

## Editorial Note

# ECONOMIC IMPLICATIONS OF RUSSIAN ACTION FOR UNFRIENDLY EUROPEAN COUNTRIES TO PAY RUSSIAN GAS IN ROUBLES

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### ABSTRACT

On 23<sup>rd</sup> March 2022, Russia announced a fundamental change in its oil and gas trading policy requiring its unfriendly countries to make payment only in the ruble and not in dollars and euros, for gas they buy from it. This editorial note aims to describe some of the likely economic implications of this policy decision on Russia and other countries. There could be divergent opinions on the economic consequences of the Russian action which aims to strengthen its falling currency Ruble and reduce the impact of several economic and other sanctions by the Russian unfriendly countries. It is argued in this editorial note that in the light of limited options available to these countries for energy sources, the effects will be visible only in the short run and the Russian currency is likely to be strengthened and the long term dependence on the dollar-linked oil and gas trading will be reduced.

**Keywords:** Russia-Ukraine War, Ruble, Oil & Gas Prices, Unfriendly Countries, Economic Implications.

## 1. INTRODUCTION

The Russia-Ukraine war has created not only a very uneasy time for the world economy but is also changing the world economic order. This war is creating a serious energy crisis around the world and is influencing the currencies' value of several countries that are much dependent on the Russian gas. Despite the economic sanctions on Russia from the Western countries, natural gas is still exported from Russia to European countries. This gas is needed by them in order to generate electricity, heat homes, and supply industry. Therefore, the focus of this editorial note is to shed some light on the economic implications of the Russian new economic strategy asking its unfriendly countries to pay in ruble instead of dollar and euro for the purchase of oil and gas.

The ruble is known as the second-oldest currency still in circulation and much weaker than the British pound sterling (Downey, 2022). Russia, the second-largest oil-exporting country in the world after Saudi Arabia, has now decided that it will sell oil and gas to unfriendly countries in Europe and elsewhere only in its currency, the ruble, and not in euros and dollars. It is to be noted that 40% of Europe's total gas consumption is dependent on the Russian supply. If the European countries cannot pay in the ruble, then Russia will stop the supply of gas to these countries. This will create further economic crises in Europe. Ukraine, Japan, and Singapore will also be affected badly by this action of Russia.

Russia has been trying to switch quietly to trade in its currency for a long time now. Russia argues that the dollar is an insecure and unstable currency; so it will not trade its oil and gas in dollars and euros. Further, it is not clear whether Russia can unilaterally change the existing contracts which were agreed upon in euros. Later, Putin, the Russian President, stated "*Russia will continue, of course, to supply natural gas in accordance with volumes and prices, fixed in previously concluded contracts. The changes will only affect the currency of payment, which will be changed to Russian rubles*" (Chestney, 2022).

It is yet to be seen whether the Russian economic war strategy to squeeze the dollar out of the Russian gas sales will be successful or not after the ruble declined more than 30 percent in value due to the American and the European Union's severe sanctions.

For a long time, oil trading has been denominated in dollars. The price is fixed only in dollars even when oil-producing countries from the Middle Eastern sell oil to Asian countries. To overcome the impact of economic sanctions, Russia has offered cheaper priced gas to India and China, with the trading terms being only in the ruble. Even Saudi Arabia has been in serious discussions with Beijing to price some of its oil sales in Yuan instead of the U.S. dollars.

In addition, to counter the Russian strategy, the U.S. has agreed to increase transatlantic gas deliveries, hoping to weaken the power of Russia and to reduce the European Union's dependence on Russian gas by two-thirds in the long run (Davies, 2022).

## **2. ECONOMIC IMPLICATIONS**

The following may be the possible economic implications of the Russian new oil price payment strategy:

- a) Putin asking to pay in the ruble is an effort to reduce the negative effects of the West's sanctions on Russia and also to redirect as well

as reinforce some of the fallout from the economic sanctions onto the Western countries and big companies. Therefore, Russian currency play is to put pressure on European economies.

- b) Energy payments may be considered as a lifeline for isolated economies (Gordon, 2022). In this case, unfriendly countries' importers need to acquire Russian currency to purchase energy. These importers can only get rubles from Russia's central bank or other Russian banks. They can also acquire the ruble by selling goods to Russia. So the demand for the ruble would go up and supply sources would be limited. It may enhance ruble's value in the currency market. In this regard, Professor E. Prasad of Cornell University stated "*The hope that demanding payment in rubles will increase demand for the currency and thereby prop up its value*" (Times of Israel, 2022).
- c) So far banks from the Western countries are reluctant to trade in Russian currency and if their stand continues for a longer time, it may further complicate Russian new economic strategy. Furthermore, this new action by Russia may also be perceived as provocative. This may increase the possibility for further tightening the sanctions by the European Union on the Russian economy and energy (Chestney, 2022).
- d) It is to be noted that the Russian Central Bank has taken a few measures to support its currency value. It has doubled the interest rates to 20 percent in order to encourage its people to retain their ruble deposits in the banks. The implication of trading for gas in rubles also means that the Western countries need to buy billions of euros worth of rubles every week for their gas purchases. This would lead to an inflow of hard currencies to strengthen the Russian currency. After Russia's action, the ruble was strengthened by almost 7% against the U.S. dollar in trading in Moscow. Additionally, gas prices in Europe increased by 8% within a week.
- e) The tight energy market is compelling the European customers to comply with this and arrange payments in ruble for gas bought from Russia. The reason is that there are the least options available to them and buy Russian gas by paying in rubles. The gas crisis among the European countries would increase the cost of living in the West as energy prices are soaring.
- f) Economists also predict that the Russian action is likely to lower the value of both the dollar and the euro to a certain extent as the U.S.

also has huge reserves of oil and gas and it may be able to supply to a certain extent to European countries.

- g) It is predicted that the oil and gas prices will continue to soar by this action of Russia in the future.

### 3. CONCLUSION

Any war leads to the destruction not only of the human lives but also properties, and natural resources. The same is the case so far with the Russian-Ukraine war. The war has created an energy crisis around the world which has resulted in energy prices soaring considerably. Russia is one of the largest suppliers of gas energy and due to the economic sanctions against it, has been devising various economic strategies to mitigate the impact of such sanctions on itself and its people. The new action of Russia has started creating miseries in many economies. It is likely that the ruble is going to be reckoned as a currency in the international market and its value is likely to go up. This will adversely impact the long-dominated currencies like the dollar and the euro in the long run.

#### *Acknowledgement*

I am thankful to Prof. (Dr.) Tariq Ismail, Dr. Tan Siow Hoo, and Dr. Shaista Wasiuzzaman for their comments and suggestions on this editorial note. However, for any errors, I owe the responsibility.

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