect is anticipated to

occur in the future as CIPS attempts to increase its share of global trade.

## 4. Conclusion

The invasion of Ukraine by Russia has significantly impacted the global economy, including the impact on the energy sector and the global financial system, which leads to consequences such as rising oil prices, inflation, and harm to Russia's economy. Generally, most of the impacts have been harmful to the economy of the whole world, including Russia, Ukraine, and Europe. However, as the Russia and Ukraine war has turned into a long-lasting war and does not seem to stop recently, the impacts are expected to be more and greater.

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