Economic repercussions of Russia’s war on Ukraine – Weekly Digest

This paper provides a summary of recent economic, financial and budgetary decisions and developments following President Vladimir Putin’s decision of 24 February to start a military attack against Ukraine. Furthermore, it includes a description of the EU sanctions adopted so far. It also highlights related policy recommendations made in the public domain to mitigate any adverse economic, financial and social effects and to support economic recovery in the EU and the Euro Area.

EU sanctions imposed so far

Setting the scene: how EU sanctions are adopted and implemented

One of the instruments the EU can (and is using) to bring about changes and exert pressure on Russia to stop its military attack on Ukraine are the so-called “sanctions”, more properly referred as “restrictive measures” (sanctions will be used hereafter for brevity). EU sanctions can either replicate those imposed by international organisations (such as the Security Council of the United Nations’ sanctions) or be EU-specific (or a combination of both). Sanctions are instruments of foreign policy and based on article 29 of the Treaty of the European Union. They target non-EU individuals and firms but are binding on EU nationals or persons located in the EU or doing business here (territorial effect of sanctions).

Sanctions can take a variety of forms, notably restrictions on admission (travel bans), asset freezes and economic measures such as restrictions on imports and exports.

Decisions on the adoption, renewal, or lifting of sanctions regimes are taken by the Council (Foreign Affairs formation), on the basis of proposals from the High Representative of the Union for Foreign Affairs and Security Policy (CFSP; the first sanctions regarding Ukraine were taken in 2014 and have been amended since, with a first package of CFSP decisions from 23 February following the Russia invasion of Ukraine). If the CFSP includes measures with economic and/or financial implications, those measures need to be implemented through a Council implementing regulation (see here) based on article 215 of the Treaty on the Functioning of the European Union. Based on the CFSP decision, the High Representative and the European Commission (led by DG FISMA) present a joint proposal for a Council implementing regulation. The CFSP Council decision and the Council implementing regulation are adopted together to allow for both legal acts to produce their effects at the same time.

Member States are the addresses of such decisions and are due to implement and enforce the sanctions. DG FISMA monitors implementation and enforcement.
Sanctions framework and its implementation

The effectiveness of sanctions depends on their **coherent implementation**. Commissioner McGuinness mission letter mentions “I want you to ensure that the sanctions imposed by the EU are properly enforced, notably throughout its financial system”. The current crisis requires to take stock of its implementation and enforcement. A Commission press release of 26 February provides some information to that effect.

First, the Commission is keeping updated its “sanctions map” (see here, and here on Ukraine) and providing additional information on each package of measures (see notably here a full list of sanctions with financial/economic impact can be found here). Second, the Commission made available a “sanctions whistleblowing tool” to facilitate reporting on potential violation of sanctions. Third, the Commission will be replying to questions from market participants as to the scope and interpretation of sanctions. Questions are also being collected and filtered by the European Supervisory Authorities. Furthermore, the Commission issued guidance on export-related sanctions (see notably here and here). Such actions are an important contribution to increasing transparency, raising awareness and facilitating compliance with the sanctions, thus contributing to its effectiveness. In addition, through its Freeze and Seize’ Task Force, the Commission is working alongside the newly established 'Russian Elites, Proxies, and Oligarchs (REPO)’ Task Force to ensure international coordination and effectiveness of the sanctions.

On 16 March, Commissioner McGuinness underlined that: “We need to ensure that those who provide services - financial, legal and others - to oligarchs to facilitate sanctions evasion are fully aware of the risks they run. The focus of our work is to stop money flowing to the Russian war machine. Wealthy oligarchs need to know that they will not find any safe haven in the EU or elsewhere. We will follow any and all efforts to breach our sanctions legislation and there will be consequences.”

In that context, the Commission Communication of January 2021 (“The European economic and financial system: fostering openness, strength and resilience”) set out the Commission strategy to a more resilient and open global economy, well-functioning international financial markets and the rules-based multilateral system and to increasing the EU’s resilience to the effects of the unlawful extra-territorial application of unilateral sanctions and other measures by third countries. In the Communication, the Commission committed to a number of actions regarding the sanctions framework, notably to:

- contribute, from 2021, to the assessment of the effectiveness of EU sanctions, by examining “the economic impact of sanctions on the entities subject to them, on trade patterns between the EU and the country concerned, on EU businesses and on the provision of humanitarian aid. Based on this assessment, the Commission will coordinate with the High Representative to propose to improve the effectiveness of EU sanctions regulations”;

- conduct, in 2021, “a review of practices that circumvent and undermine sanctions, including the use of cryptocurrencies and stablecoins. The results of this will inform possible legislative proposals or implementation guidelines from 2022”;

- also in 2021, develop a database to ensure effective reporting and exchange of information between Member States and the Commission on the implementation and enforcement of sanctions (the so-called Sanctions Information Exchange Repository);

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1. The Task Force was set up by the Commission to ensure EU-level coordination to implement sanctions against listed Russian and Belarussian oligarchs. It is composed of the Commission, national contact points from each Member State, Eurojust and Europol as well as other EU agencies and bodies as necessary. It will coordinate actions to seize and, when possible, confiscate assets of Russian and Belarussian oligarchs. The Commission provides strategic coordination and Eurojust and Europol ensure operational coordination. The first meeting took place on 11 March and was chaired by Commissioner Reynders; a second meeting is foreseen to 18 March. The Task Force is set to meet at least weekly.

2. Composed by representatives of the EU and the G7 countries Canada, France, Germany, Italy, Japan, the United Kingdom and the United States, as well as Australia and set up by Ministerial Declaration on 16 March. It aims at ensuring the effective implementation of the sanctions, to assist other cooperating nations to locate and freeze assets and to determine the possibility to forfeiture the frozen assets.
- set up a specific group with the Member States to discuss the implementation of EU sanctions, including further work to ensure that national penalties for breaching EU sanctions are effective, proportionate and dissuasive;

- establish, in 2021, a single contact point for enforcement and implementation issues with cross-border dimensions;

- ensure that EU funds provided to third countries and to international organisations are not used in violation of EU sanctions; and to

- set up a dedicated system allowing for the anonymous reporting of sanctions evasion, including whistleblowing (see above on this tool);

- in the first half of 2022, draw up a roadmap (including criteria and a timetable) for moving from detection of systematic non-compliance with EU sanctions to action before the Court of Justice of the European Union.

There is **limited information available on the status quo** of those initiatives.

### EU sanctions adopted so far

According to the Council, the EU has **progressively imposed sanctions** since March 2014 in response to the:

- illegal annexation of Crimea in 2014
- decision to recognise the non-government controlled areas of Donetsk and Luhansk oblasts as independent entities in 2022
- unprovoked and unjustified military aggression against Ukraine in 2022.

Overtime, the EU has imposed **different types of sanctions**:

- diplomatic measures
- individual restrictive measures (asset freezes and travel restrictions)
- restrictions on economic relations with Crimea and Sevastopol, and with the non-government controlled areas of Donetskas and Luhansk
- economic sanctions
- restrictions on media
- restrictions on economic cooperation.

Since the outbreak of the Russia-Ukraine war, there has been **four sanction packages** adopted by the Council before 17 March and a number of sanctions are targeting financial services and access to capital markets.

The **first package** of sanctions were adopted on 23 February aiming at restraining “the ability of Russian state and government to access the EU’s capital and financial markets and services ... to limit the financing of escalatory and aggressive policies”.

The **second package** of sanctions was adopted just two days later on 25 February, which even further cut off Russian access to the most important capital markets, including prohibition of “the listing and provision of services in relation to shares of Russian state-owned entities” and limiting financial inflows from Russia to the EU. According to the initial assessment, “these sanctions will target 70% of the Russian banking market, and key state-owned companies ... They will increase Russia’s borrowing costs, raise inflation and gradually erode Russia’s industrial base”.

The **third package** of sanctions followed on 28 February and “prohibited to make transactions with the Russian Central Bank or any legal person, entity or body acting on behalf or at the direction of the Russian Central Bank”. As part of the third sanctions’ package, on 2 March the Council has introduced further restrictions. Seven
banks have been prohibited from the specialised financial messaging services, which is used to exchange financial data (SWIFT). Also, the EU has prohibited investing in projects co-financed by the Russian Direct Investment Fund and provision of euro-denominated banknotes to Russia. As Belarus got also involved in the conflict, on 9 March sanctions were extended to Belarus as well.

The fourth sanction package (also here) adopted on 15 March imposed a full prohibition of any transactions with certain Russian state-owned enterprises across different sectors as well as a ban for EU credit rating agencies to provide rating services to Russia and Russian companies (it should result in further loss of access to the EU’s financial markets). Simultaneously, the Council gave green light to the Commission to join, on behalf of the EU, a plurilateral statement on aggression by Russia against Ukraine with the support of Belarus. The EU thereby confirmed its readiness to suspend concessions or other obligations with respect to the Russian Federation, such as the suspension of the most-favoured-nation (MFN) treatment to products and services of Russia, and to suspending the WTO accession of Belarus.

According to the Commission assessment, following the sanctions, “70% of the Russian banking system (in assets), government and key state-owned companies, will no longer be able to refinance in EU capital markets”.

See the Annex for more elaborate list of Economic Sanctions.

**Impacts on the EU banking and financial sector**

The full impact of economic sanctions imposed on Russia and related individuals on the financial sector and firms are yet unknown. Impacts can be felt not only from direct and indirect exposures to Russia, but also from the macro-economic effects of the crisis on economic growth and asset price developments (see below section on current economic estimates).

On 15 March, Andrea Enria, Chair of the ECB Supervisory Board, gave a presentation assessing the impacts of the Ukraine situation on the banking sector. One of the main messages is that the invasion of Ukraine “reversed a steady improvement in investors’ stance on EU banks” with markets and investors “pricing in uncertainty over sanctions, extent of exposure, and macro implications”. Nevertheless, Enria considers direct (and indirect) exposures to Russia seem “manageable overall” even in extreme walk-away scenarios (see also previous EGOV briefing here).

When outlining the ECB expectations as regards capital position of institutions, Enria noted that banks with higher exposure to Russia are reconsidering their distribution policy but refrained from proposing a dividend ban (one may recall that during the COVID-19 crisis, the ECB recommended such measures; see notably here and here).

While European banks have little direct exposure to Russia and Ukraine, with a few exceptions, the situation of Russian banks and their subsidiaries operating in Europe is somewhat different. On 28 February, the banking group Sberbank Europe AG in Austria, a subsidiary of the largest bank in Russia, Sberbank, was declared failing-or-likely-to-fail, as it “experienced significant deposit outflows as a result of the reputational impact of geopolitical tensions”, resulting in a rapid deterioration of their liquidity position. The entities that belong to the Sberbank Europe banking group were therefore either put in wind-down (in Austria, Germany, the Czech Republic, and Hungary) or sold to other banks (in Slovenia, Bosnia and Herzegovina, Croatia, and Serbia). Ms König, Chair of the Single Resolution Board, explained the resolution approach to Sberbank Europe in ECON on 14 March.

An EGOV briefing specifically prepared for that meeting sets out more details on the Sberbank Europe case, and also summarises some information on the European banks’ exposures to Russia and Ukraine, as well as some information on Russian banks operating in Europe.
There are several channels of indirect impact, but according to the ECB none so far proved disruptive. As regards specifically the nexus between banks and Non-bank Financial Intermediaries (NBFI), the ECB quantified that regulated NBFI’s exposures to Russia-Ukraine seem to account for only 0.31% of share holdings (market value), and 0.52% in debt holdings (nominal value) of Euro area investment funds. The exposure of pension and insurance funds is still even considerably smaller (see Figure 1 below).

**Figure 1**: Euro area regulated NBFI’s holdings of securities issued by Russia and Ukraine (EUR billions)

Like in the COVID-19 crisis, ESMA, EIOPA and EBA are following up developments in their respective areas of competence.

On 14 March, ESMA published a press release where it indicates to be closely following the impacts of the situation in Ukraine, and coordinating with national authorities. ESMA refers, in particular, the monitoring of central counterparties, credit rating agencies, asset management (looking at liquidity issues, exposures,
valuation of assets and possible suspensions of redemptions\(^3\)), markets (as regards, notably, the prohibition of trading of certain instruments), cyber security and risk assessments. Furthermore, ESMA recommends institutions to ensure:

(a) ensure they comply with the sanctions determined (as regards ESMA’s remit, one may recall in particular the prohibition of trading of financial instruments and of rating Russian-related companies and financial instruments);

(b) proper market disclosure, either through specific ad hoc releases and/or through their financial reporting (in particular, ESMA recommends issuers to “provide transparency, to the extent possible on both a qualitative and quantitative basis, on the actual and foreseeable direct and indirect impacts of the crisis on their business activities, exposures to the affected markets, supply chains, financial situation and economic performance.

In a risk assessment in April 2014, the three supervisory authorities highlighted geopolitical tensions linked to Russia and Ukraine which “may impact the EU through direct and indirect transmission channels, as well as expose institutions to FX risks.”. The latest joint risk report, dated from September 2021, from the three European Supervisory Authorities (ESAs) mostly focus on the impacts of the COVID-19 crisis and ICT and cyber threats.

As regards EIOPA, media\(^4\) reports that the insurance supervisor evaluates the industry overall exposure to Russia “of less than 0.1 percent of its total holdings” and therefore the regulator considers the direct effects of the situation in Ukraine “does not appear substantial”. As further detailed in the piece, “However, second-round effects from the macro side and spillovers from other parts of the financial sector could nevertheless become a potential source of risk,” the Frankfurt-based authority said in an email. “EIOPA is therefore closely monitoring the developments and analyzing the consequences the sanctions imposed can have for the sector.”.

On 11 March, EBA issued a statement where it calls on institutions to comply with the sanctions imposed and facilitate access to basic payment accounts to those fleeing the war in Ukraine. EBA recommends institutions “to assess the adequacy and effectiveness of internal controls and governance to ensure compliance with these measures and to adapt or enhance systems and processes as appropriate”, to “carefully consider the prudential and business impact of the short and longer-term risks they face in light of these geopolitical developments” and to pay particular attention to cyber risks and fraud.

There are also signs that Russia may be close to defaulting on foreign denominated public debt, in particular two bond issuances\(^5\). The Financial Times reports “Russia said it had sent interest payments due on its dollar bonds for processing on Wednesday but it could not guarantee investors would receive the cash, leaving the country on the brink of its first debt default since 1998.”. The newspaper also recalls that “Russia’s last sovereign default in 1998 triggered a financial crisis and led to the near-collapse of US hedge fund Long-Term Capital Management\(^6\). Then, the government restructured its rouble debt and Soviet-era dollar denominated debt, but continued to make payments on international bonds issued since the collapse of the Soviet Union\(^\). A recent decree by the Russian President, dated of 5 March, allows Russian debtors to opt to repay in rubles debt owed to a foreign creditor, at the official exchange rate of the Central Bank of Russia (CBR). If the bonds’ issuance conditions do not allow repayment in a different currency, rating agencies may regard that as an event of default.

\(^3\) The Financial Times (here) reports the Financial Conduct Authority in the UK is considering allowing fund managers to segregate Russian and Belarussian assets.

\(^4\) From Politico (subscription required).

\(^5\) https://www.theguardian.com/world/2022/mar/13/russian-default-on-debts-no-longer-improbable-says-imf-head

\(^6\) For a description of the LTCM case see here.
However, **on 17 March 2022, Russia was reportedly able to repay USD 117 million in interest payments on dollar-denominated government debt**. According to previous statements of experts, including the World Bank’s Chief Economist and all credit agencies (which downgraded Russian debt to junk status), Russia is teetering on the edge of a possible sovereign debt default. Russia owes about USD 40 billion in debt denominated in USD and EUR, and half of those bonds are owned by foreign investors. In addition, major Russian corporations (including Gazprom, Lukoil, and Sberbank) have accumulated about USD 100 billion in foreign currency debt, according to JP Morgan. The problem is that Russia cannot use about USD 300 billion in international currency reserves, which have been frozen by sanctions. At the same time, the Russian Ruble (RUB) has lost nearly 40% of its value against the USD in between mid-February and mid-March. On 17 March, Russia was able to repay USD 117 million in interest payments on dollar-denominated government. However, given the dire financial situation, the Russian government and relevant corporates are likely to find it hard to services their obligations in the near future.

**Figure 2:** Holding of Russian Central Bank’s Foreign Exchange Reserves


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7 https://www.washingtonpost.com/business/2022/03/17/russia-debt-payment-default/
8 https://www.nytimes.com/2022/03/17/world/europe/russia-bond-payment.html
9 Which is according to the Russian Ministry of Finance about half of total Central Bank Reserves (source: https://tass.com/economy/1421403?utm_source=google.com&utm_medium=organic&utm_campaign=google.com&utm_referer=google.com)
10 Ministry of Finance of the Russian Federation.
Other economic policy responses and recommendations

The Versailles declaration

On 10 - 11 March, the EU Heads of State or Government (HoSG) adopted a declaration in Versailles covering the EU’s response to Russia’s aggression against Ukraine and outlining how, notably on the basis of expected Commission proposals, the EU can reduce its energy dependencies, bolster defence capabilities, and build a more robust economic base.

As regards EU energy dependencies, while the EU imports from Russia between 40 and 45% of its gas consumption, 46% of its coal consumption and 27% of its oil consumption, EU leaders promise to end dependence on Russian hydrocarbons “as soon as possible”.11

To reduce the EU’s dependence on Russia, the HoSG call on the European Commission to propose, by the end of May, a RePowerEU action plan to:

- diversify supply sources (increased use of LNG, biogas);
- develop the hydrogen market;
- accelerate the development of renewable energies;
- improve the interconnection of European gas and electricity networks;
- reinforce EU contingency planning for security of supply;
- improve energy efficiency.

By mid-May, the Commission will also present “options to optimise the design of the electricity market” so that it better supports the green transition.

Finally, an ad hoc working group will be set up to prepare the EU for winter 2022-2023 through the design and implementation of a filling gas plan.

In order to protect consumers, the Commission will present, by the European Council of 24-25 March, options to limit the contagion effect of rising gas prices to electricity prices.

In what concerns EU defence capabilities, the HoSG have committed themselves to a “substantial” increase in military spending with a significant share of investment and collaborative development of EU defence capabilities. They invited the Commission, in coordination with the European Defence Agency, to present, by mid-May, an analysis of military investment gaps and to propose any additional initiatives needed to strengthen the European defence technological and industrial base.

Regarding the need to reduce the EU’s strategic dependence, EU leaders identified five areas where action will be needed:

- critical raw materials (stockpiling and increasing resource efficiency);
- semi-conductors (target: produce 20% of global production in the EU by 2030);
- health;
- digital technologies (artificial intelligence, the cloud, 5G);
- food, in particular the production of plant proteins. On this point, the EU27 invite the Commission to “present options to address rising food prices and global food security as soon as possible”. A Commission communication on food safety is expected on 23 March.

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11 See previous EGOV briefing, which summarises the 8 March Commission Communication on RePower EU.
In order to achieve this sovereignty agenda, European leaders intend to **mobilise all available budgetary resources at national and European level, private capital and the financial means of the EIB Group**. Furthermore, EU leaders called for funds to be made available to protect all war refugees from Ukraine through a swift adoption of the proposal on Cohesion’s Action for Refugees in Europe (CARE) and through ReactEU.

On 14 March, the **Eurogroup** underlined that it will “urgently address and consider concrete options” to “deal with the impact of rising energy prices on our citizens and businesses” on the basis of the options put forward by the Commission at the beginning of March and in line with the statement at the Versailles Summit.

Faced with uncertainty that has “increased significantly”, the Eurogroup is advocating “agile and flexible” national fiscal policies and underscores that, while at this point the economic fundamentals of the euro area are solid, it is ready to adapt the euro area’s fiscal stance, foreseen to be “broadly neutral” in 2023, “to the changing circumstances as needed”. The topic of the lifting of the general escape clause of the SGP will be reassessed based on its Spring forecast.

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**Box: Flexibilising EU State aid control**

On **10 March**, the Commission announced a consultation with Member States on a proposal for a **Temporary Crisis Framework** to support the economy in context of Russia’s invasion of Ukraine. This follows from the previous experience of a temporary framework to deal with the COVID-19 crisis (see here), which has been amended and extended, and remains in place until 30 June 2022.

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12 See previous EGOV briefing, which summarises the 8 March Commission Communication on RePower EU.
The Commission points to changes permitting Member States to grant (a) temporary liquidity support to all companies affected by the crisis through guarantees and subsidised loans and (b) aid for additional costs due to exceptionally high gas and electricity prices (granted in any form, including limited grants, to partially compensate companies, in particular intensive energy users, for energy price increases).

The consultation includes a number of additional questions to Member States, notably as regards aid intensities and ceilings, the definition of energy intensive users, whether green conditionality should be attached to aid to such users, whether other input costs subject to similar price increases as gas and electricity should be considered, and whether certain sectors, such as agriculture, would require other measures. The calendar for adoption of these measures is not yet available.

The CARE proposal

On 9 March, the Commission published a proposal to further flexibilise cohesion policy rules. The proposed regulation - Cohesion's Action for Refugees in Europe, or CARE - allows Member States and regions to provide emergency support to people fleeing from Russia’s invasion of Ukraine by reallocating available funding of the 2014-2020 Cohesion envelope. It follows from the previous CRII and CRII+ proposals that the Commission enacted following the COVID-19 crisis.

The Commission also notes that the €10 billion of the Recovery Assistance for Cohesion and the Territories of Europe (‘REACT-EU’) funds can also be used to address the emergency, within the overall aim of post-pandemic recovery. The HoSG Versailles Declaration calls for a swift adoption of the proposal. REGI will be the competent committee in Parliament (see here).

Actions by EU financial institutions

The European Investment Bank (EIB) is actively supporting Ukraine via various channels, notably via its decision of 4 March 2022 approving EUR 668 million immediate financial support to Ukraine. A statement by EIB President Hoyer’s statement from 16 March 2022 indicates that further initiatives could lead to another EUR 1.3bn. Its exposure to Russia is falling and reportedly amounted to EUR 17.8 million at the end of 2020, down from EUR 22.6 million a year earlier.

On 9 March 2022, the European Bank for Reconstruction and Development (EBRD) announced an initial EUR 2 billion resilience package of measures to help citizens, companies and countries affected by the war in Ukraine. The Bank has also pledged to do all it can to help with the country’s reconstruction, once conditions allow. The EBRD’s exposure to Russia is about EUR 1bn, mainly equity investments made prior to 2014. A decision has been taken to divest the entire RU portfolio, but write offs are not unlikely. The bank also expects to make losses in Ukraine and Belarus. But its capital base is currently perceived to be strong.

The EU and the EIB are both EBRD stakeholders and own a cumulative EUR 1.8 billion in subscribed capital.

On 17 March, the President of EBRD, the President of the EIB, the Governor of the Council of Europe Development Bank (CEB), the Managing Director of the International Monetary Fund (IMF), and the President of the World Bank Group (WBG) issued a joint statement.

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15 See https://www.ebrd.com/russia.html
16 see https://www.ebrd.com/who-we-are/how-ebrd-is-funded.html
17 see https://www.ebrd.com/shareholders-and-board-of-governors.html
Latest estimates on economic growth and inflation

According to OECD assessment, the economy will be affected by the increase of commodity prices, supply-chain challenges, the humanitarian cost of refugees and excessive investment needs to safeguard energy supply via green investments and upgrading defence systems. The OECD notes that the "shortage of raw materials triggered by the war is exacerbating the supply disruptions caused by the pandemic". In addition, the European energy market is "in an extremely difficult situation" which calls for coordinated policy measures to ensure "reliable and affordable energy supply" without jeopardising the climate goals.

While the OECD considers that the war in Ukraine will lead in the short term to a substantial slowdown in the recovery and to a strong increase in inflationary pressures, the precise quantification of the impact on these two variables is totally contingent on the evolution of the conflict and its political consequences, notably in terms of established sanctions, but also geopolitical developments.

In a global comparison, the European economies would be the hardest hit, especially those that share a border with Russia or Ukraine, particularly given the relative importance of trade and energy links with Russia prior to the conflict. In the event of a complete disruption of energy exports from Russia to the EU, inflation would be raised by a further 1¼ percentage points (bringing the full shock to euro area inflation to over 3½ percentage points) and would further reduce European growth by over ½ percentage point.

The latest ECB macroeconomic projections builds on the assumption that "current disruptions to energy supplies and negative impacts on confidence linked to the conflict are temporary and that global supply chains are not significantly affected". The ECB highlights, however, that the outlook of economic activity and inflation once again became very uncertain and depends on the further unfolding of the Russian war in Ukraine, the impact of sanctions and possible further measures.

"Real GDP growth is projected to average 3.7% in 2022, 2.8% in 2023 and 1.6% in 2024. Compared with the December 2021 Eurosystem staff projections, the outlook for growth has been revised down by 0.5 percentage points for 2022 owing mainly to the impact of the Ukraine crisis on energy prices, confidence and trade ... Growth in 2023 has been revised down by 0.1 percentage points, while in 2024 it is unchanged". The three main channels of the impact of the Russian invasion of Ukraine are trade, commodities and confidence. Even though direct trade impact on the euro area economy is limited (Russia accounts for around 3% of euro area foreign demand), the spillovers through countries having tighter economic ties with Russia could weaken euro area foreign demand more broadly. Significant upward pressures on energy prices and worsening confidence indices are weighting on domestic demand and investments, increasing volatility and risk premia, also worsening financial conditions.

The ECB also points out that, compared to the previous macroeconomic projections published in December, the near-term price pressures have increased significantly (especially those related to oil and gas) and are expected to last longer. The headline inflation in expected "to average 5.1% in 2022, 2.1% in 2023 and 1.9% in 2024".

In line with its usual practice, the ECB has estimated alternative projections under two scenarios (contrary to earlier practice, where one scenario was optimistic and the second was pessimistic, this time both alternative scenarios are adverse). "Under [adverse] scenario, euro area GDP growth would be 1.2 percentage points lower than the baseline in 2022, while inflation would be 0.8 percentage points higher. Differences would be more limited in 2023. In 2024, growth would be somewhat stronger than the baseline as the economy catches up after the larger negative impact on economic activity in 2022 and 2023 ... [severe] scenario would imply GDP growth in 2022 that is 1.4 percentage points below the baseline, while inflation would be 2.0 percentage points higher. Significantly lower growth and higher inflation, compared with the baseline, would also be seen in 2023. Higher persistence of the disruptions triggered by the war imply that, in 2024, the catch-up effects on growth
would be relatively modest whereas stronger second-round effects would offset the negative impact on inflation from declining energy prices”.

Consequences on global commodity and food prices

According to OECD, Russia and Ukraine do have an important influence on the global economy via their role as major suppliers in a number of commodity markets. Russia and Ukraine together account for about 30% of global exports of wheat, 20% for corn, mineral fertilisers and natural gas, and 11% for oil. In addition, supply chains around the world are dependent on exports of metals from Russia and Ukraine. Russia is a key supplier of palladium, used in catalytic converters for cars, and nickel, used in steel production and the manufacture of batteries. Russia and Ukraine are also sources of inert gases such as argon and neon, used in the production of semiconductors, and large producers of titanium sponge, used in aircraft. Both countries also have globally important reserves of uranium. The prices of many of these commodities have increased sharply since the onset of the war, even in the absence of any significant disruption of production or export volumes.

Figure 3: Wheat imports from Russia and Ukraine

According to the Kiel Institute for the World Economy the war might have dramatic implications for the world supply on cereals. In particular, countries in Africa are facing possible shortages of grain and will suffer from an increase in food prices if exports will be stopped due the cut off from the global economy and the destruction of infrastructure. Ukraine and Russia count together for about 29 per cent of the world's wheat, and nearly a fifth of the corn trade.
Policy recommendations in the public domain: Some recent picks


China, alone, cannot resolve the fundamental disagreement that sparked the Russo-Ukrainian War. But it can provide structure and commitment to the process of conflict resolution. Through the new partnership agreement between Xi and Putin, China has far greater leverage over the Russian Federation than any western sanctions have been able to achieve. And its Five Principles of Peaceful Coexistence allow it to bring its ideals to bear at a time of grave crisis.

In the past 40 years, no country has benefited more from globalization than China. Those benefits work both ways. As Putin’s appalling war drags on, taking the world closer to the abyss, China has a unique and urgent opportunity to demonstrate global leadership. Xi’s cherished Chinese Dream, and the dreams of us all, are at stake. We need leaders who will stand up for globalization, for world peace, and for humanity.

A. Posen: The End of Globalization? What Russia’s War in Ukraine Means for the World Economy (March 17 2022)

The democratic world’s response to Moscow’s aggression and war crimes have negative economic consequences that will go far beyond Russia’s financial collapse. It now seems likely that the world economy will split into blocs—one oriented around China and one around the United States, with the European Union mostly but not wholly in the latter camp—each attempting to insulate itself from and then diminish the influence of the other. The economic consequences for the world will be immense, and policymakers need to recognize and then offset them as much as possible. Moreover, what Russia demonstrates is that diversifying into euros, yuan, and even gold will not help states if other market participants are themselves afraid of being shut out of the dollar system, because there will be no other party for them to sell their reserves to. However, Chinese yuan will struggle to become the main alternative to dollar. If China continues to prevent people from freely taking out assets of its domestic financial system, investors would just be trading Washington’s sanction threats for Beijing’s. Financially it is expected that governments will align their financial systems with their primary military protector. Even though the invasion and sanctions will not lead to major financial changes in the global economy, they will speed up the corrosion of globalisation. Less economic interconnectedness will result in lower trend growth and less innovation. Global supply chains are likely to be relocated into safer locations leading to less competition for companies and patriotic commitments made by countries like the US. However, increasing global divisions lead the European Union to unify more. European bonds are issued to deal with the financial burden of the refugee inflow from Ukraine. Issuing more European public debt can help the global economy by absorbing some risk-averse savings and thus, improving financial stability.

A. Radina: Blacklist Putin’s Terrorist State (15 March 2022)

In these circumstances, Russia’s continued membership in the FATF is a further affront to international law. The organization’s president, Marcus Pleyer, and G7 governments should move to expel Russia and add it to the list of High-Risk Jurisdictions, defined as those “with serious strategic deficiencies to counter money laundering, terrorist financing, and financing of proliferation.”

To date, FATF has expressed “grave concern” about the situation in Ukraine and indicated that it is “reviewing Russia’s role” within the organization. However, it won’t meet again until June, and it appears to be sticking to that schedule. Such inaction amounts to support for Putin. International agreements are worthless unless they are applied and enforced in a timely manner.

B. Eichengreen: The Monetary Consequences of Vladimir Putin (10 March 2022)
The financial shock and awe against Russia raise the issue of how having witnessed this other countries will think about how and where to allocate their foreign assets. Recent experience suggests that China will not be a viable alternative to the US. Over the last decades, the share of dollars in foreign-exchange reserves worldwide has fallen by 10% but with the resulting migration being only one-quarter into the renminbi and fully three-quarters into “subsidiary” reserve currencies such as the Australian dollar. Part of the answer as to why there has not been more migration toward the renminbi is that renminbi-denominated bonds and bank deposits are not easily accessed by foreign official investors. The outcome from the experience of Russia suggests that sensible governments in the future will respond to similar events by hardening their financial systems against currency risk and preventing their banks from incurring excessive foreign-currency liabilities instead of accumulating a war chest of gold and foreign-exchange reserves.

B. Mcwilliams, G. Sgaravatti, S. Tagliapietra, G. Zachmann: Can Europe manage if Russian oil and coal are cut off? (17 March 2022)

The European Union last week launched a new energy strategy (REPowerEU) that aims to reduce by nearly two-thirds the gas imports from Russia by the end of 2022, and to make Europe independent from all Russian fossil fuels well before 2030. While recent research showed that Europe could manage next winter without Russian gas but with considerable cost, sustaining an interruption to Russian oil and coal supplies seems less painful. That can happen because oil and coal are more global and liquid markets than gas, and rely less on rigid infrastructure like gas import pipelines. However, a halt to Russian oil and coal supplies would have substantial global second-round effects as Europe might be hit hard by higher prices. Regarding oil supplies, Europe and the US should forge an Energy Pact that will make spare capacities in the US available to Europe while diplomatic efforts towards OPEC producers would also help narrow the gap. About coal, it is of paramount importance for Europe to quickly buy more and replenish its coal stocks because of potentially higher coal-burn in power plants. Overall, Europe will go through a short and painful period but if a renewed momentum for a transition towards carbon-neutral energy sources accompanies these measures then Russia’s leverage over EU energy supplies will disappear.

R. Beetsma, J. Cimadomo, J. van Spronsen: A proposal for a central fiscal capacity for the EMU targeting euro area, national, and regional shocks (14 March 2022)

Several proposals have been made for a central fiscal capacity (CFC) that will allow EMU member state economies to be stabilised in response to adverse macroeconomic shocks but none of the existing proposals targets region-specific shocks. In this paper what is proposed is a CFC for the euro area, in which transfers to and from regions are simultaneously driven by shocks coming from three levels (euro area, national, and regional) into one single scheme. What can be seen is that the CFC can produce substantial stabilization with a relatively limited need to borrow by the system as a whole in any given year and that, on average over the last two decades, substantial stabilization could have been achieved in response to the euro area and the region-specific shocks. Although there are some concerns regarding the practical implementation of the proposal, the political feasibility of a CFC will depend on how well the current RRF is implemented.

N. Redeker: Same shock, different effects: EU member states’ exposure to the economic consequences of Putin’s war (7 March 2022)

The economic effects of the Russian invasion of Ukraine are going to be felt throughout Europe but the impact will not be the same for all member states. The first peek at the data reveals that Central and Eastern European countries are especially vulnerable across a range of factors from export dependence, reliance on energy imports from Russia as well as a pronounced exposure to general price hikes for energy. Apart from them, Germany and Italy stand out as simultaneously countries that are heavily dependent on Russian gas and also in danger of being hit by supply shortages in the automotive industries. Lastly, while the overall effect of rising energy prices will be hard to stomach for poorer countries in the East, energy-intensive economies in Northern and Western Europe
would also suffer disproportionately. As a result, it is likely that the EU will need to share this burden equally to keep political unity.


The researchers analysed the potential economic impact to Germany of a cut-off from Russian energy imports. The consequences would be substantial, but manageable. According to the study, GDP would decline by something between 0.5 and 3 percent in the short term, which is equivalent to costs between 100 and 1,000 euros per year and inhabitant. For comparison: GDP fell by 4.5 percent in 2020 due to the Corona pandemic. Oil and coal imports from Russia could relatively easily be replaced by imports from other countries but since it is more difficult with gas, it is advised to be stored over the summer to meet consumption demand in the coming winter. Lastly, the researchers are calling on policymakers to provide targeted support for low-income households while implementing incentives for lower gas consumption.
Annex: Economic sanctions against Russia

<table>
<thead>
<tr>
<th>Who is imposing sanctions</th>
<th>Source</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>Council</td>
<td>All EU restrictive measures in response to the crisis in Ukraine</td>
</tr>
<tr>
<td>EU</td>
<td>Commission</td>
<td>The consolidated list of persons, groups and entities subject to EU financial sanctions</td>
</tr>
<tr>
<td>Worldwide</td>
<td>PIIE</td>
<td>Information and timeline of sanctions imposed by the US, the UK, the EU, Japan, China, etc.</td>
</tr>
<tr>
<td>EU, UK, Japan, Australia</td>
<td>Forbes</td>
<td>Sanctions addressed to Russian billionaires</td>
</tr>
<tr>
<td>Worldwide</td>
<td>Ashurst</td>
<td>Sanctions imposed by the EU, the UK, Japan and Australia</td>
</tr>
<tr>
<td>Worldwide</td>
<td>Clifford</td>
<td>More information about sanctions imposed by the US, the UK, Japan, Singapore, Australia, etc.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Country imposing sanctions</th>
<th>Target</th>
<th>Industry</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 15</td>
<td>EU</td>
<td>Russian entities and energy sector</td>
<td>Economy</td>
<td>EU prohibited all transactions with certain state-owned enterprises, investments in Russian energy sector, providing credit rating services to any Russian person or entity. Also introduced trade restrictions for iron, steel and luxury goods</td>
</tr>
<tr>
<td>March 15</td>
<td>UK</td>
<td>Russian entities</td>
<td>Economy</td>
<td>UK imposes new import from Russia tariffs and bans exports of high-end luxury goods</td>
</tr>
<tr>
<td>March 12</td>
<td>Bahamas</td>
<td>Russian entities</td>
<td>Economy</td>
<td>The Bahamas has ordered its financial institutions to halt all transactions with Russian entities that have been put under sanction by Western nations</td>
</tr>
<tr>
<td>March 11</td>
<td>UK</td>
<td>Russian central bank, government</td>
<td>Economy</td>
<td>UK sanctions Russian lawmakers who supported Ukraine breakaway regions</td>
</tr>
<tr>
<td>March 11</td>
<td>U.S., Japan, UK, Germany, France, Italy, Canada</td>
<td>Russian companies, military complex</td>
<td>Economy</td>
<td>U.S., European allies intensify economic pressure on Russia. Agreed measures opens the door to banning or imposing punitive tariffs on Russian goods and putting Russia on a par with North Korea or Iran</td>
</tr>
<tr>
<td>March 8</td>
<td>Japan</td>
<td>Russian oligarchs</td>
<td>Economy</td>
<td>Japan bans refinery equipment exports</td>
</tr>
<tr>
<td>March 8</td>
<td>UK</td>
<td>Russian oil imports</td>
<td>Energy</td>
<td>Britain will phase out imports of Russian oil and oil products by the end of 2022</td>
</tr>
<tr>
<td>March 8</td>
<td>U.S.</td>
<td>Russian oil imports</td>
<td>Energy</td>
<td>U.S. bans Russian oil and other energy imports</td>
</tr>
<tr>
<td>March 7</td>
<td>New Zealand</td>
<td>Russian ships</td>
<td>Shipping</td>
<td>New Zealand bans Russian ships from its ports</td>
</tr>
<tr>
<td>Date</td>
<td>Location</td>
<td>Sector/Sector</td>
<td>Action/Event</td>
<td></td>
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<tr>
<td>March 5</td>
<td>Singapore</td>
<td>Technology</td>
<td>Singapore bars four Russian banks, bans exports of electronics, computers and military items</td>
<td></td>
</tr>
<tr>
<td>March 4</td>
<td>Switzerland</td>
<td>Economy, Finance</td>
<td>Switzerland adopts EU measures regarding Russian banks’ access to SWIFT and assets of prominent Russian wealthy individuals</td>
<td></td>
</tr>
<tr>
<td>March 4</td>
<td>Switzerland</td>
<td>Technology</td>
<td>Switzerland bans exports that “could contribute to Russia’s military and technological enhancement”.</td>
<td></td>
</tr>
<tr>
<td>March 4</td>
<td>Switzerland</td>
<td>Economy, Finance</td>
<td>Switzerland bans transactions with Russian central bank, freezes its assets overseas</td>
<td></td>
</tr>
<tr>
<td>March 3</td>
<td>Japan</td>
<td>Economy</td>
<td>Japan to freeze assets of four more Russian banks from April 2</td>
<td></td>
</tr>
<tr>
<td>March 2</td>
<td>EU</td>
<td>Finance</td>
<td>EU introduces a SWIFT ban for certain banks</td>
<td></td>
</tr>
<tr>
<td>March 2</td>
<td>U.S., EU</td>
<td>Shipping</td>
<td>U.S., EU say they are considering banning Russian ships from their ports</td>
<td></td>
</tr>
<tr>
<td>March 2</td>
<td>EU</td>
<td>Media</td>
<td>EU suspends distribution of state-owned &quot;disinformation outlets&quot; Russia Today, Sputnik across EU</td>
<td></td>
</tr>
<tr>
<td>March 1</td>
<td>UK, Canada</td>
<td>Shipping</td>
<td>Russian ships banned from British, Canadian ports</td>
<td></td>
</tr>
<tr>
<td>Feb. 28</td>
<td>UK</td>
<td>Economy</td>
<td>Britain freezes assets in UK of Russian national wealth fund</td>
<td></td>
</tr>
<tr>
<td>Feb. 28</td>
<td>U.S., EU, UK, Japan</td>
<td>Economy</td>
<td>U.S., EU, Japan ban transactions with Russian central bank, Ministry of Finance, national wealth fund</td>
<td></td>
</tr>
<tr>
<td>Feb. 28</td>
<td>Canada</td>
<td>Energy</td>
<td>Canada bans imports of Russian oil</td>
<td></td>
</tr>
<tr>
<td>Feb. 28</td>
<td>S. Korea</td>
<td>Technology</td>
<td>South Korea bans exports of strategic items to Russia, joins SWIFT sanctions</td>
<td></td>
</tr>
<tr>
<td>Feb. 27</td>
<td>EU, Canada, U.S.</td>
<td>Airlines</td>
<td>Russian aircrafts banned from U.S., EU and Canadian airspace</td>
<td></td>
</tr>
<tr>
<td>Feb. 27</td>
<td>EU, U.S., UK, S. Korea, Japan</td>
<td>Economy, Finance</td>
<td>Russian banks’ access to the SWIFT international payment system blocked</td>
<td></td>
</tr>
<tr>
<td>Feb. 25</td>
<td>Japan</td>
<td>Technology</td>
<td>Japan says energy supply secure as it promises more sanctions against Russia</td>
<td></td>
</tr>
</tbody>
</table>
Countries taking sanctions targeted at private wealth (non-exhaustive list):

**UK** (03.15) - UK freezes funds and economic resources of certain persons, entities and bodies;

**EU** (03.14) - EU agrees to freeze Roman Abramovich's assets;

**U.S.** (03.11) - U.S. imposes new sanctions on Vekselberg, Putin spokesman's family;

**Canada** (03.11) - Canada sanctions Russian billionaire Abramovich and others;

**UK** (03.10) - UK imposes asset freezes on Chelsea owner Abramovich, Rosneft boss Sechin);

**EU** (03.09) - EU hits Russia, Belarus with more sanctions, set to snub Ukraine on swift membership);

**UK** (03.09) - Russian-linked private jet impounded as UK deepens aviation sanctions);

**Japan** (03.08) - Japan unveils new sanctions on Russians);

**Canada** (03.07) - Canada sanctions 10 individuals close to Putin);

**New Zealand** (03.07) - New Zealand expands sanctions on Russia over Ukraine invasion);

**Italy** (03.05) - Italy seizes property, yachts of wealthy Russian individuals);

**EU, US, Canada, Japan** (02.28) - EU, U.S., Canada, Japan and others announce travel bans, asset freezes on wealthy Russian individuals);

**EU** (02.25) - EU freezes the assets of Putin and Lavrov);

**Australia** (02.25) - Australia announces sanctions on wealthy Russian individuals);

Companies withdrawing their activities and cutting other types of economic ties with Russia (and in some instances with Belarus, non-exhaustive list):

**Automakers and other manufacturers** - Renault, Volvo Cars (also here), AB Volvo, Ferrari, Boeing (also here), Volkswagen, Mercedes Benz, Toyota, Airbus, Jaguar Land Rover, Harley-Davidson, Ford, BMW, Daimler Truck, General Motors, AerCap Holdings,

**Energy** - Equinor (also here), BP, RWE, Rio Tinto, Shell, Exxon Mobil, Siemens Energy AG, TotalEnergies,

**Finance** - UniCredit, Allianz, Swiss Re, Citigroup, MoneyGram, KPMG, American Express, Mashreqbank, ING Groep NV, Visa and Mastercard, Nordea Asset Management, HSBC,

**Retail** - Nestle, Heineken, Starbucks, Yum Brands, McDonald's, Procter & Gamble, Danone, Inditex, Nike, Ikea, Canada Goose,

**Technology** - TikTok, Netflix, Microsoft, Alphabet, Spotify, Apple,

**Logistics** - United Parcel Service,