

How could the Ukraine-Russia war affect your cost of living



The war between **Russia and Ukraine** is having effects on Mexico, says Cynthia Valeriano, an economist at [Tec de Monterrey's Toluca campus](#):

“The initial impact of the conflict between Russia and Ukraine comes in the form of energy, particularly given the increase in the price of gasoline and gas.”

According to the professor, **fuel, the agricultural system, inflation, and the Mexican peso** will be **impacted** by the Russian intervention in Ukraine.

She also mentioned **important raw materials** for the national market, such as **fertilizers**.



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The Russia-Ukraine conflict and Mexican fuel

According to the professor, the issue of **fuel** has an **exponential effect** on a country's economy because **if it becomes more expensive**, practically **everything else becomes more expensive** too.

"Oil is priced internationally, as the result of global demand, and is extremely sensitive to any instability in territories that produce oil or its derivatives," said Cynthia Valeriano.

The professor pointed out that there has been a **considerable increase** in **international oil prices** as a result of the war footing between Russia and Ukraine.

"Not only are the prices of the most expensive mixtures increasing, but they are also having a knock-on effect on all the variants, including the Mexican oil mix," she said, while stating that this **does not represent any extra income for Mexico.**

"Fuel, the agricultural system, inflation, and the Mexican peso will be impacted."

"The Mexican government wants to prevent variations in oil prices from having repercussions on consumption, on the prices paid by users."

“They (the government) have decided to waive collection of the special tax on products and services placed on gasoline and will probably have to subsidize the total cost of the rate to prevent this,” said Valeriano.

The impact of the conflict on the agricultural sector

According to the professor, Mexico is a huge **consumer of fertilizers**, in addition to having an agricultural sector which **depends on international grain production: Russia and Ukraine produce just over 20% of the world’s total corn and wheat production.**

“Right now, this supply chain is being hugely affected,” Valeriano stressed.

The above, according to Cynthia Valeriano, will result in an **increase in the price of corn, wheat, and even sorghum**, all raw materials important to **Mexican food consumption.**

She said that effects are already being felt internationally: *“It’s even had very serious effects on chains as important as **Bimbo**, which has announced the closure of its production plant in Ukraine.”*

She said that the Mexican government **would have to look for different suppliers** and invest **larger amounts of money into buying fertilizers and grains for the country** if it hasn’t already **bought enough** for the rest of the year.

Exacerbated inflation as a result of the war between Russia and Ukraine

According to the Government and Public Policy professor, inflation has not **slowed down**: it’s at **7.2%** according to the latest figures from INEGI for the first half of January.

“This inflation began last year and has been substantially pressured by the increase in the cost of gas,” she said.

Regarding this fuel, **our country obtains more than 70% of the gas** it consumes from **the United States.**

“The value of the Mexican peso may also be affected, as our public debt is held by international organizations.”

The professor said that the current situation may mean **extraordinary sales of gas** in European territories and in our neighboring country to the north, which could **trigger an increase in costs in the next few days.**

“This could mean not only that it becomes more expensive, but that it also begins to be rationed in order to meet the needs or requirements of industry and domestic demand in Mexico.”

“It’s a very complex situation, especially considering that we’re very close to having elections in different Mexican states,” said the professor.

The expert predicts that inflation could worsen by the beginning of March unless the Mexican government takes **extraordinary steps to stop the price escalating**.

“One of the alternatives is debt: Mexico could obtain extraordinary resources in order to try to reduce the impact of energy price increases.”

*“We’re going to have to wait and see what decision the federal government makes because subsidizing the cost of gasoline in one month may require a budget similar to that designated for programs such as **Youth Building the Future**,”* said the economist.

Impact on the value of the Mexican peso

The professor explained that a series of **important movements are happening in the financial market** due to the **unstable conditions** and the expulsion of some banks, including the **Russian Central Bank**, from the **Swift** financial messaging system.

“Given that there has been enormous pressure, at the international level, to increase the demand for dollars, their price has increased on the foreign exchange markets, and this has caused an increase in Mexico’s debt,” said Valeriano.

In her opinion, this may **affect the value of the Mexican peso** since public debt is **held by international organizations** and, as the exchange rate increases, it puts **additional pressure on our currency**.

For the Tec Toluca professor, it’s not very clear **how long or short the conflict will be, and she said that** even if the conflict **were resolved today, it would take months to recover**.

“At a global level, it’s not only peace, but also the stability of international markets that would take a few months to stabilize,” she said.



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For this reason, she suggests **keeping abreast of what's going on**, and of the effects on **interest rates and the Mexican peso's exchange rate**.

She also explained that, for Mexico at least, it's worth **staying calm and limiting family and individual spending**, especially as **no-one is sure when the conflict will end**.

"We need to be prudent," concluded economist Cynthia Valeriano.

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