

IN THE SHADOW OF THE WAR

The economic fallout of the war on Ukraine



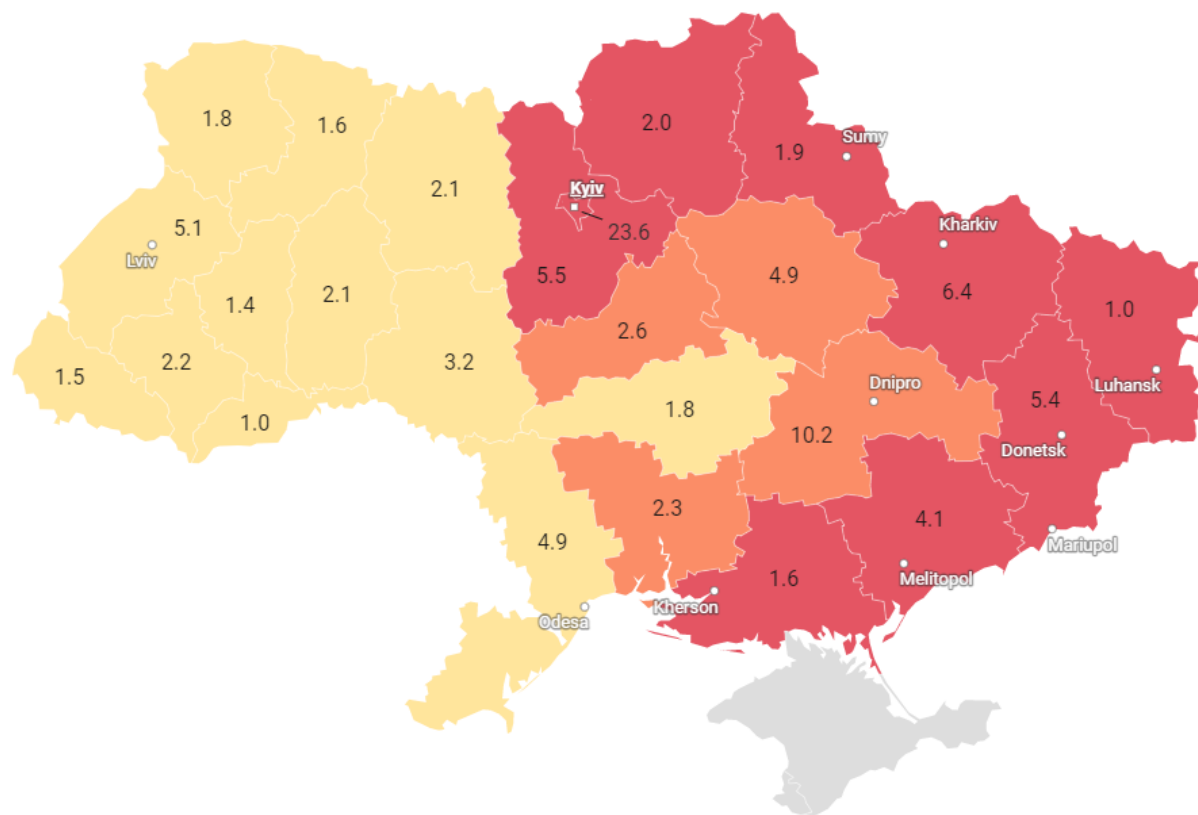
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June 2022



Ukraine's economy functioning under war conditions

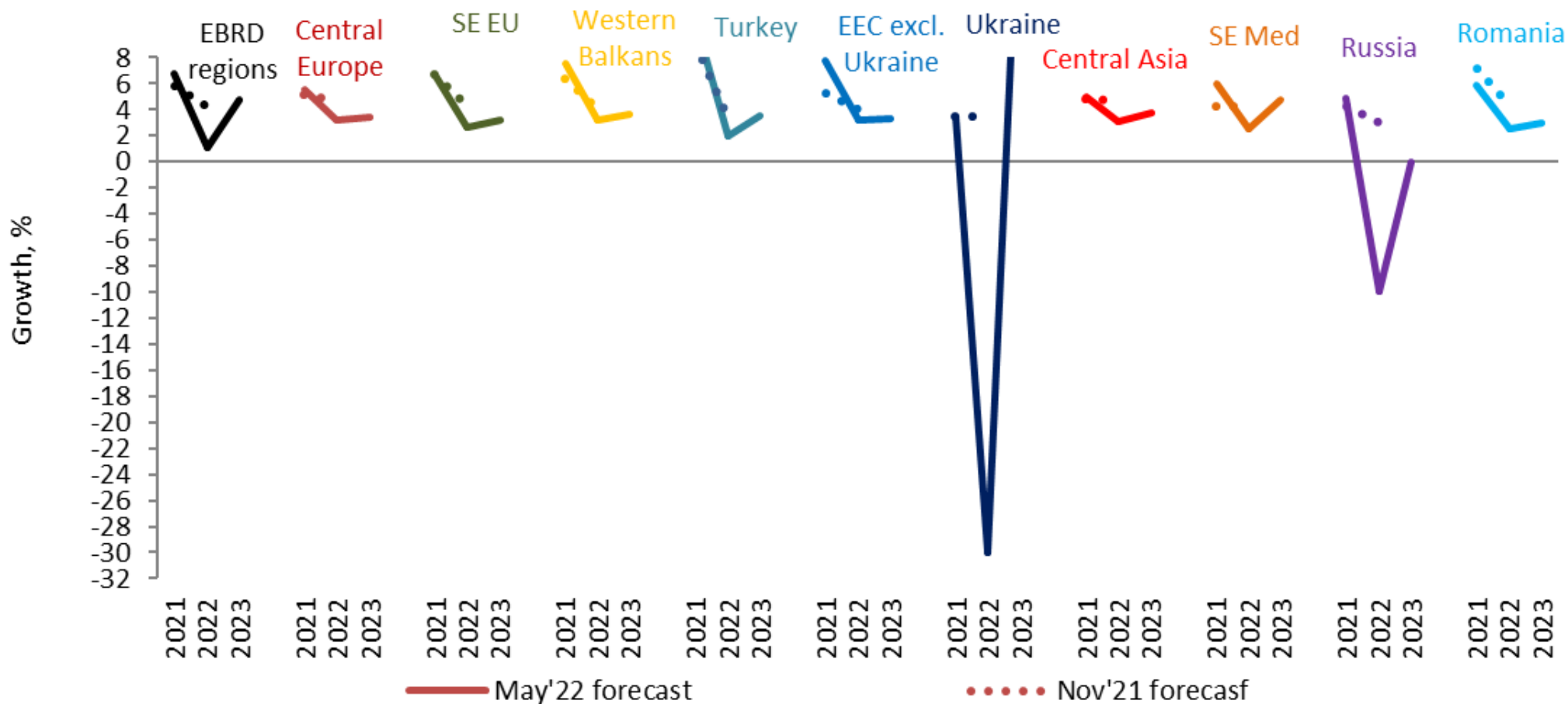
Nominal GDP share by region, 2017-19 averages



- Military activities have taken place on territory generating around 60% of GDP
- 30% - 50% of all businesses have stopped production
- Electricity consumption is estimated at around 60% of pre-war level
- Disrupted spring sowing season

Area in grey is Crimea not covered by this data

Economic fallout from the war visible in all EBRD regions



Source: IMF, national authorities via CEIC, EBRD and authors' calculations. Weighted averages using GDP at market exchange rates.



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Shock to international food markets

Ukraine's production of wheat and sunflower seed is concentrated in South-East where the most intense fighting took place

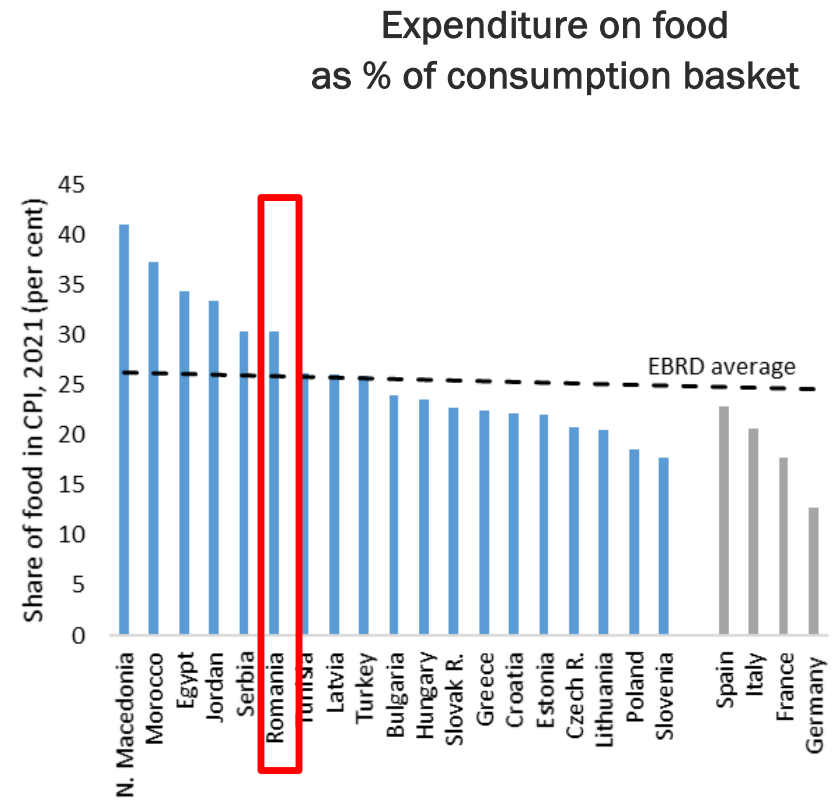
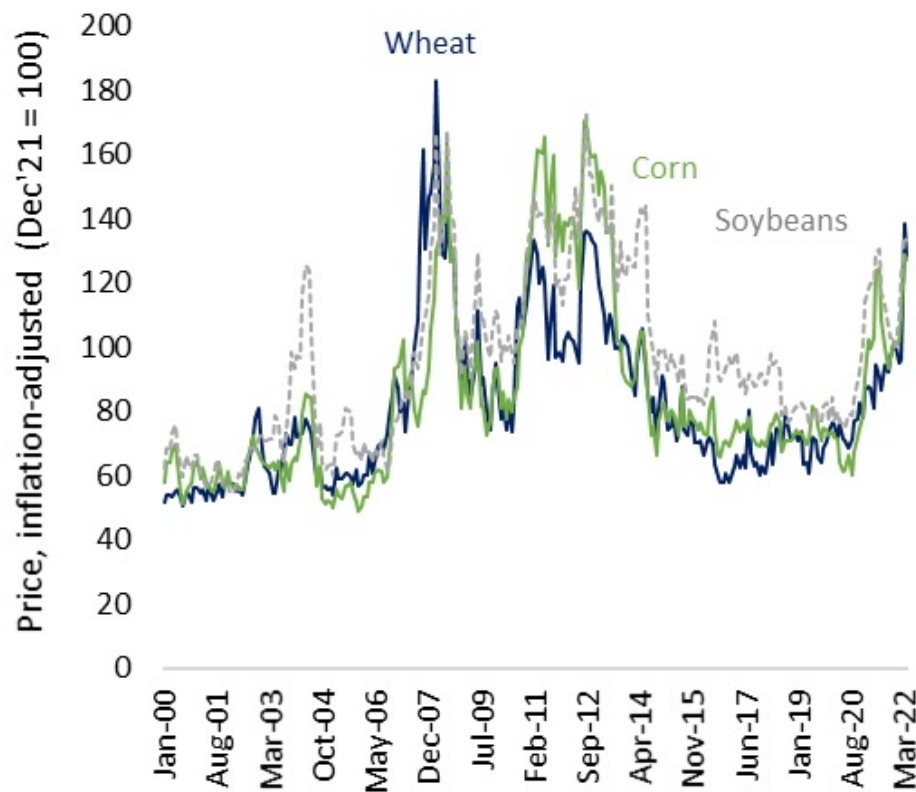
Ukraine: Wheat Production



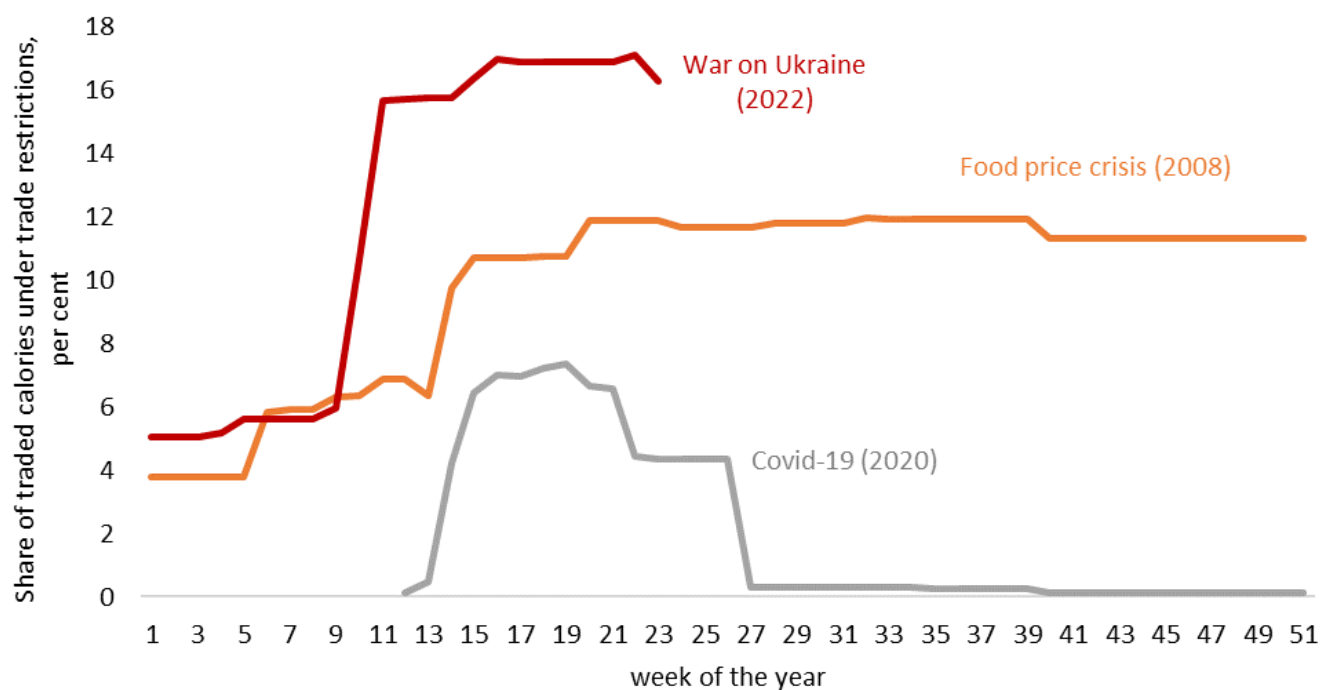
Ukraine: Sunflower Seed Production



High food prices very challenging for importers



Proliferation of export restrictions further increases vulnerabilities in global food supply



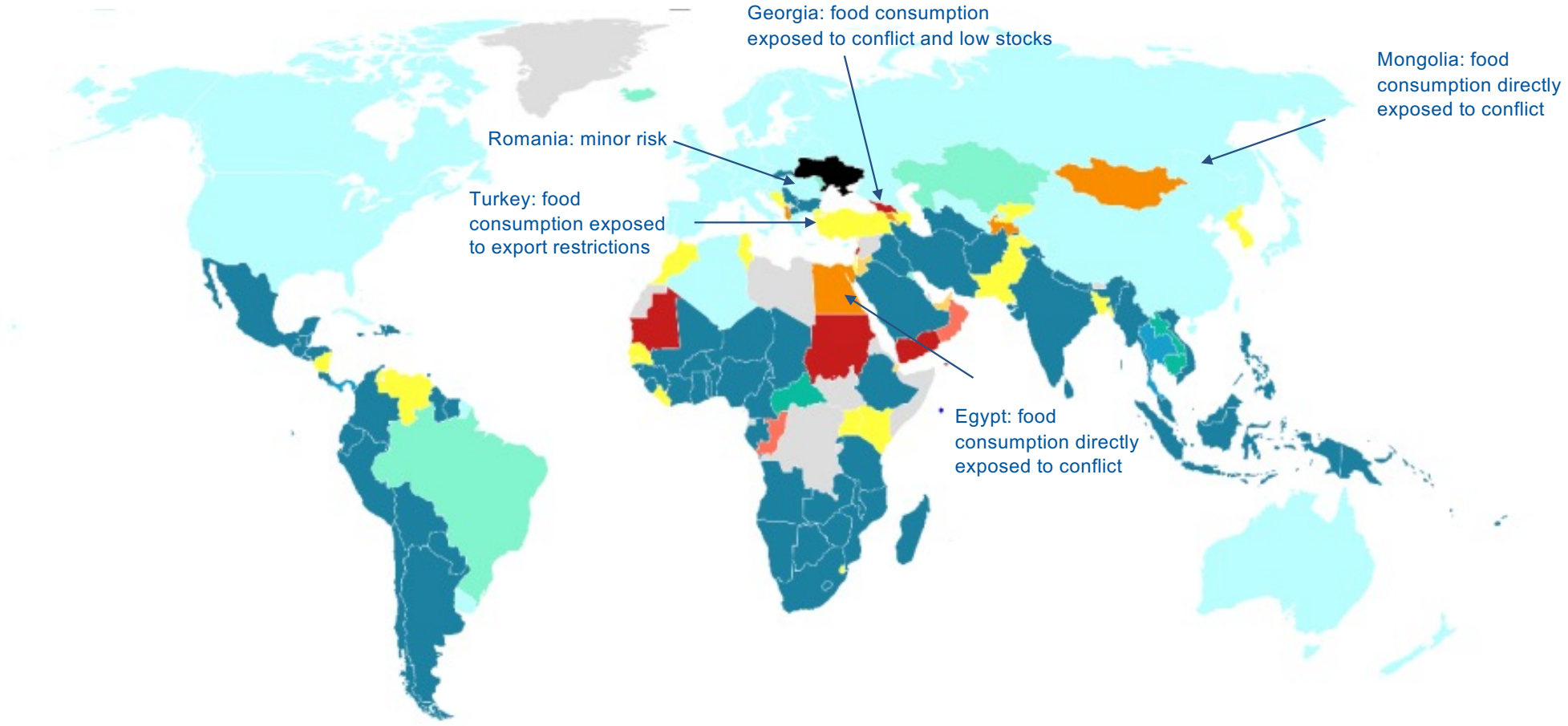
Countries with highest share of food exports under restrictions:

- Indonesia
- Algeria
- **Russia**

Export restrictions in EBRD regions:

- Ukraine
- Kazakhstan
- Serbia
- Egypt
- Turkey

Economies in North Africa, Central Asia and the Caucasus particularly vulnerable to rising food prices & export restrictions

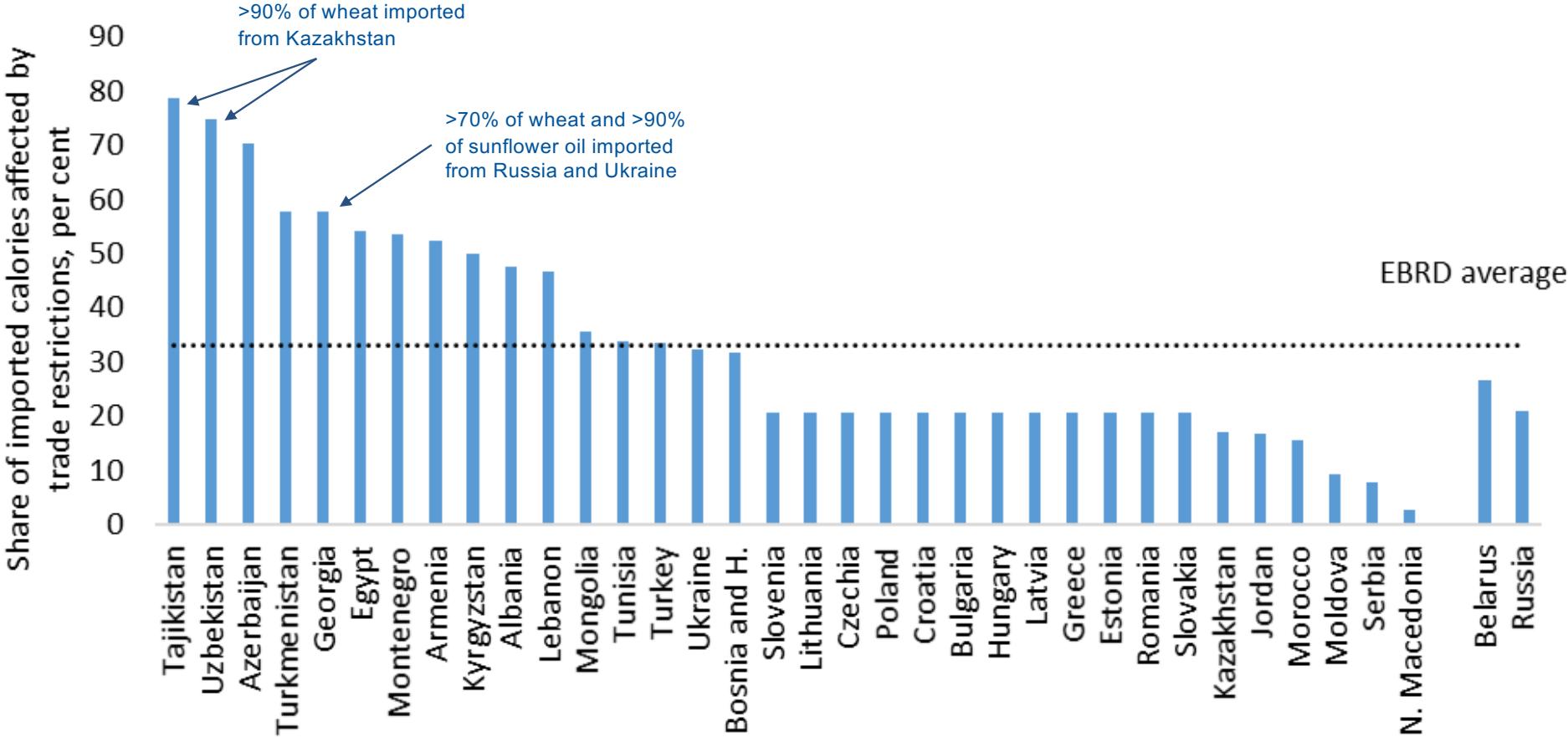


Source: International Food Policy Research Institute

Food imports in Central Asia and the Caucasus affected by trade restrictions

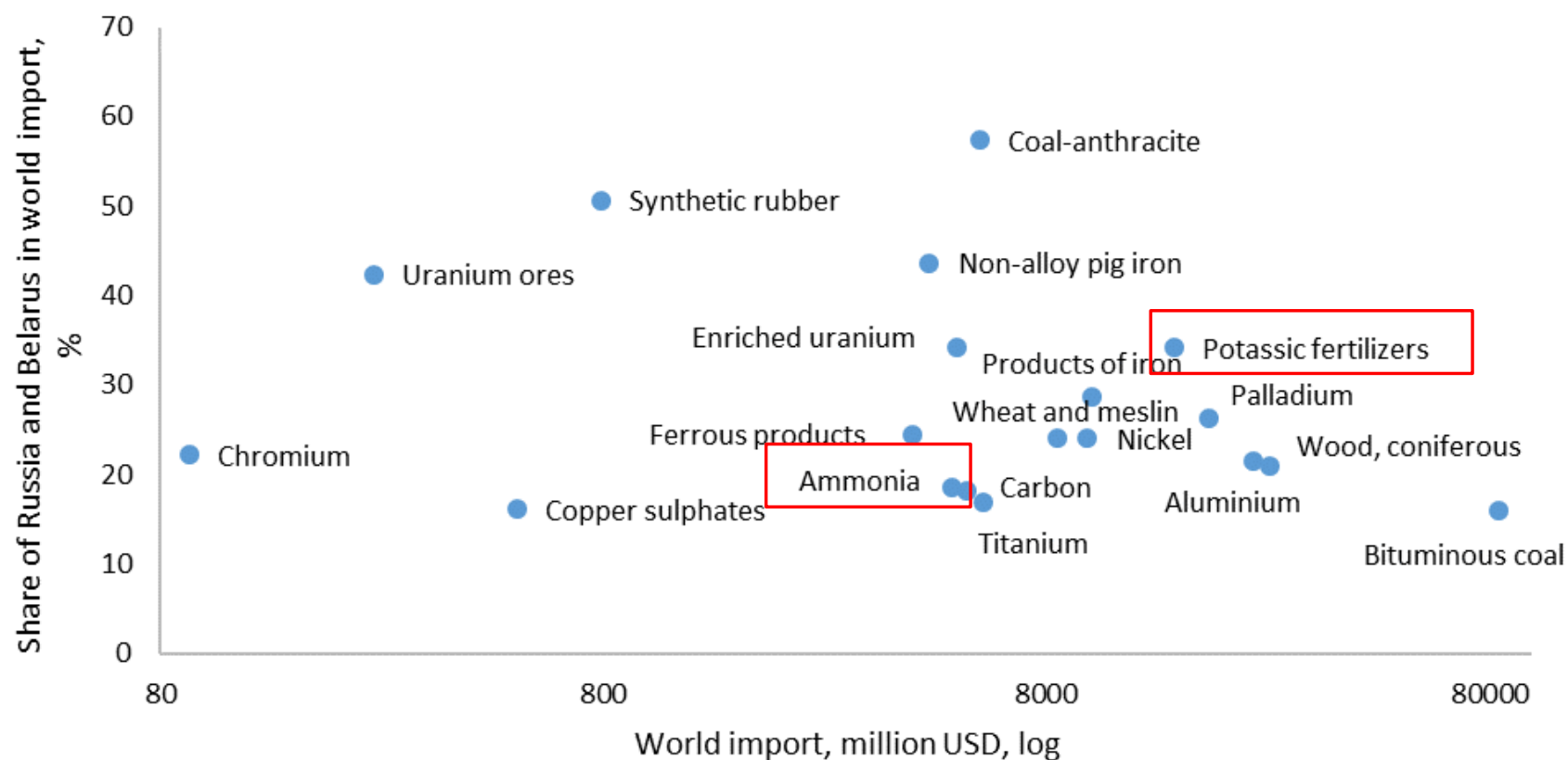


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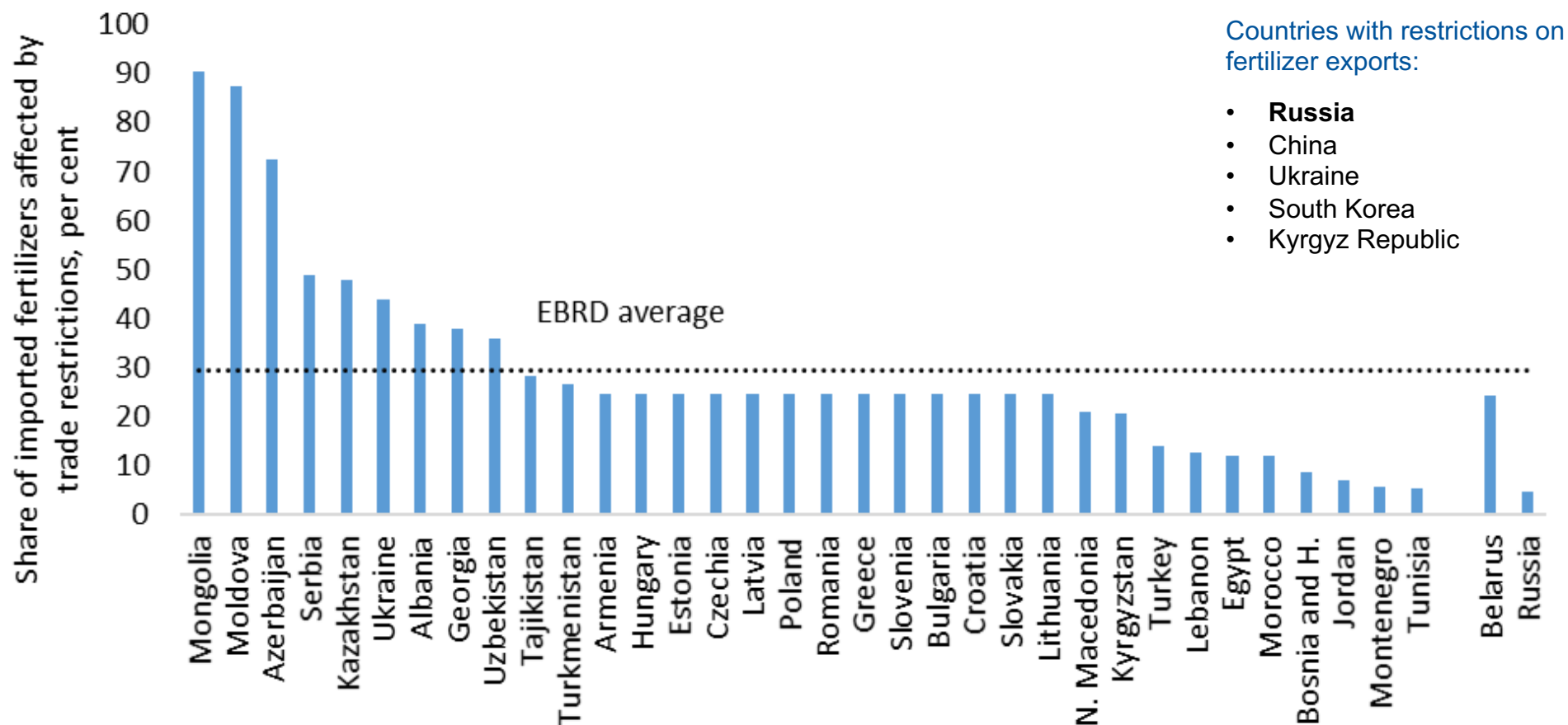


Source: International Food Policy Research Institute and authors' calculations.

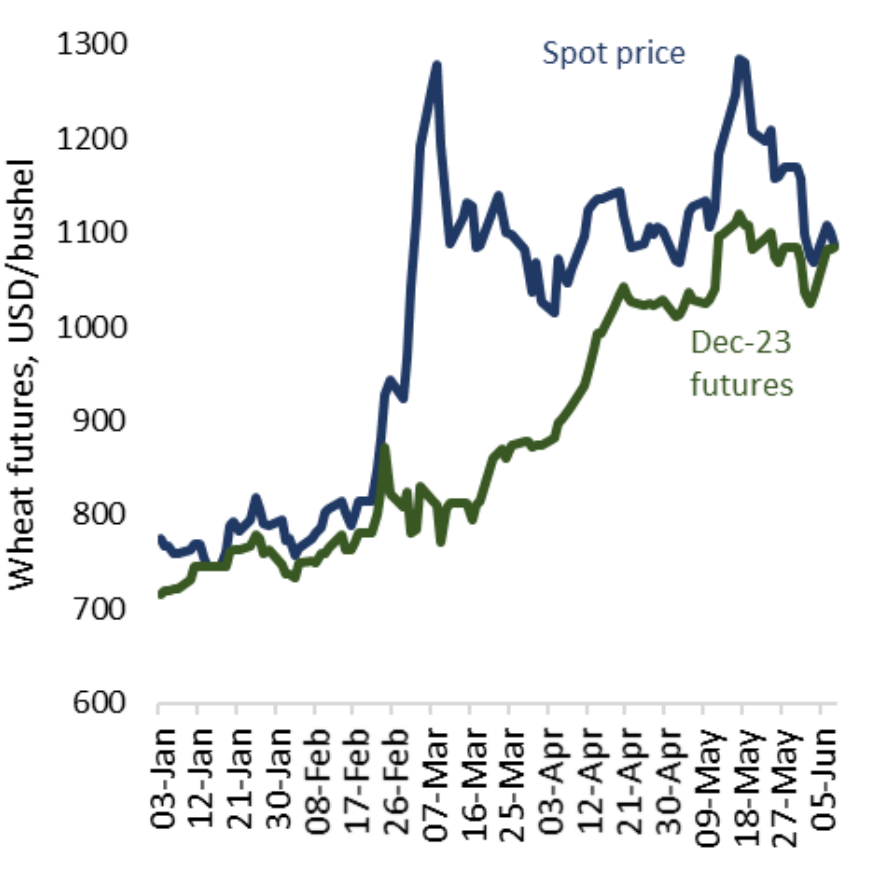
Trade pressure points: Russia + Belarus are major exporters of fertilizer inputs



29% of fertilizer imports in the EBRD regions are affected by trade restrictions – effects to be felt next year

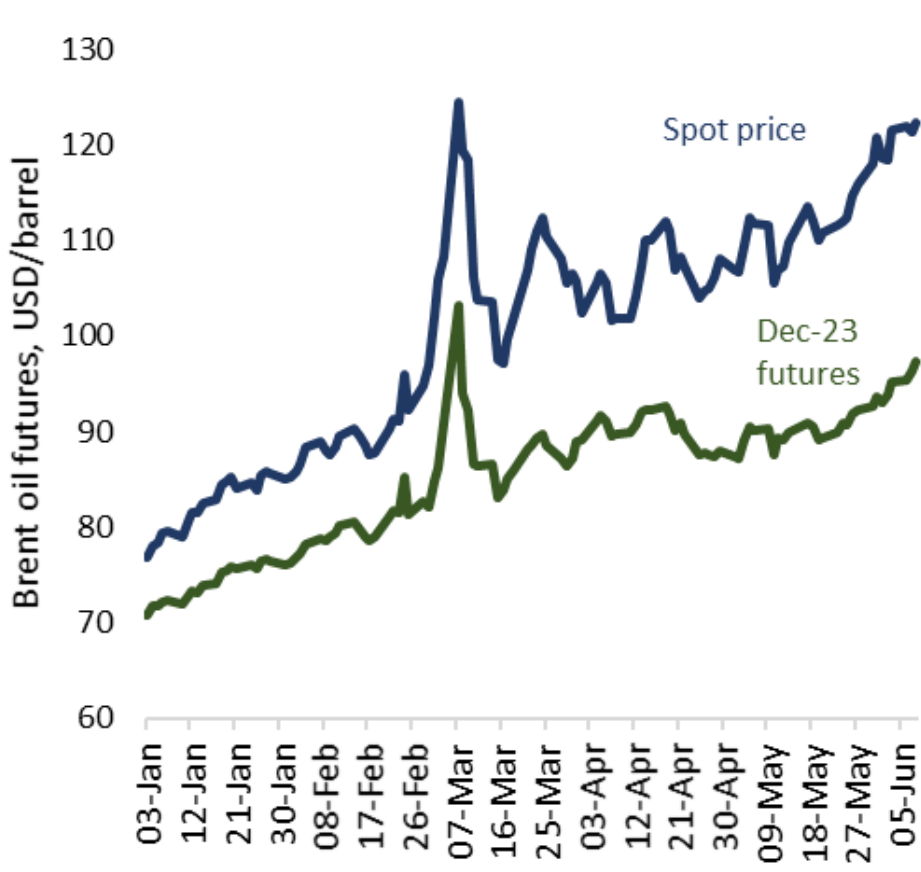
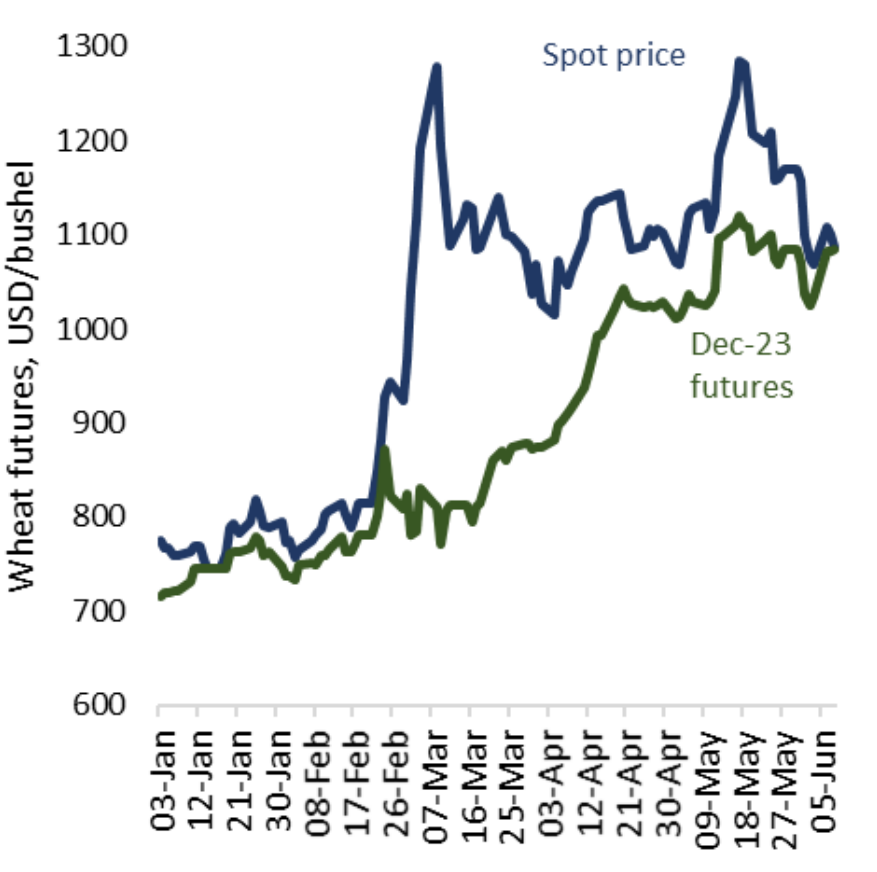


Markets expect a long-term supply crunch for wheat



Source: Bloomberg and authors' calculations

Markets expect a long-term supply crunch for wheat, in contrast to expectations in oil markets



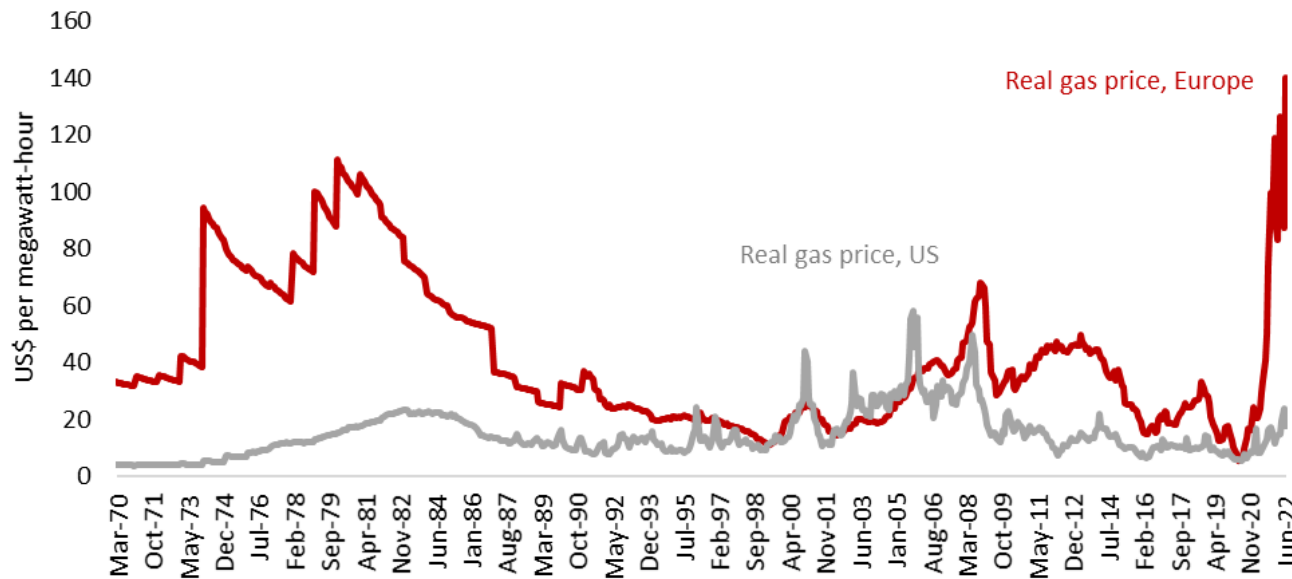
Source: Bloomberg and authors' calculations



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Shock to international energy markets

Gas prices are regional & currently above historical peaks putting Europe at a competitive disadvantage



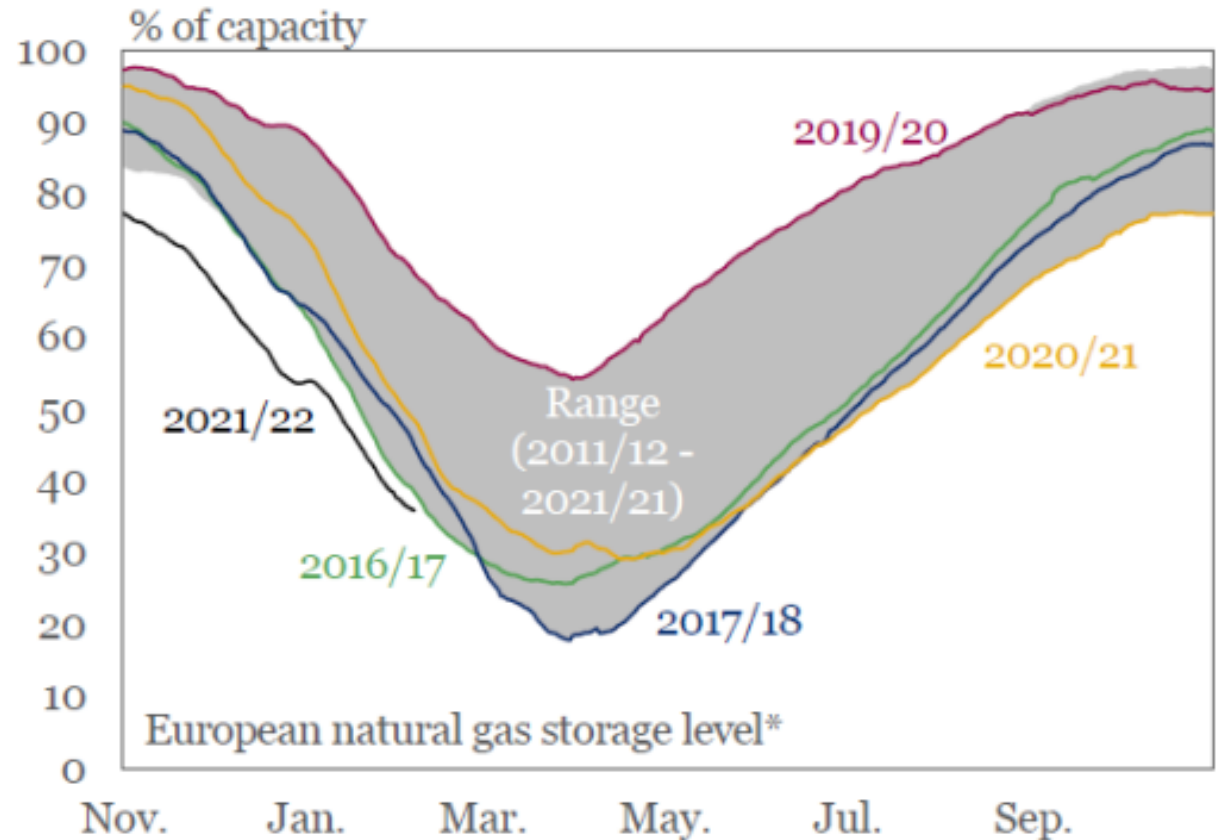
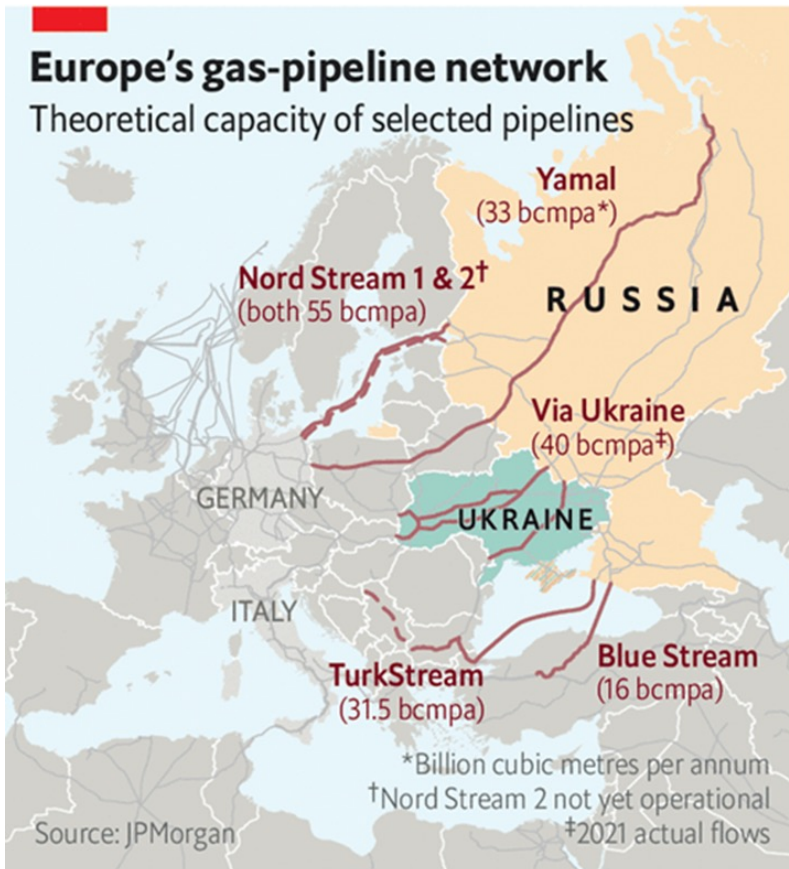
The Economist

Source: IMF, World Bank via CEIC and authors' calculations. Historical prices have been adjusted for US inflation.

Stocks will need to be rebuilt from the lowest level in recent history

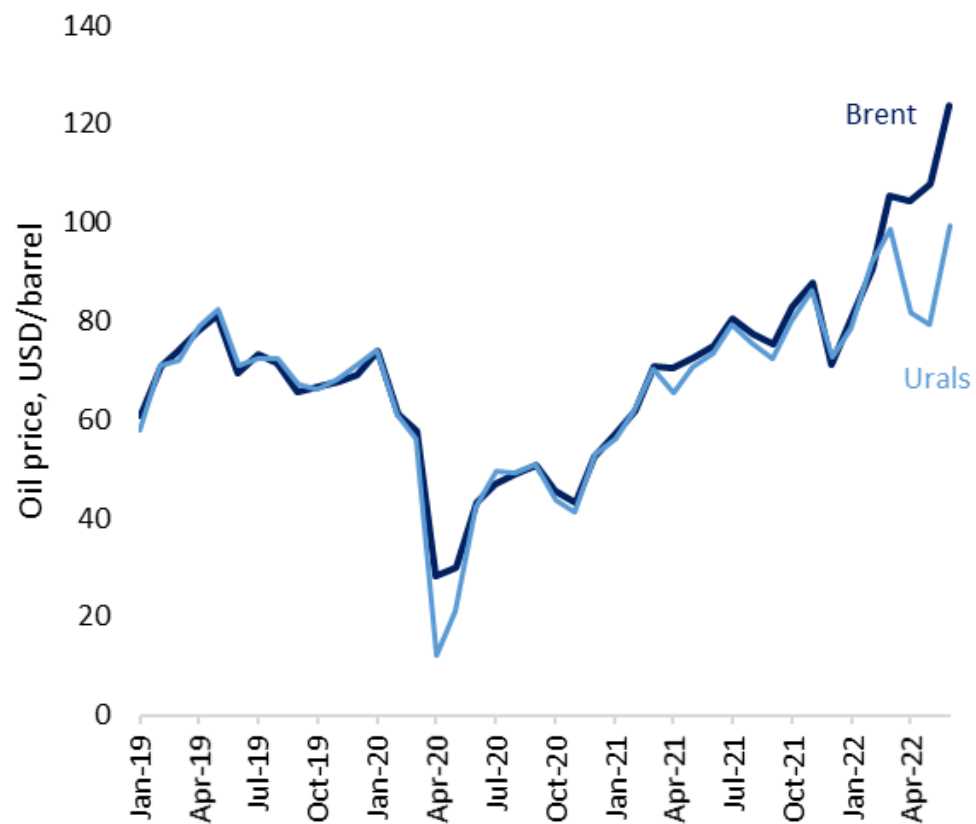


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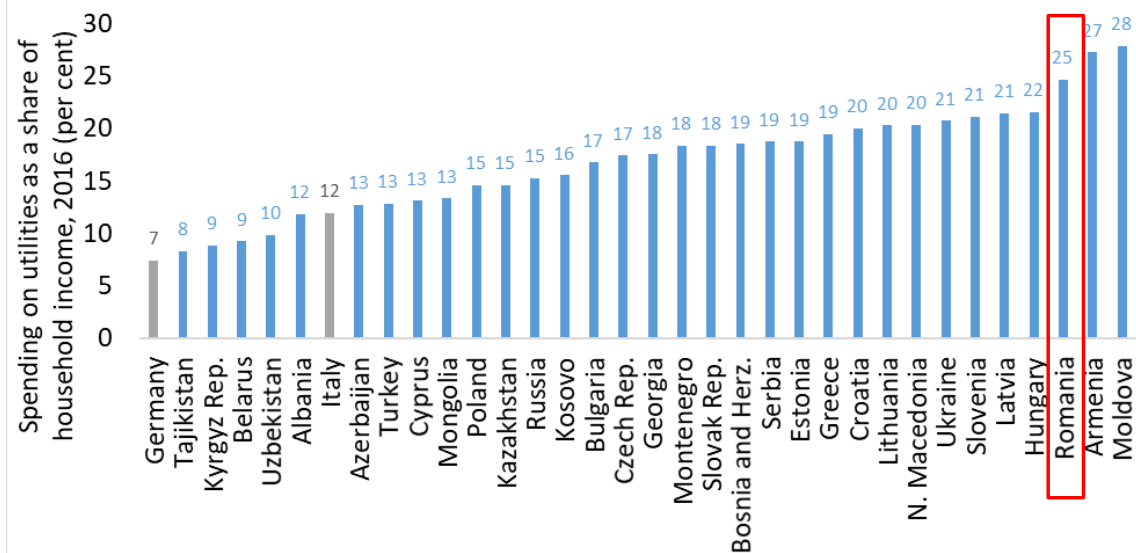
The Economist

Divergence between Brent and Urals prices

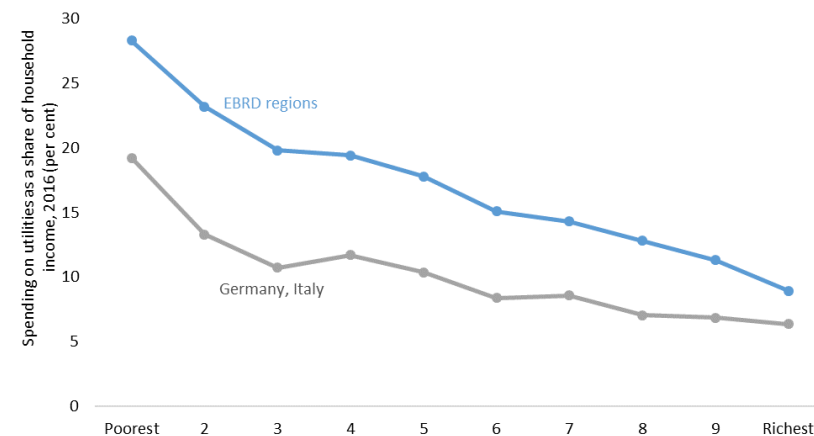


Consumers in emerging markets hit harder than in advanced economies

Utility payments as % of household income



Poorer households spend a higher share of their income on utilities



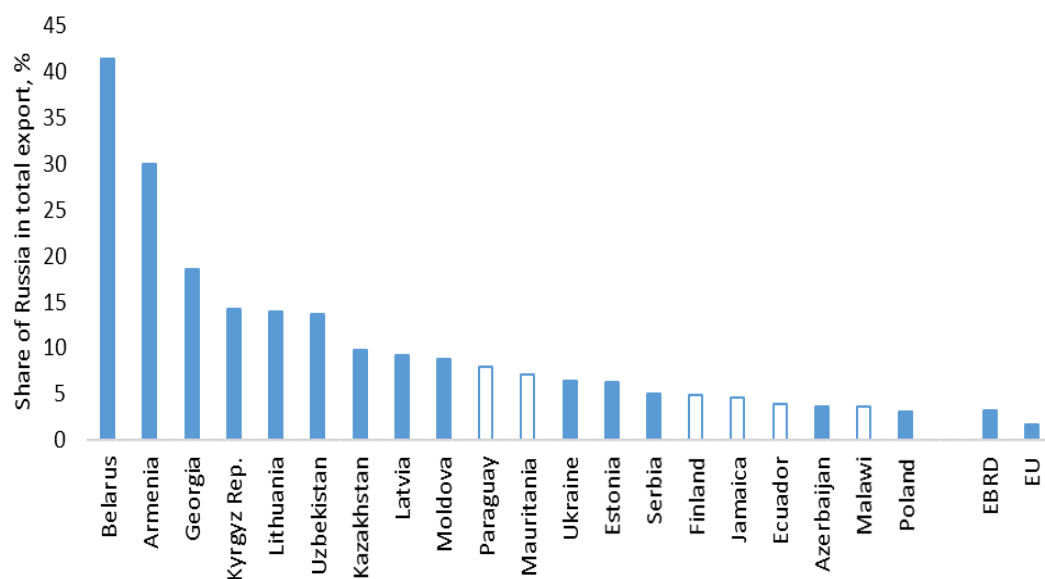


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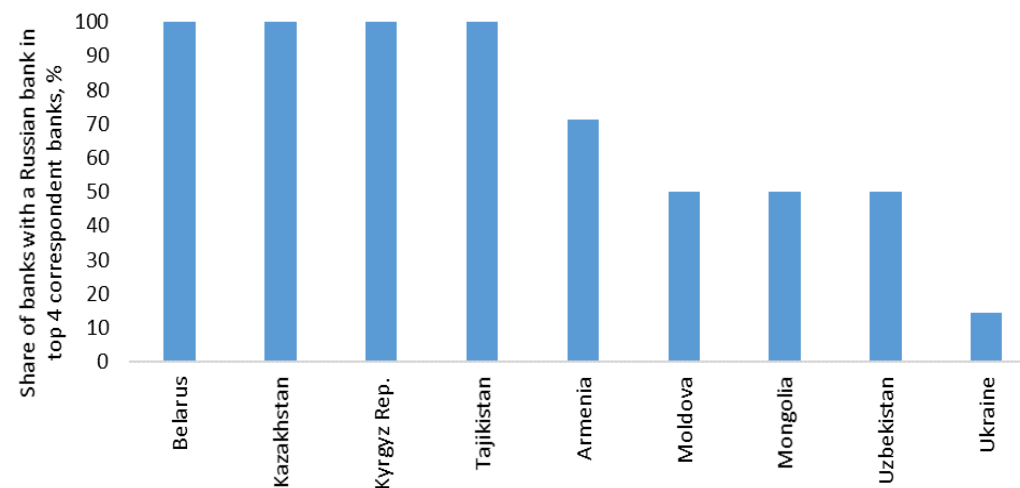
Other channels

Reliance on Russia as an export market and transit country for exports

Export to Russia is concentrated in EBRD regions, Africa and South America



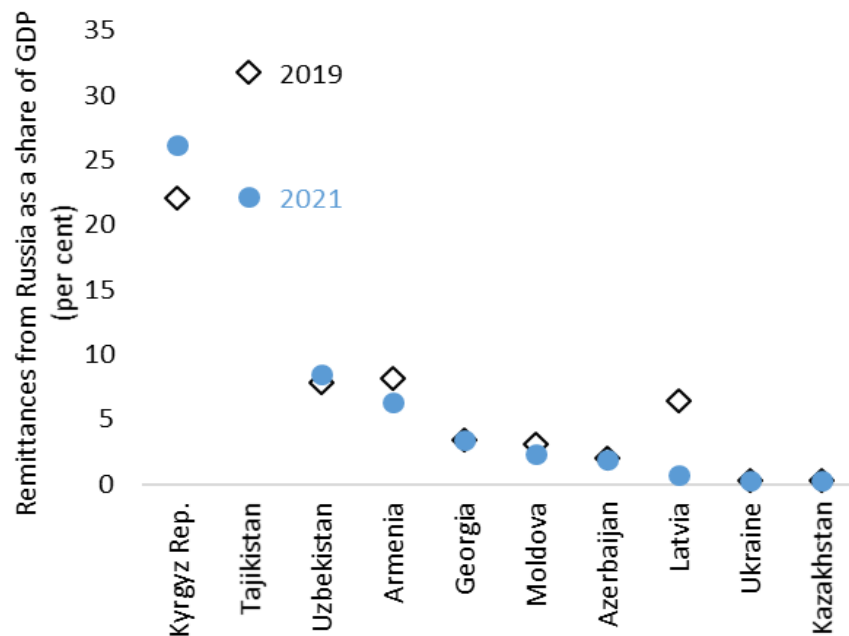
High reliance on Russian correspondent banks and Russian infrastructure and logistics for exports



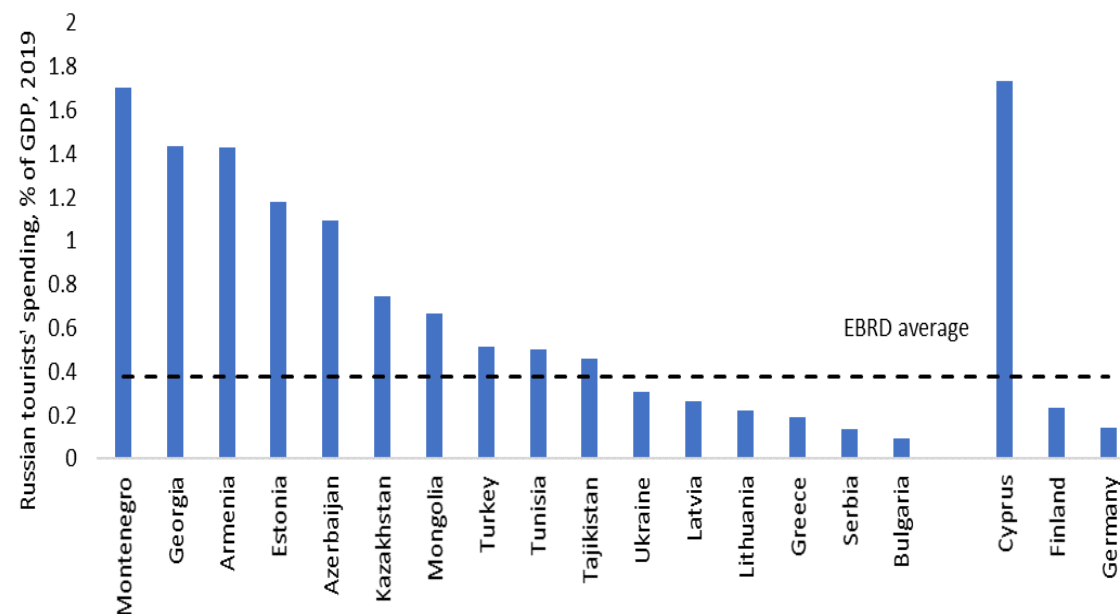
Source: IMF, Central Bank of Russia, World Bank KNOMAD.

Lower remittances and lower tourist arrivals

Remittances from Russia are an important source of income in Central Asia

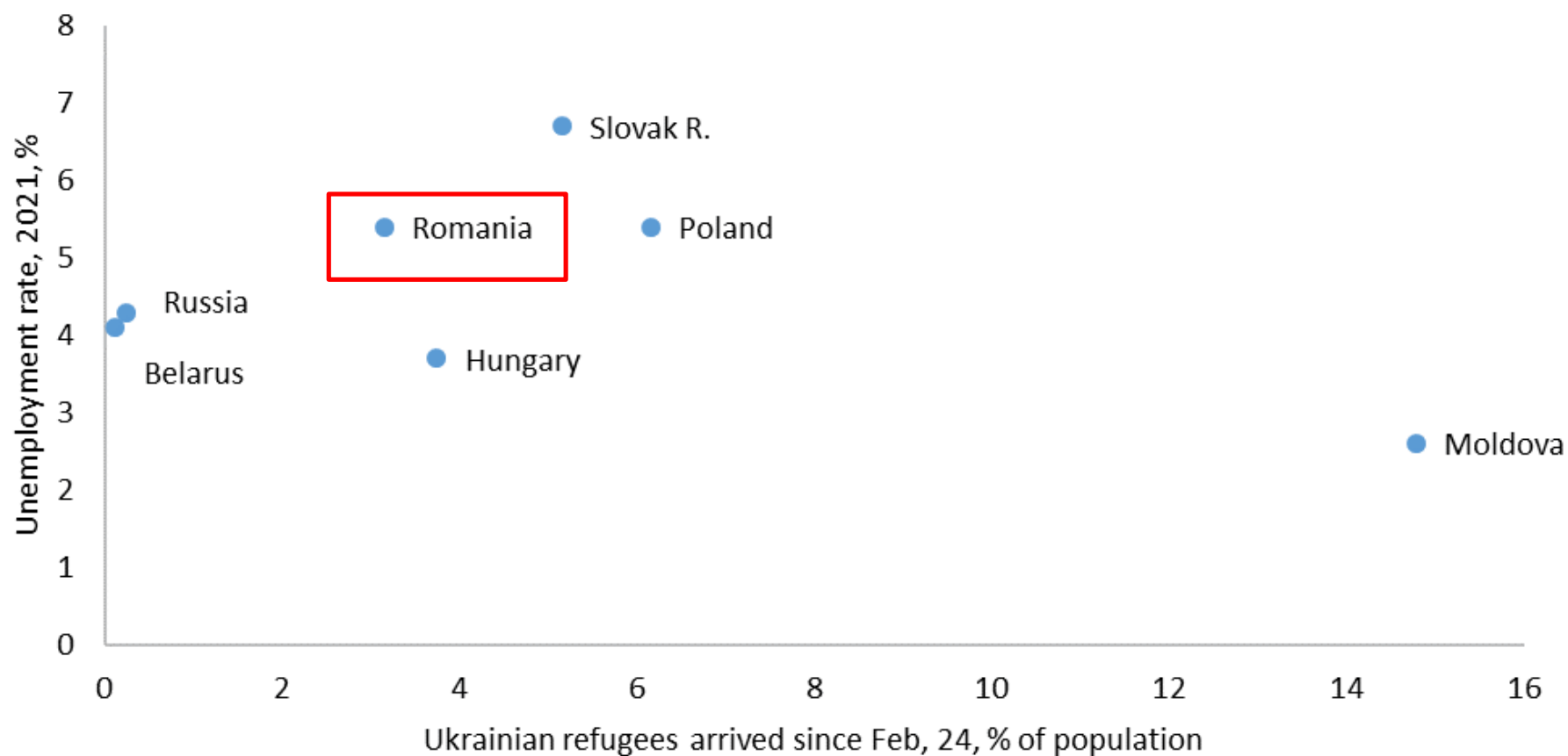


Russian tourist spending accounts for a significant share of GDP



Source: IMF, Central Bank of Russia, World Bank KNOMAD.

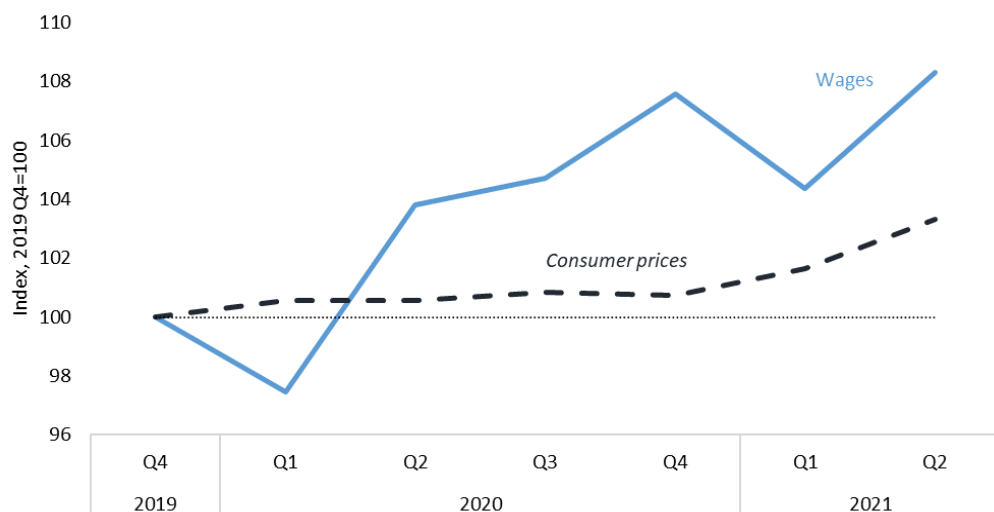
Sudden influx of refugees has posed challenges for receiving countries



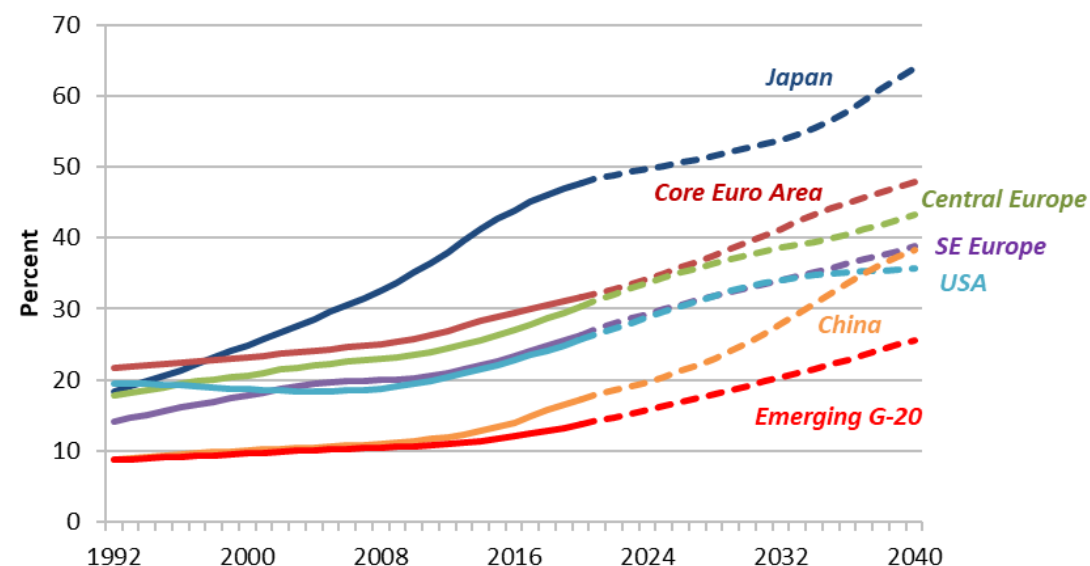
Source: United Nations High Commissioner for Refugees, national authorities and authors' calculations. Arrivals as of 30 March.

Influx of refugees may ease labour market pressures in the short term and negative demographic trends in the medium term

Rapid wage growth contributed to rising inflation in Central Europe



Old-age dependency ratio, %



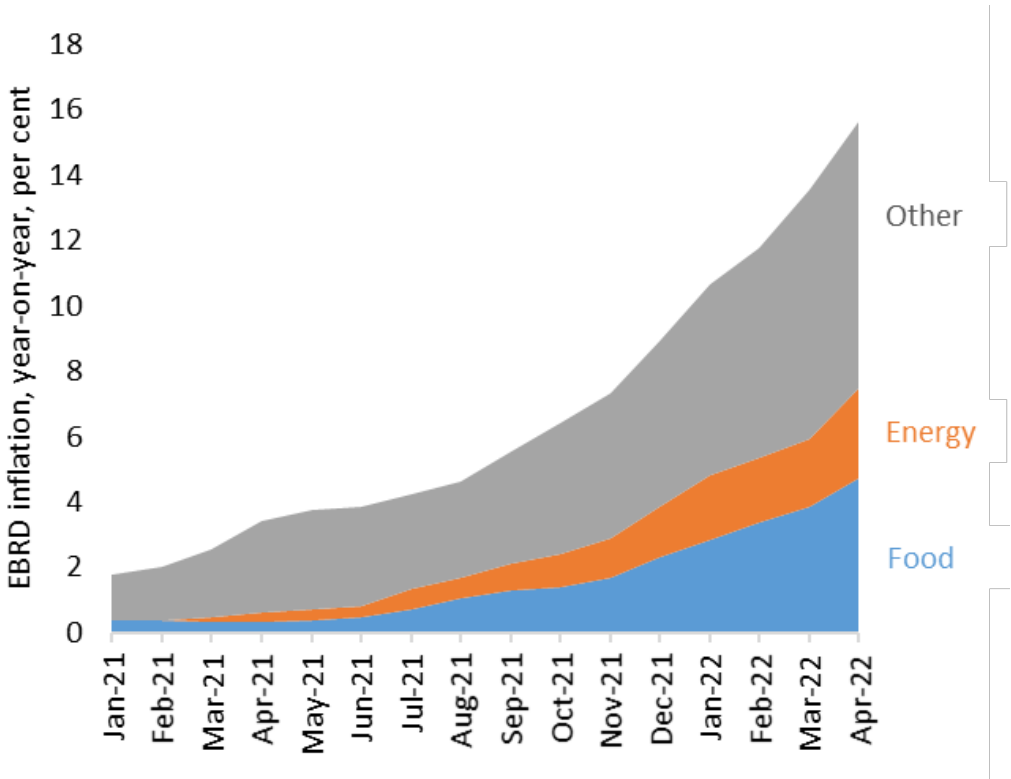
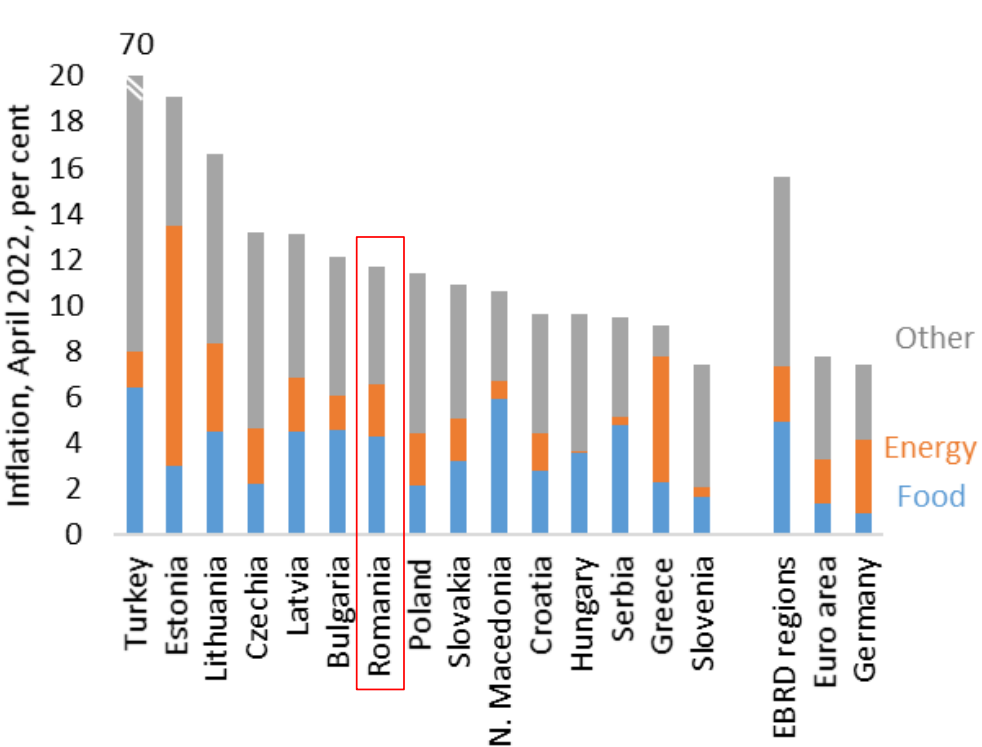


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Macroeconomic pressure points:

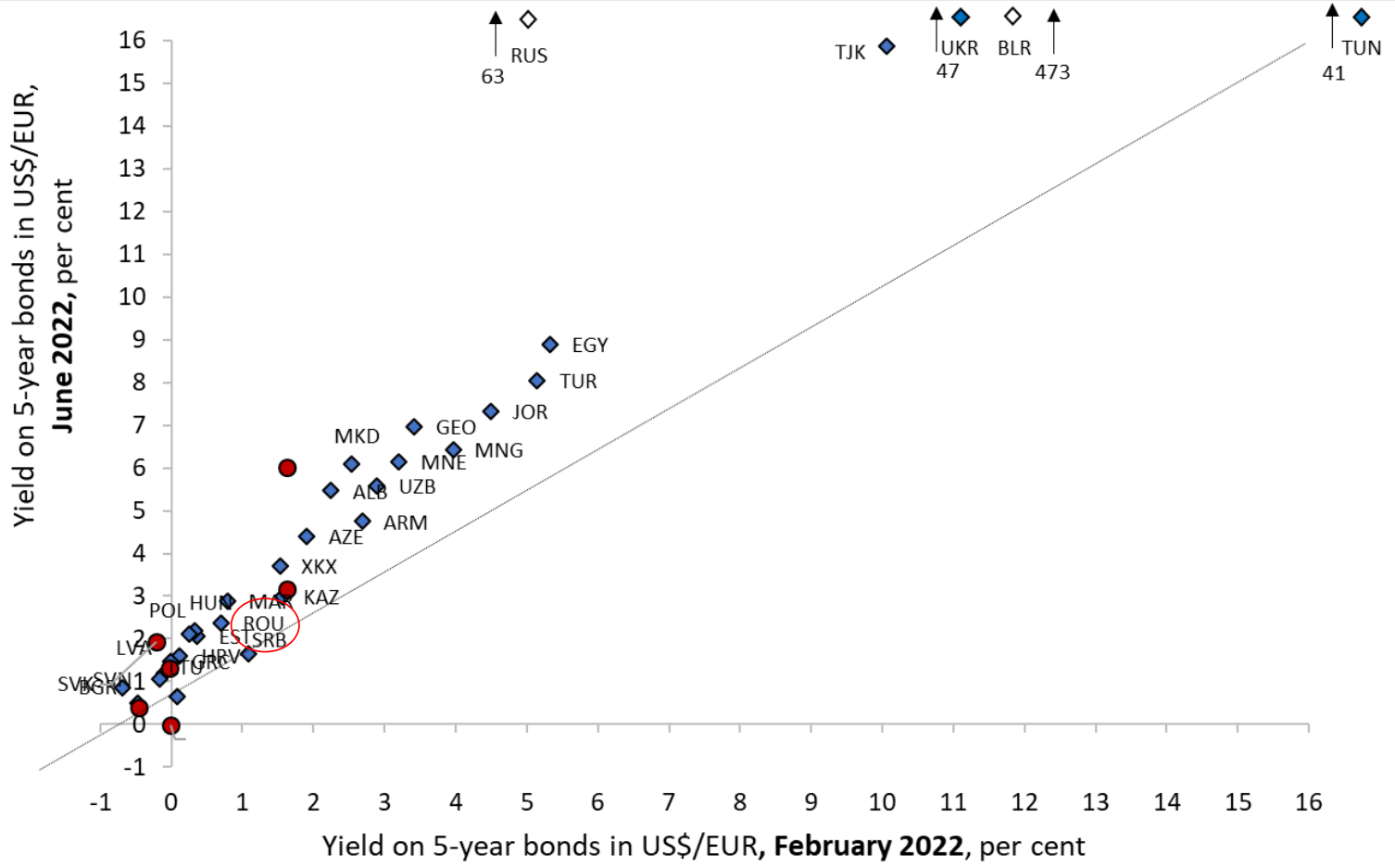
Huge challenges for policy makers

**Inflationary pressures are increasingly broad-based:
Anti-inflationary measures costly in terms of growth & revenue**



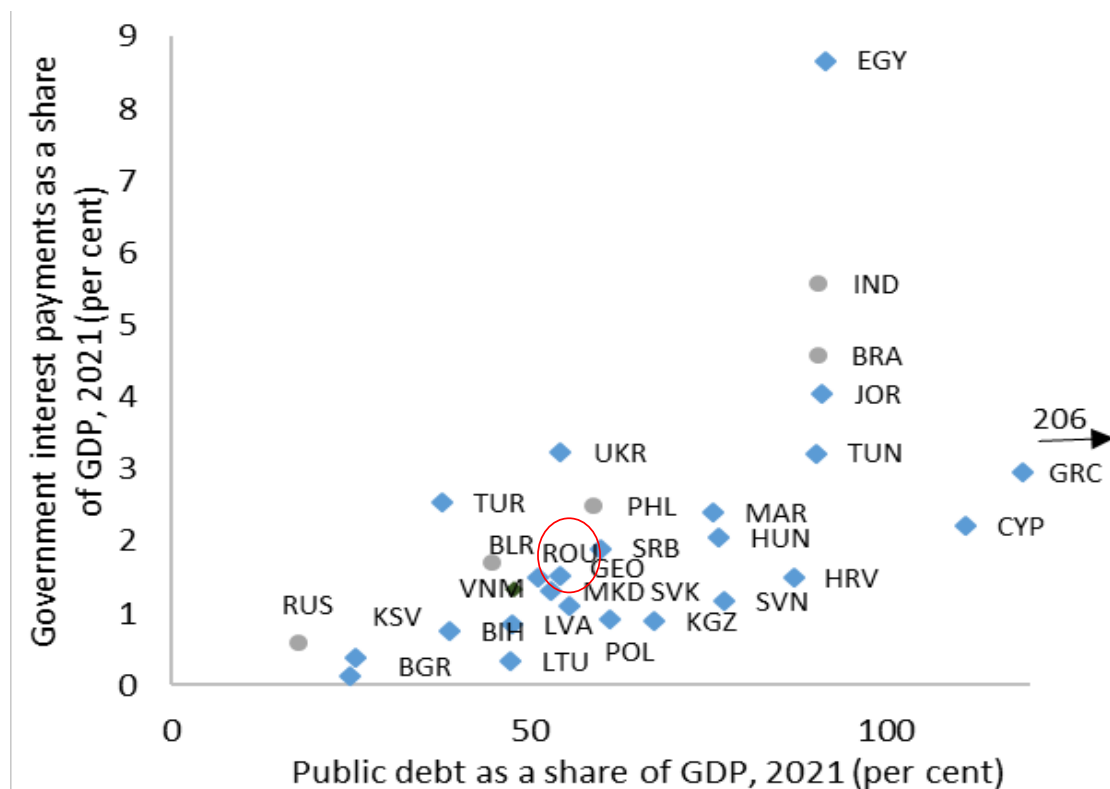
Source: Eurostat and authors' calculations. Notes: EBRD average is calculated based on 15 economies. Inflation bar for Turkey is coloured proportionally. Actual contribution of food is 22.5%, of energy 5.4%, of other 42.1%

Median borrowing costs in EBRD regions increased by 2.3% points:
 Increasing pressures on gov't finances



Source: Bloomberg and authors' calculations. Yields on 5-year government bonds in US\$, EUR or closest benchmark available.

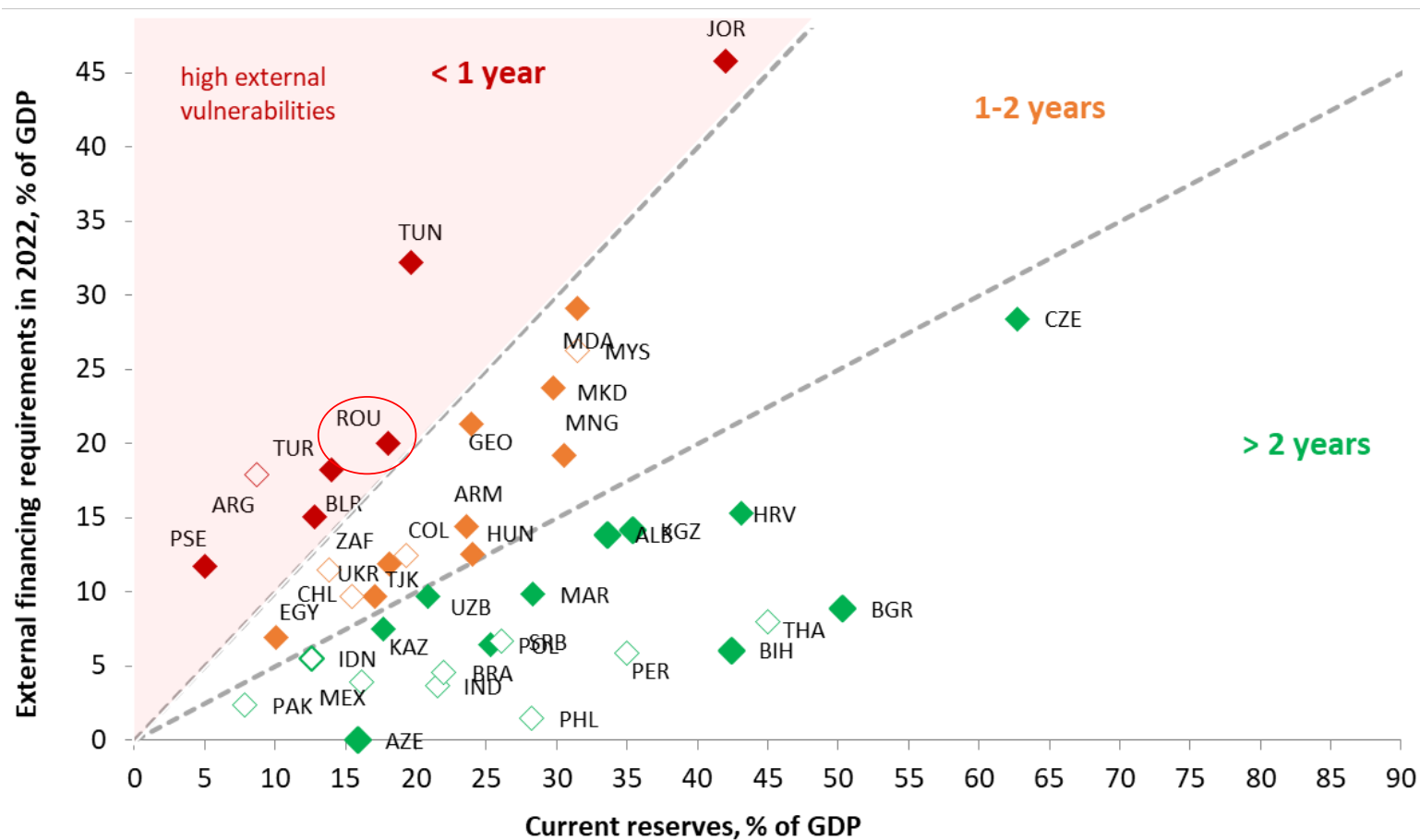
Higher costs of servicing public debt leaves less room for other types of public spending



Triple whammy of high

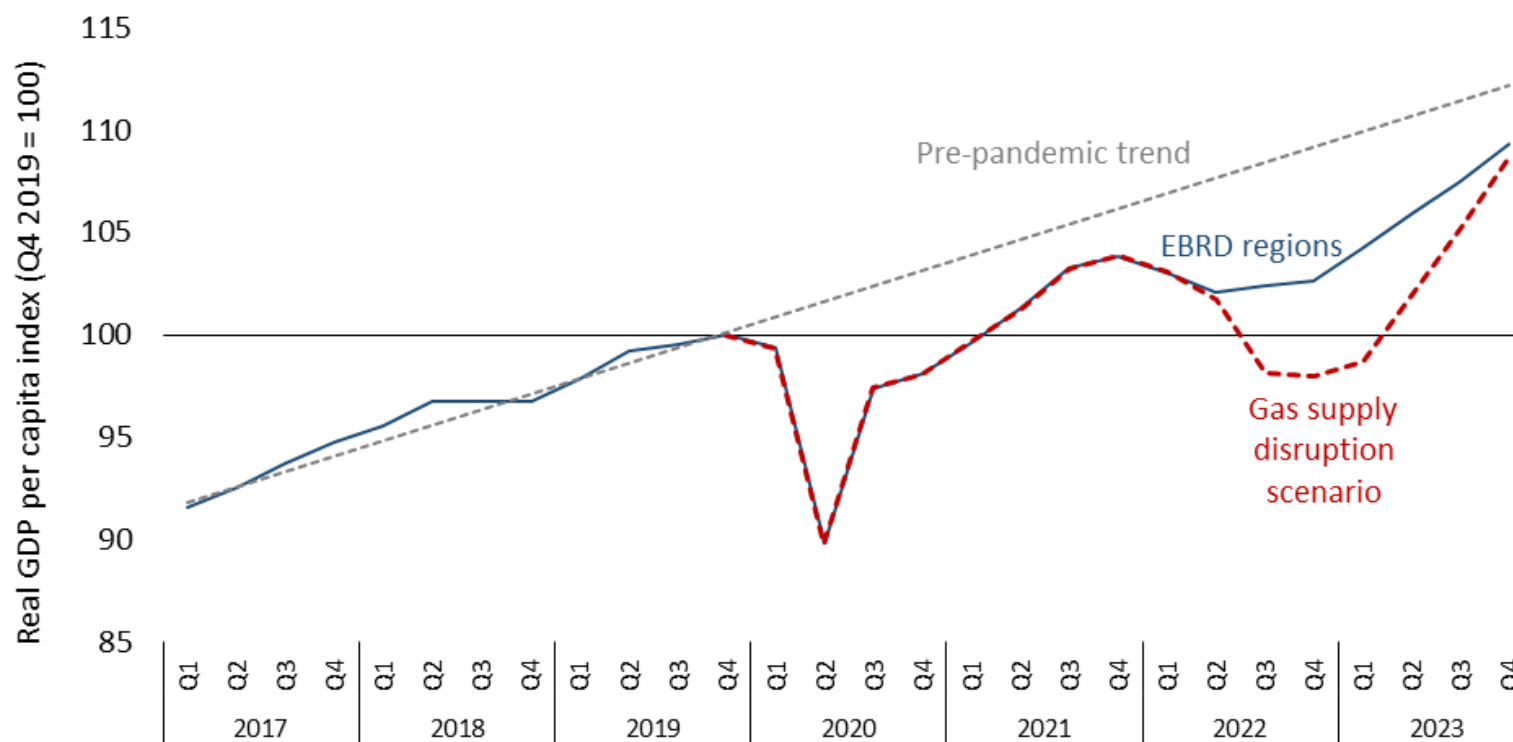
- food prices
- public debt burden
- interest rates

Higher import bills increase external vulnerabilities



Source: World Bank, IMF, national authorities via CEIC and authors' calculations. Russia not shown.

In a scenario of discontinued gas supplies from Russia gains from post-Covid recovery would be wiped out in 2022



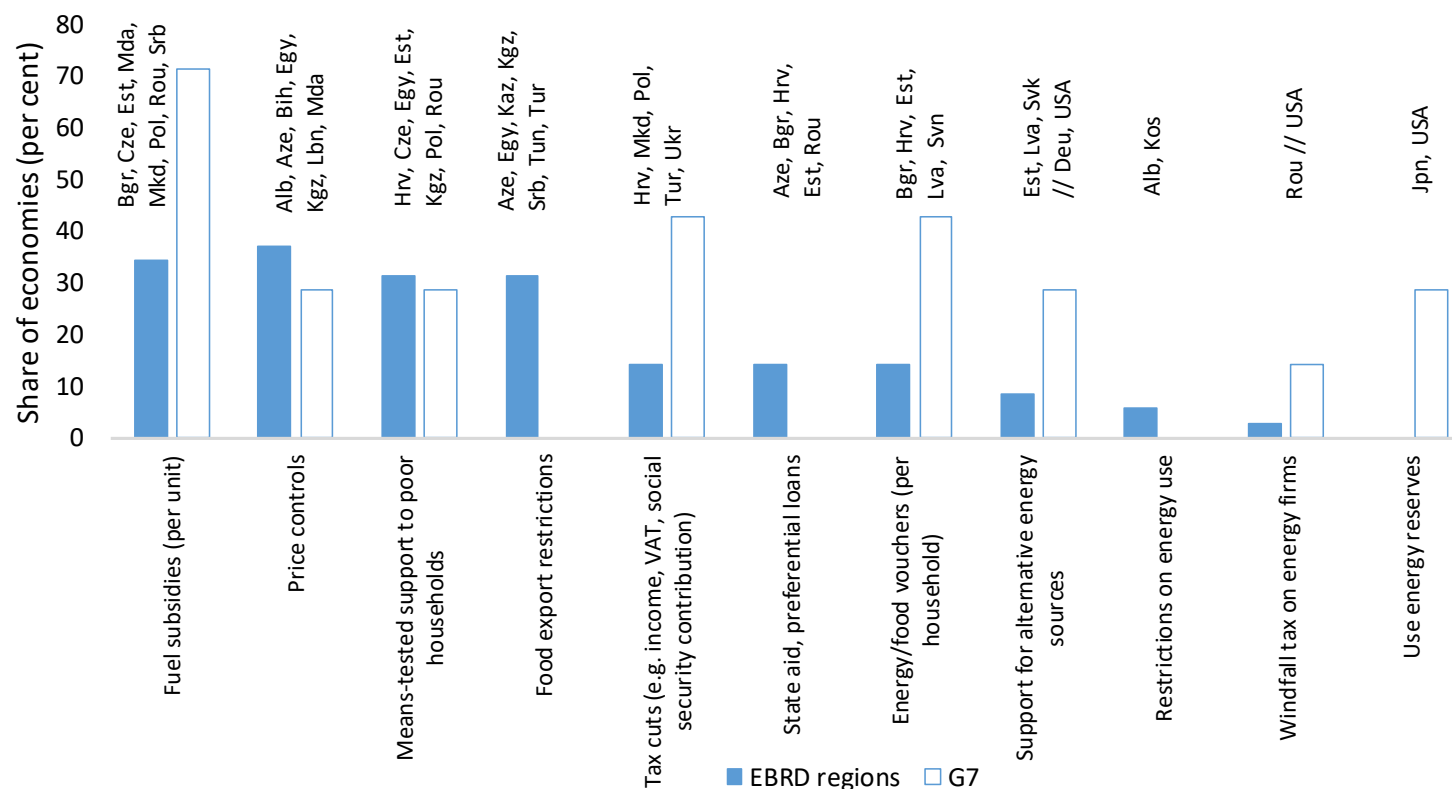
Notes: Weighted averages using GDP at market exchange rates.



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A wide range of gov't responses

Gov'ts introduced a wide range of measures to mitigate the impact of high energy and food prices on households and firms



Romania: 80% windfall tax on electricity producers; energy subsidies for households

Poland: VAT on petrol lowered from 23% to 8%

Czech R: reduction in the excise tax on petrol and diesel of CZK 1.5 (€0.06) per litre

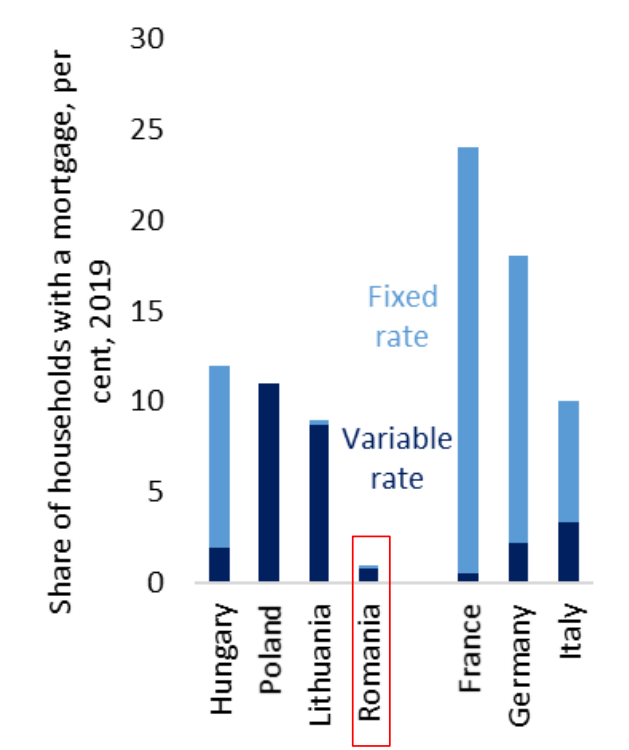
Hungary: Capped prices of various food staples, fuel until 1 Jul; grain export restrictions

Poland: an allowance of up to €106 per person per year

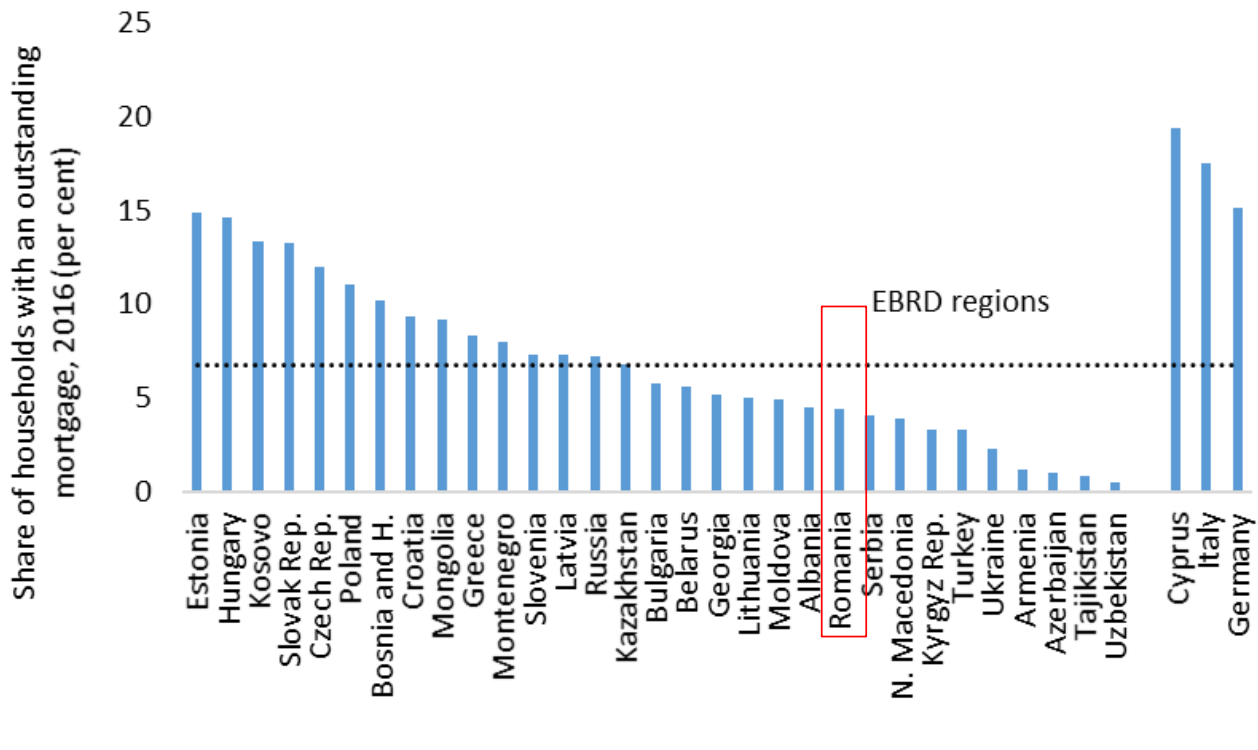
Kyrgyz R: handouts of flour; 50% discount on electricity bills to low-income households

As monetary policy is tightened to tame inflation, mortgage servicing costs are rising

The Economist, 2019



LITS, 2016



Source: LITS, The Economist and authors' calculations

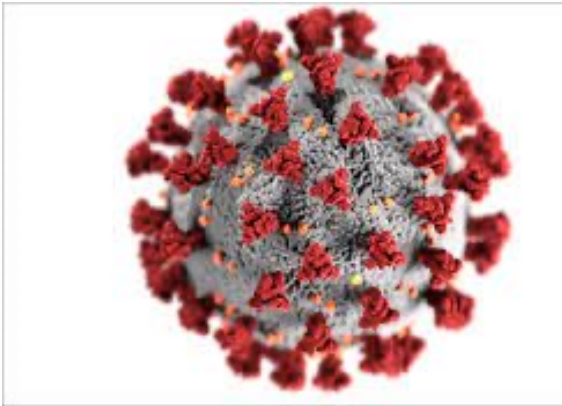


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Long-term implications:

Changes to supply chains present opportunities

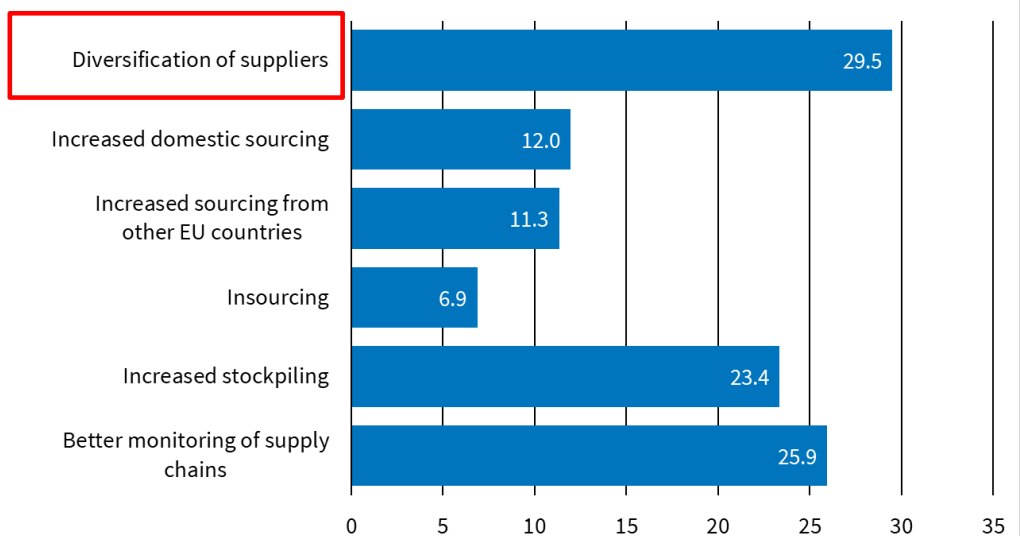
Supply chain disruptions are not going away any time soon . . .



Increased focus on diversification of suppliers among German manufacturers

Manufacturing sector

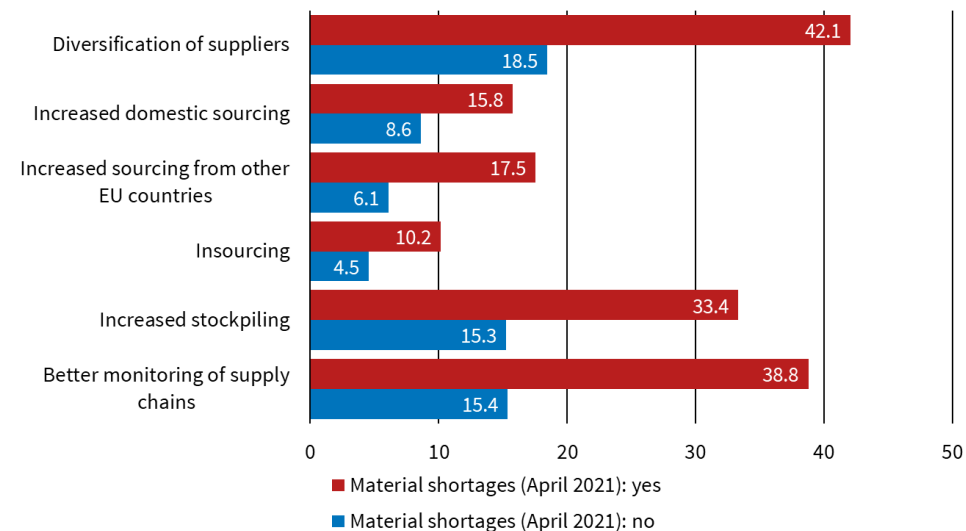
Planned adjustment of sourcing strategy (%)



© ifo Institute

Material shortages

Planned adjustment of sourcing strategy (%)



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