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THE RUSSIAN-UKRAINIAN ECONOMIC WAR

Summary:

In the text the author focuses on the economic aspects of the Russian-Ukrainian conflict that erupted in 2014. Undoubtedly, the economic war is a crucial dimension of hybrid war in Ukraine that definitely should not be neglected. The author clearly differentiated six principal constituents of the Russian-Ukrainian economic war which were subsequently discussed in the text. Notably, even during periods of unreliable and frail cease-fires economic war were still was continued. Economic war appears to become a permanent and fixed element of bilateral Russian-Ukrainian relations at least in the short to medium term.

Key words:

economic war, financial war, Russia, Ukraine, Russian-Ukrainian conflict

Introduction

The hybrid war that Russia has been waging with Ukraine since at least March 2014 comprises of several various elements: military, diplomatic, information, cultural and – the last but not least – economic. It is just this economic factor that will be briefly described in the article. The main thesis of the author is that economic dimension of the hybrid war between the Russian Federation and Ukraine is inextricably linked to the entirety of the hybrid war. The second thesis put forward in the text by the author is that nowadays we witness a fundamental shift in the economic relations between Russia and Ukraine. The very old and very close economic bonds that in the past used to link both countries have been suddenly interrupted, broken and discontinued. These revolutionary changes will have a deep long-run ramifications for the Eastern European geopolitics and geo-economics. The author tries to find the answer for the question, what are the consequences of Russian-Ukrainian economic war.

The main economic instruments of war we can perceive in the conflict between Russia and Ukraine are as follows:

- embargos;
- plundering and destruction of adversary's industries;
- sanctions;

- energy cutoffs;
- financial destabilization.

Embargos

Since the outset of Russia's hybrid war against Ukraine, embargoes have become one of the main instruments of exerting economic pressure on adversary. In 2014 Russia banned import of miscellaneous dairy products, cheese, confection, alcohols, tinned fish, fruit, vegetables and seeds from Ukraine. In response Kyiv sued Moscow for breaking international trade regulations in the World Trade Organization. Some actions on the side of the Kremlin seem very controversial from the socio-economic viewpoint. Namely, Ukrainian fruit and vegetables used to be very common at Russian market places. Now, it is very likely that in the wake of prohibition of imports of Ukrainian groceries, their price in Russia is going to rise considerably, especially fruit and vegetables¹.

In October 2015 Russia prohibited exports of diesel fuel to Ukraine as well as LPG gas. The pretext for this move is a fact that some of exported diesel oil is later used in Ukraine's military. 40% of diesel oil consumed in Ukraine was imported from the Russian Federation. 70% of LPG gas consumed in Ukraine was imported from Russia as well². Whereas, import of diesel fuel could be relatively easily substituted by the import from Poland and Lithuania, it is much harder in the case of LPG gas. The ban for exports of Russian LPG gas to Ukraine resulted in an approximately 25% rise of prices for this fuel in Ukraine³.

Interestingly, not only formal, official embargos have a big impact on mutual trade. Also, informal boycotts are salient in this context. For example, as a result of boycott of Russian products by Ukrainians the sale of Russia-made goods in big Ukrainian supermarkets fell even by half⁴.

Ukraine forbade exports of weapons systems, weapon components and ammunition to Russia and vice versa. In consequence once strong bonds of Russian and Ukrainian military industrial complexes almost completely severed. This fact is of utmost importance for Moscow. A great deal of weapon

¹ I. Trusewicz, *Rosja uderza sankcjami w Ukrainę*, Rp.pl, 02.11.2015, <<http://beta.rp.pl/gospodarka/311029856-rosja-uderza-sankcjami-w-ukraine.html?template=restricted>>, (02.01.2016).

² *Rosja wymierza nowy cios w Ukrainę. Wstrzymuje eksport oleju napędowego*, Dziennik.pl, 21.10.2015, <<http://wiadomosci.dziennik.pl/swiat/artykuly/503546,kreml-zakreca-ukrainie-kurek-rosja-wstrzymala-eksport-oleju-napedowego-na-ukraine.html>> (02.01.2016).

³ *Rosja wymierza nowy cios w Ukrainę. Wstrzymuje eksport oleju napędowego*, Dziennik.pl, 21.10.2015, <<http://wiadomosci.dziennik.pl/swiat/artykuly/503546,kreml-zakreca-ukrainie-kurek-rosja-wstrzymala-eksport-oleju-napedowego-na-ukraine.html>> (02.01.2016).

⁴ P. Kościński, *Ukraine: A DCFTA after All*, "The Polish Institute of International Affairs Bulletin", 2015, No. 110 (842), p. 1.

systems used in Russian armed forces have some components or parts produced in Ukraine. 95% of Russian attack and multi-purpose helicopters are equipped with engine produced by Ukrainian firm Motor Sich from Zaporizhya⁵. Currently, Russian factories neither have industrial capacity nor the specialized knowledge to produce some kinds of helicopter engines. Another example of Russian dependence on crucial military components produced on Ukrainian territory are maritime gas turbines. Many Russian Navy's vessels are driven by gas turbines made by Zorya Mashproyekt enterprise situated at Mykolaiv at Black Sea. The supplies of gas turbines units to Russian warships were broken. Ukrainian engineers are also forbidden to take part in repairs of yet supplied turbines⁶. As a result Russia had to cancel the construction of at least three guided missile frigates of design 11356, also known as Admiral Grigorovich class⁷. As well, the currently constructed and commissioned guided missile frigates of project 22350, also known as Admiral Gorshkov class, initially were to be propelled by Ukrainian marine gas turbines. After the implementation of embargo Russia has to either reduce the overall number of Gorshkov class frigates produced or substantially extend their construction schedule⁸. Regardless of the choice, this situation largely complicates and impedes Russia's naval modernization efforts. Due to the lack of possibility of importing marine gas turbines from Ukraine and from the West, Russia had to limit the number of commissioned frigate of project 20385, also known as Gremyashchiy class, to solely two⁹. There are many other cases of Russian dependence on Ukrainian military industry – the above mentioned instances are just a tip of an iceberg.

Of course, Moscow initiated a special program aimed at substitution of military parts and components that Russia used to import from Ukraine beforehand, but this process will take at least several years and will be costly. The Kremlin wants to attain self-sufficiency in military production to 2018¹⁰. Obviously, Ukrainian enterprises from the defence sector also suffer a lot from breaking cooperation bonds with their Russian equivalents, nonetheless it seems that this situation is more harmful to the Russian Federation.

⁵ W. Łuczak, *Rosja bez dostaw z Ukrainy?*, Altair.com.pl, <http://www.altair.com.pl/magazines/article?article_id=5169> (02.01.2016).

⁶ *Rosyjskie okręty wojenne bez silników. Ukraina odmówiła dostaw*, Kresy24.pl, 07.05.2015, <<http://kresy24.pl/67786/rosyjskie-okrety-wojenne-bez-silnikow-ukraina-odmowila-dostaw/>> (02.01.2016)

⁷ *The Russian Navy: A Historic Tradition*, Office of Naval Intelligence, December 2015, p. 22.

⁸ *Ibidem*, p. 23.

⁹ *Ibidem*, p. 22.

¹⁰ A. Wilk, *Zbrojeniowy impuls*, PolskaZbrojna.pl, 27.10.2014, <<http://polskazbrojna.pl/home/articleinmagazineshow/14096?t=ZBROJENIOWY-IMPULS>> (02.01.2016).

Plundering and destruction of adversary's industries

The majority of industry of so-called Donetsk and Luhansk's Peoples Republics was either plundered and removed to Russia or simply devastated. Plenty of plants and factories located in Donbas have been intentionally dismantled and moved to the Russian Federation. For instance, all movable property belonging to factory "Topaz" situated in Donetsk that specialized in production of electronic warfare devices has been totally disassembled and transported to Russia¹¹. Another telling example is the fate of Luhansk electronic machine-building plant "Mashzavod-100" that specialized in production of advanced monocrystals. The whole plant has been disassembled and removed to Chuvashia deep inside Russia. Interestingly, apart from machines, devices and documentation belonging to the factory also about 1000 workers together with their families were removed to the new location of their workplace¹². Of special importance to Moscow are plants which produce hi-tech and armament products situated at territories controlled by separatists. These plants are the most frequently subjected do deliberate and organized disassembly and removal. Similarly, many coal mines have purposely or accidentally been flooded or damaged in other ways. Lot of metal equipment belonging to coal mines and various plants have simply been robbed and sold as scrap metal usually somewhere in Russia. Separatists quite often tend to rob, plunder, confiscate and steal cars, apartments and houses of people living in territories conquered by them behaving like plain bandits. Expropriations are commonplace in Luhansk and Donetsk's People's Republics especially towards the property of people who, due to different causes, left Donbas¹³. Miscellaneous technical difficulties forced hundreds of Donbas' factories to either limit or totally stop the production.

All this means that Donbas, which once was an industrial heart of the whole Ukraine, will not be economically useful for Ukraine for many years ahead. The loss of access to coal seems to be especially worrying for Kyiv due to the fact that a significant part of Ukraine's power plants is fueled by coal. Additionally, the loss of Crimean peninsula also contributed to the reduction of electrical energy output in Ukraine. Nowadays after all these unfriendly actions of the Russian Federation, Ukraine faces a sort of energy crisis.

¹¹ *Zobacz co Rosja zrabowała Ukraincom z Donbasu. Rozkradli wszystko do „golej ziemi”!*, Kresy24.pl, 20.10.2015, <<http://kresy24.pl/74262/zobacz-co-rosja-zrabowala-ukraincom-z-donbasu-rozkradli-wszystko-do-golej-ziemi/>> (03.01.2016).

¹² *Rosja rabuje Ukrainę – wywożę co się da! Konwojami humanitarnymi...*, Kresy24.pl, 21.10.2014, <<http://kresy24.pl/57663/rosja-rabuje-ukraine-wywoza-co-sie-da-konwojami-humanitarnymi/>> (03.01.2016).

¹³ *Putin's locusts at work: stripping Donbas of industrial assets*, EuroMaidanPress.com, 19.11.2014, <<http://euromaidanpress.com/2014/11/19/putins-locusts-at-work-stripping-donbas-of-industrial-assets/#arvlbdata>>, (03.01.2016).

Energy cutoffs

It must be emphasized that in the long term building new gas pipelines omitting Ukraine is an element of Russia's economic war against Ukraine too. Particularly Turkish Stream and the second string of the Nord Stream appear to be aimed mainly at avoiding transit of Russian gas through Ukrainian territory. So far about 80% of Russian gas sold to Europe was transported via Ukraine. But Moscow seems to be determined in putting an end to its dependence on Ukraine on this issue. If all Russian gas transported to Europe could be redirected in such a way to bypass Ukraine, then Ukraine would be slightly more susceptible to Russia's energy blackmail and would also lose revenues for transit.

Turkish Stream was a gas pipeline across the Black Sea, which construction was lobbied intensively by the Kremlin in latest years. The Russian-Turkish bilateral relations have clearly gone into downward spiral in the aftermath of the downing of the Russian frontline bomber Su-24M in the airspace over the Turkish-Syrian border, so the prospects of Turkish Stream are currently dubious at best. In contrast to that, the Nord Stream 2 will very probably be brought to a successful outcome, despite some protests from the European Commission and from Central-Eastern European states.

In the past Russia on two different occasions – in 2006 and 2009 – temporarily cut exports of its natural gas to Ukraine, trying to force Kyiv to various economic and political concessions. In June 2014 the Kremlin once again resorted to gas weapon and for four months shut down supply of gas to Ukraine. Then the EU made a decision to act as a go-between and successfully convinced the disputed governments to strike a deal known as “winter package” due to which in October the blue hydrocarbon flows were restored. Brussels was vitally interested in working out a compromise between feuding states because it wanted to prevent siphoning off Russian gas earmarked for countries downstream by Ukraine, which it used to practice in previous gas crises¹⁴. In November 2015 Russia again cut off supplies of its gas to Ukraine claiming that it will be restarted after Ukraine pays prepayments for future gas supplies. Interestingly, this cutoff took place soon after Ukraine stopped to transmit electric current to Crimea as a result of sabotage of electric grid. Thus, this Kremlin's action may be interpreted as a tit-for-tat.

Bearing this in mind, one should not overestimate the probability of Moscow resorting to this kind of economic weapon against Ukraine. Nowadays the Kremlin has much less possibilities to energetically blackmail Ukraine. First of all, in the wake of constantly falling prices of hydrocarbons and rouble exchange rate, Moscow more and more desperately needs export revenues, even from its enemies. Secondly, Ukraine diminished its gas consumption in the last

¹⁴ *Why Ukraine Can Live Without Russian Gas for Now*, Naftogaz-Europe.Com,08.07.2015 <<http://naftogaz-europe.com/article/en/ukrainecanlivewithoutrussianguas>> (01.01.2016).

two years significantly. The severe economic depression together with the loss of industrial centre in Donbas led to a 15% decrease in gas consumption relative to 2013. Whereas in 2011 Ukraine consumed totally 59,3 bcm, in 2013 (the last year of peace in Ukraine) 50,4 bcm, in 2014 it consumed merely 42,6 bcm¹⁵. According to preliminary assessments in 2015 Ukraine managed to further reduce its overall gas consumption by about 25% in relation to 2015¹⁶. That means that in 2015 Ukraine needed merely about 32 bcm. Thirdly, new pro-Western Ukrainian government took many actions clearly aimed at making the state energetically independent of Russia. Ukraine can substitute the natural gas that it in previous times used to import from the Russian Federation with increased import from the EU member states – primarily from Hungary (the technical capacity to import 14,5 billion bcm annually), but also from Slovakia (the technical capacity to import 5,8 bn bcm annually) and from Poland (the technical capacity to import 1,5 billion bcm a year).

Naturally, as a consequence of all the factors mentioned above, Ukraine's import of gas from Russia has drastically decreased. In 2008 Ukraine was a biggest customer of Gazprom that bought 56 bcm of gas from this energy giant. In 2014 Kyiv bought from Gazprom humble 14,5 bcm of blue hydrocarbon¹⁷. In a way, it is possible that in the future Russia will be more dependent on transit of its gas through Ukraine than Ukraine on imports of gas from Russia. That in turn means that Ukraine will be able to use gas weapon against the Russian Federation, though, the probability of leveraging this position is low because of potential diplomatic repercussions with EU states. The gas weapon used by Russia against its weaker neighbour in 2014 turned out to be ineffective. In the future the role of this means of economic warfare in Russia's arsenal will likely be less important.

On its part, Ukraine could block electric current supplies to Crimea. In 2015 several mysterious incidents of sabotage of electricity grid in Southern Ukraine, which was used to transmit electricity to Crimean Peninsula, occurred. Usually, commentators ascribe these acts of sabotage either to Tatar activists or to right wing Ukrainian extremists, yet one not to exclude the possibility that Ukrainian authorities covertly support these actions. Anyway, so far nobody admitted to these acts. This situation is troublesome for Crimeans making their daily lives harder¹⁸.

¹⁵ W. Konończuk, *Reform#1. Why Ukraine has to reform its gas sector*, "OSW Commentary", 2015, No. 181, p. 9.

¹⁶ *Ukraine's gas consumption reduced by 25% in 2015*, En.Trend.az, 27.12.2015, <<http://en.trend.az/world/other/2474737.html>> (01.01.2016).

¹⁷ I. Trusewicz, *Ukraina kończy z rosyjskim gazem*, Rp.pl, 29.10.2015, <<http://www.rp.pl/Surowce-i-Chemia/310299938-Ukraina-konczy-z-rosyjskim-gazem.html>> (01.01.2016).

¹⁸ See for instance: *Krym zamarza! Runęła kolejna linia! Ukraina całkowicie wstrzymała dostawy prądu*, Kresy24.pl, 31.12.2015, <<http://kresy24.pl/76517/krym-zamarza-runela-kolejna-linia-ukraina-calkowicie-wstrzymala-dostawy-pradu/>> (01.01.2016).

Sanctions

Since the breakout of the war Kyiv and Moscow repeatedly are implementing new sanctions against one another. People and institutions that in the opinion of the National Security and Defence Council of Ukraine supported annexation of Crimea by Russia and separatists in Donbas have been included on a special list of subjects embraced by sanctions.

Both Ukraine and Russia implemented mutual sanctions against Russian and Ukrainian airlines. At the beginning of the conflict in March 2014 Ukraine's authorities closed airspace over the disputed Crimean Peninsula – this decision is still mandatory. Ukrainian as well as third-party's airlines comply with this prohibition in blatant contrast to Russian airlines. Since 25th October 2015 there are no direct flights between Russia and Ukraine at all¹⁹. This fact is troubling for ordinary inhabitants of both feuding countries because many Russians and Ukrainians have relatives in both states. As a consequence all flights between two disunited states are suspended. As a result of sanctions railway transportation between two states also is significantly restricted and reduced.

The Russian prime minister Dmitry Medvedev announced that since the beginning of 2016 Ukraine as a country that joined to Western sanctions against Russia will be embraced by Russian counter-sanctions. Till October 2011 Ukraine and the European Commission concluded negotiations on the DCFTA (Deep and Comprehensive Free Trade Area)²⁰. On 16th September 2014 after the revolution of the dignity which broke out partly in result of rejection of the Association Agreement by the then president of Ukraine – the now infamous Viktor Yanukovich, the European Parliament and the new Ukrainian parliament dominated by pro-Western politicians ratified the Association Agreement with DCFTA. Nevertheless, the European Commission proposed that the full implementation of DCFTA would be delayed by 14 months²¹. By this move Brussels (encouraged by Berlin) intended to – at least partly – soothe Moscow's anger. Since that time Moscow, Kyiv and Brussels over 18 months negotiated an agreement endeavouring to work out some compromise concerning the DCFTA. The negotiations concluded with fiasco. According to Cecilia

¹⁹ M. Sigmund, *Ukraińsko-rosyjska wojna na zakazy*, „Skrzydłata Polska”, 2016, No. 1 (2435), p. 46.

²⁰ *Ukraine: DCFTA negotiations completed; prospects for signing the Association Agreement*, Centre for Eastern Studies, 26.10.2011, <http://www.osw.waw.pl/en/publikacje/analyses/2011-10-26/ukraine-dcfta-negotiations-completed-prospects-signing-association> (30.12.2015). DCFTA is a part of the more comprehensive the UE-Ukraine Association Agreement.

²¹ R. Sadowski, A. Wierzbowska-Miazga, *Russia is blocking a free trade area between the EU and Ukraine*, Centre for Eastern Studies, 17.09.2014, <<http://www.osw.waw.pl/en/publikacje/analyses/2014-09-17/russia-blocking-a-free-trade-area-between-eu-and-ukraine>> (30.12.2015).

Maleström, the EU's commissioner for trade, Moscow did not express the will of agreement. On 16th December, 2015, the Russian President Vladimir Putin signed a decree that banned the up to then obligating rules of trade between Russian and Ukraine. With this move, the Kremlin de facto discarded Ukraine out of the Commonwealth of Independent Nations' free trade area. Moscow consequently convinces that DCFTA and CIS free trade area are absolutely irreconcilable. In other words, not a single state can be a member of both free trade areas simultaneously. According to the prognosis of the Ukraine's prime minister Arseniy Yatseniuk, the above mentioned Russia's trade retaliation could cost his country approximately \$600 million a year²². The Kremlin did as it announced. Since the outset of 2015 Russia de facto has blocked the import of approximately half of Ukrainian food articles. All the previous preferences for Ukrainian products have been annulled. In response Ukrainian authorities implemented analogous sanctions prohibiting imports of Russian milk, meat, fish, candies, coffee, vodka and caviar as well as implementing additional duties on many other Russian goods²³. As a result of miscellaneous Russian sanctions only in 2015 Ukraine lost \$10 billion²⁴. For a cash-strapped society it was a very heavy financial loss.

Financial destabilization

It is evident that Moscow tries hard to maximally worsen the fiscal condition of Ukraine and to impede economic recovery of Ukraine. It is calculated to weaken Ukrainian's will of resistance as well as to spur social unrest in Ukraine that could even at some point lead to ousting of Ukrainian government and certainly deepen chaos. By that the Kremlin wants to not only vassalize Ukraine, make impossible Ukraine's integration with the EU and NATO, but, first and foremost, show Russian society that any revolution, any attempt of overthrowing the legal authorities unavoidably, inescapably and inevitably results in chaos, anarchy, long and serious economic depression and bloodshed. This message is constantly hammered in Russians to make them believe that it is absolutely unwise, imprudent and pernicious to revolt or rebel against their own authorities.

Throughout 2015 Moscow threatened that if Ukraine's debt owed to Russia would not be paid in full, it would veto proposed IMF loan to Ukraine worth

²² T. Bielecki, *Kreml idzie na wojnę handlową z Kijowem. Za europejskie ciągoty*, „Gazeta Wyborcza”, 25.12.2015, p. 11.

²³ *Rosyjska wódka i kawior znikną z ukraińskich stołów. Kijów odpowiada na moskiewskie sankcje*, TVP.info, 02.01.2016, <<http://www.tvp.info/23422224/biznes/rosyjska-wodka-i-kawior-znikna-z-ukrainskich-stolow-kijow-odpowiada-na-moskiewskie-sankcje/>> (02.01.2016).

²⁴ R. Szoszyn, *To będzie przełomowy rok dla Ukrainy*, Rp.pl, 29.12.2015, <<http://www.rp.pl/Konflikt-na-Ukrainie/312299870-To-bedzie-przelomowy-rok-dla-Ukrainy.html#ap-1>> (30.12.2015).

\$17,5 billion within the framework of the so-called extended fund facility. In March 2015 the Board of Directors of the IMF approved the loan mentioned above to Kyiv on condition of implementation of specific economic reforms²⁵ as well as previous reduction in debt service. It is important to notice that previously under the regulations of the International Monetary Fund, this institution could not aid the states which were in arrears on an official loan or in other words, which did not pay its debts on a regular basis or were involved in debt disputes with some other state or states. In December 2015 the IMF accommodated the Ukrainian government and resigned from the once unquestionable principle of not granting loans to states that fell into arrears with payments of other states²⁶.

In August 2015 after long and arduous negotiations, Ukrainian government struck a deal with private debtholders. The negotiating parties agreed that the face values of bonds will be reduced by 20% from \$19,1 billion to \$15,5 billion. As well, the maturities of these bonds will be prolonged to 2019²⁷.

The most famous Russian-Ukrainian financial disputation regards Ukrainian bonds worth \$3 billion sold to Moscow in December 2013 on relatively convenient for Ukraine terms. The transaction took place before ousting of the former president Victor Yanukovich. The loan was a sort of sweetener for Yanukovich for conceding to Kremlin's demands²⁸. It is obvious that Moscow by persisting in paying this debt in full wanted to block any financial aid on the part of the IMF for Ukraine. Although, at some point Kremlin significantly softened its stance, it ultimately disagreed on any reduction in the debt Ukraine owes Russia. Ukrainian government takes a definite stand on this issue claiming that \$3 billion debt in dispute should be treated as a commercial loan. This position implies that in the wake of it the debt should be subjected to analogous debt cuts as was agreed in August 2015 during negotiations with private debtholders. In contrast to Kyiv's position, the Kremlin claims that the loan in question should be regarded solely as an interstate debt. If this interpretation prevails it would mean that arrangements negotiated with private loan-holders are not binding for the Russian Federation and that in turn means that Ukraine ought to pay back its debt to Russia in full, without 20% reduction. The Russian government could sue Ukraine in either Permanent Court of Arbitration

²⁵ T. Iwański, *A ship run aground. Deepening problems in the Ukrainian economy*, "OSW Commentary", 2015, No. 178, p. 2.

²⁶ R. Sadowski, *A lifeline for Ukraine from the IMF*, Centre for Eastern Studies, 16.12.2015, <<http://www.osw.waw.pl/en/publikacje/analyses/2015-12-16/a-lifeline-ukraine-imf>> (30.12.2015).

²⁷ M. Lasek, *Fundusze umorzq część długów Ukrainie, Rosja nie*, „Gazeta Wyborcza”, 28.01.2015, p. 22.

²⁸ M. Wolf, *Resist Russia's blackmail over Ukraine's debt*, FT.com, 20.10.2015, <<http://www.ft.com/cms/s/0/5e295484-7647-11e5-a95a-27d368e1ddf7.html>> (21.10.2015).

situated in the Hague or in the London Court of International Arbitration²⁹. Moreover, Moscow before giving a \$3 billion loan to Ukraine guaranteed itself in the deal that if the relation of Ukrainian government's total debt to gross domestic product at some point excels the 60% level, Moscow could demand instantaneous payment of the loan in total³⁰. Indeed, Ukraine's government debt rose above that level so Moscow gained an additional leverage to exert financial pressure on Ukraine. Finally, the IMF concurred with the Kremlin's interpretation pronouncing that the unlucky \$3 billion loan should be regarded as an official loan between states. In the light of this controversial resolution Ukrainian government now has to at least try to reach Russia's approval for the debt reduction³¹. Nonetheless, Ukraine's authorities did not yield to pressure and suspended service of problematic debt that in the meantime rose to \$3,582 billion. The Ukraine's prime minister A. Yatseniuk publicly announced that his state is ready for trial in court with Russia on the whole issue. Moscow – by lips of Russian Deputy Finance Minister – Sergei Storchak verbally expressed its readiness to negotiations, but Kyiv in response unambiguously stated that the repayment of the questionable loan on Moscow's conditions would be tantamount to Ukraine's bankruptcy³². The majority of lawyers claim that the IMF's resolution favourable in this respect for Moscow will give it advantage in the potential trial, nevertheless the court's ultimate rule on no account should be taken for granted.

Conclusions

As a consequence of economic war in 2015 Ukraine's GDP plummeted by 10%³³ or even – according to other sources – by 12%³⁴. It is a very serious drop

²⁹ *Rosja powinna wygrać z Ukrainą w sądzie w sprawie długu wynoszącego 3 mld dol*, Rp.pl, 21.12.2015, <<http://www.rp.pl/arttykul/1248407-Rosja-powinna-wygrac-z-Ukraina-w-sadzie-w-sprawie-dlugu.html>> (30.12.2015).

³⁰ J. Cohen, *Russia Has Ukraine's Economy in a Choke Hold*, TheMoscowTimes.com, 31.03.2015, <<http://www.themoscowtimes.com/opinion/article/russia-has-ukraines-economy-in-a-choke-hold/518324.html>> (01.01.2016).

³¹ *MFW zmusiło Ukrainę do płacenia Rosji. Kijów w szoku*, Kresy24.pl, 17.12.2015, <<http://kresy24.pl/76122/mfw-zmusilo-ukraine-do-placenia-rosji-kijow-w-szoku/>> (01.01.2016).

³² *Kijów do Moskwy: Nie będziemy wam spłacać długu Janukowycza. Możecie nas podać do sądu*, Kresy24.pl, 18.12.2015, <<http://kresy24.pl/76188/kijow-do-moskwy-nie-bedziemy-wam-splacac-dlugu-janukowycza-mozecie-nas-podac-do-sadu/>> (01.01.2016).

³³ R. Szoszyn, *To będzie przełomowy rok dla Ukrainy*, Rp.pl, 29.12.2015, <<http://www.rp.pl/Konflikt-na-Ukrainie/312299870-To-bedzie-przelomowy-rok-dla-Ukrainy.html#p-1>> (30.12.2015).

³⁴ T.A. Olszański, T. Iwański, *Ukraińska polityka w końcu 2015: niestabilna równowaga*, Ośrodek Studiów Wschodnich, 30.12.2015, <<http://www.osw.waw.pl/pl/publikacje/analizy/2015-12-30/ukrainska-polityka-w-koncu-2015-niestabilna-rownowaga>> (31.12.2015).

comparable only to the plunge in economic output in the first years of Ukraine's independence at the beginning of 1990's. What is even worse, the drop in GDP in 2015 was deeper than in 2014 (6,8%). Following the Russian aggression Ukraine's public debt relative to its GDP rose enormously from about 40% GDP in 2013 to 70% of GDP in 2014³⁵. That was truly a huge rise over a very short period of time. According to the World Bank, Ukraine's foreign debt at the end of 2015 will reach the level 156% of its GDP³⁶, which is undoubtedly worrying and dangerous for financial stability of the state. In comparison, the IMF experts assess that Russia's GDP fell in 2015 "merely" by 3,8%³⁷.

The economic war between Russia and Ukraine will, without doubt, have relevant ramifications for both of these states. For one thing, it led to situation of an almost total reorientation of Ukrainian trade – to put it simply – from the East toward the West. Trade and industrial bonds that in the past linked both countries now are interrupted. Numerous mutual sanctions and embargoes will stay in the predictable future. This important (geo)economical change arguably is irreversible in the short to medium term. Ukrainian society collectively took a decision to reorient their motherland toward the West. It must also be highlighted that both warring states are mutually weakening one another. The war is also economically harmful for both of them. Economic depression currently afflicts Ukrainians harsher than Russians, yet in the longer perspective this could easily change. As hydrocarbon prices, rouble and Russia's foreign exchange reserves fall, so the general economic situation in Russia will worsen. Interestingly, many indirect evidence cue that also the West (in particular the United States in cooperation with Saudi Arabia) is waging its own economic war against Russia – the prices of hydrocarbons are probably intentionally being lowered to hit economies of Washington's and Riyadh's foes – namely: Russia, Iran and Venezuela. In this economic war the Russian state has much less trump cards than in its economic war with Ukraine.

³⁵ <https://www.cia.gov/library/publications/the-world-factbook/geos/up.html> (30.12.2015).

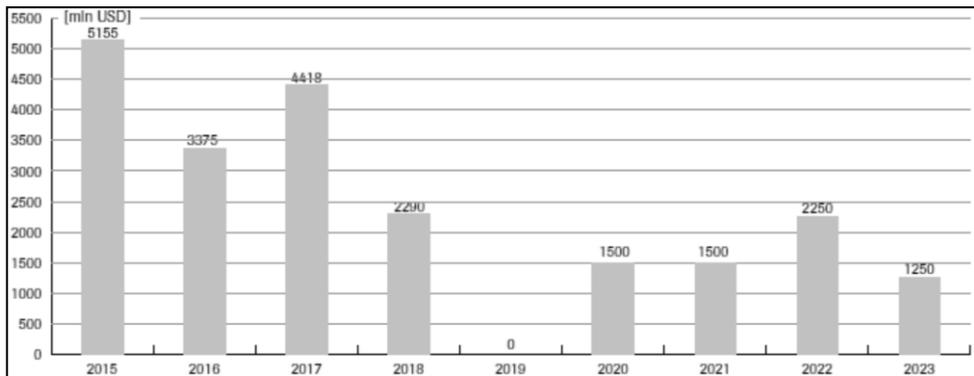
³⁶ T.A. Olszański, T. Iwański, *op. cit.*

³⁷ A. Aslund, *Jaka jest strategia Putina?*, Rp.pl, 31.12.2015,

<<http://www.rp.pl/Publicystyka/151239952-Jaka-jest-strategia-Putina.html>> (30.12.2015).



Source: “Rzeczpospolita”



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