



Begum Rokeya University, Rangpur

Assignment on

How does the Russia-Ukraine war effect the economy of Bangladesh

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How does the Russia-Ukraine war effect the economy of Bangladesh

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.

The Russian invasion of Ukraine has happened at a time when the world had just started to recover from the fallout caused by more than two years of the Covid-19 pandemic. But the recovery is facing inflationary pressure due to supply shortages in the face of higher demands, as countries begin to expand economic activities. The ongoing war has created a new shock for the world. Supply disruptions and financial sanctions pose serious economic challenges. With no signs of reconciliation between Russia and Ukraine, the global economic implications will be much more severe.

How the war will trigger Bangladesh's food crisis: 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.

Ways forward to Bangladesh's arable sector: 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 feeling the heat of the Russia-Ukraine war in many ways. If the war continues for a longer period, the impact will intensify. 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, fertiliser, 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.

How is Ukraine war affecting the world? Today, about 60 percent of the world's workforce is estimated to have lower incomes than before the pandemic. More than half of the world's poorest countries are in debt distress or at high risk of it. According to the brief, the increase in hunger since the start of the war could be higher and more widespread

In addition to fuel prices, 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.

Economists fear Russia-Ukraine conflict to hurt Bangladesh trade:

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.

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.

It should be kept in mind that the impact of the war will continue for some time, even after it is over, since it will take time for the economy to recover from the damages. Therefore, countries will still be feeling the impact of the crisis for a longer period, and thus should be prepared for that.

Russia's Ukraine war impacts Bangladesh's trade and development programs: It is common knowledge that relations between successive ruling dispensations in the US and the Awami League-led Bangladesh Government have not been easy in recent years

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 programmers 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.