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 aims to provide the latest information on EU sanctions adopted so far. It also highlights related policy recommendations made in the public domain to mitigate adverse economic, financial and social effects and to support economic recovery in the EU and the Euro Area.

EU financial sanctions: A comparison with Transparency International’s proposals

Transparency International recently issued a number of recommendations to foster EU sanctions and ensure these are not circumvented. A possible matching of those recommendations to EU actions to date is outlined below. Please note that the table is based on EGOV’s subjective assessment of information publicly available on how the EU acted or is acting as regards the attacks on Ukraine.

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<tr>
<th>Transparency International recommendations</th>
<th>EU sanctions and related actions until 24 March 2022</th>
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<tr>
<td>Target the sale of luxury goods and diamonds</td>
<td>It is prohibited to sell, supply, transfer or export luxury goods (e.g. luxury cars, jewellery, diamonds, etc.), as listed in Annex XVIII of Regulation (EU) 833/2014, to any person or entity in Russia or for use in Russia.</td>
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<td>Seize Russian yachts in EU ports and extend the EU flight ban to Russian jets owned through tax havens</td>
<td>The sanctions cover freezing and seizing of assets of a number of people related to President Putin (see here the various updates to the list of covered individuals). Some examples of seized yachts could be found here, here and here. EU airspace is closed to all Russian-owned, registered or controlled aircraft, including private jets of oligarchs (see here). Nevertheless it might be difficult to control if the end-ownership as some of the yachts are registered through non-Russian companies (see here).</td>
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<td>Expand the EU Magnitsky Sanctions Regime to include corruption</td>
<td>Currently the Regulation and the Council adopted decision concerning restrictive measures against serious human rights violations and abuses does not include corruption as serious human rights violation and/or abuse.</td>
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<td>Make ownership information public and free to track down dirty money</td>
<td>No public sources found available. Some private information here. The EU AML legislation requires Member States to establish and maintain publicly available registers for companies, trusts and other legal arrangements that include information on beneficial ownership. The 2020 Commission report assessing implementation of AML legislation shows still divergent practices and loopholes on beneficial ownership transparency. The July 2021 Commission AML proposals aim to close some of those loopholes but are still being negotiated.</td>
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<td>Stop Russian elite from hiding their money in EU real estate</td>
<td>The sanctions cover freezing and seizing of assets of a number of people related to President Putin (see here the various updates to the list of covered individuals). Due to the fact that there are various schemes for hiding assets, the European Commission has established a REPO Task Force to facilitate implementation of sanctions against Russia and Ukraine.</td>
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<td>Introduce common EU rules on seizing oligarchs’ ill-gotten assets</td>
<td>(see below)</td>
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<td>Freeze wealthy Russians’ assets in EU sports clubs, prohibit sponsorship by Russian oligarchs and state-owned companies</td>
<td>The sanctions cover freezing and seizing of assets of a number of people related to President Putin (see here the various updates to the list of covered individuals). The Commission also committed to foster asset seizing (see here) notably through cooperation with international partners (“we are committed to employing sanctions and other financial and enforcement measures on additional Russian officials and elites close to the Russian government, as well as their families, and their enablers to identify and freeze the assets they hold in our jurisdictions. We will also engage other governments and work to detect and disrupt the movement of ill-gotten gains, and to deny these individuals the ability to hide their assets in jurisdictions across the world”). There are no specific mention to sports clubs, however. UEFA implemented a ban on Russian-related sponsoring.</td>
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<td>Ban golden passports and regulate the sale of EU residency, rescinding the rights of sanctioned individuals</td>
<td>The EU second package of sanctions (here, 25 February) comprise a visa policy ban. The extent to which this covers all individuals that TI recommendation would address is unclear, as the exact scope of the individuals benefiting from “golden visas and golden passports” is unknown (Malta has recently suspended its visa programme for Russia and Belarus citizens). Golden visas and golden passports regimes are heavily questioned and criticised, notably by the European Parliament (see here). The Commission committed to acting against Russian nationals being given EU citizenship.</td>
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<td>Prohibit the use of the so-called “digital ruble” and other tools designed to circumvent sanctions</td>
<td>Crypto assets are considered securities for the purpose of EU sanctions (see here; 9 March package of sanctions). Persons and entities subject to restrictions are therefore also prevented from using crypto assets to circumvent sanctions (see Commission Q&amp;A here). In any case, this may not address fully the concerns highlighted.</td>
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<td>Suspend EU member state membership in the Russian-founded International Investment Bank</td>
<td>This is possibly a matter for national decisions by the affected Member States (Bulgaria, Czechia, Romania, Slovakia and Hungary are EU members of the IIB; the first 4 countries have announced their intention to exit the Bank). The EU sanctions cover the Russia Direct Investment Fund (see EU third package, of 2 March here) but apparently not the IIB. Fitch Ratings downgraded IIB on 9 March on account of the Ukraine situation and arguing the decision of EU shareholders to leave the institution would affect its credit standing; Fitch also mentions IIB is excluded from the EU sanctions on account of being an international organisation.</td>
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<td>Ban EU lobbying by companies and other actors with links to the Russian and Belarusian states</td>
<td>Not covered by current sanctions. The Commission committed to “step up our coordination against disinformation and other forms of hybrid warfare”. TI proposed a number of practical steps for that effect.</td>
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<td>Ban Russian funding of EU political parties</td>
<td>Partly addressed through limitations on Russia and Russian financial flows to the EU and by EU suspension of Russia media (see here, notably the measures adopted on 15 March); through EU actions to address misinformation (see here, in particular the measures adopted on 2 March) and the EU AML framework (see here). Challenges identified might be covered through the European Elections’ Democracy and Integrity Package in particular through the Commission proposals on financing EU political parties; recent Council press release on developments in the legislative front of the package here).</td>
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On 24 March, the Leaders of G-7 made the following statement as regards the implementation of the current sanctions: “We underline our resolve to impose severe consequences on Russia, including by fully implementing the economic and financial measures we already imposed. We will continue to cooperate closely, including by engaging other governments on adopting similar restrictive measures to those already imposed by G7 members and on refraining from evasion, circumvention and backfilling that seek to undercut or mitigate the effects of our sanctions. We task the relevant Ministers in a focused initiative to monitor the full implementation...
of sanctions and to coordinate responses related to evasive measures, including regarding gold transactions by the Central Bank of Russia. We stand ready to apply additional measures as required, continuing to act in unity as we do so. We commend those partners who have aligned with us in these efforts."

For an overview of the current financial EU sanctions and ways to improve their implementation, see also EGOV’s previous weekly digest (here).

Follow-up to the Versailles declaration

European Council deliberations

At the European Council on 24-25 March, the following issue are being discussed:

- **security and defence**: how to enable the EU to act more quickly and decisively when facing crises, while also securing its interests and protecting citizens, including defence investment and funding instruments. The European Council is also expected to endorse the Strategic Compass, a Commission’s initiative aiming at strengthening the Union’s security and defence policies around the themes of crisis management, defence capabilities, resilience and partnerships.

- **sustained high energy prices and its impact on citizens and businesses**, also in the context of the Russian aggression against Ukraine. The European Commission provided a basis for the discussion by putting forward options for ensuring affordable energy prices and security of supply (see below); and

- **how to build a more robust economic base**, notably by reducing strategic dependencies in sensitive areas like critical raw materials, semi-conductors, health, digital and food. It will address how to further strengthen the single market to accelerate the green and digital transitions, as well as how to strengthen the resilience of the EU economy.

The conclusions of the European Council will be available here.

Latest proposals on energy policies and prices

Following the ‘REPowerEU’ communication presented on 8 March (see EGOV’s previous weekly digest (here) for further details), the Commission presented on 23 March a Communication on security of supply and affordable energy prices and a proposal for a Regulation:

- The Communication underlines the Commission’s readiness to create a Task Force on joint gas procurement at EU level, in order to pool demand and thus strengthen the EU’s bargaining power with suppliers of liquefied natural gas (LNG) and gas. It also identifies a range of measures available to Member States that can help mitigate rising energy prices in the short term, including a temporary strike price or clawback mechanism to limit excessive returns to non-fossil fuel based electricity generators. The Communication also mentions the possibility of capping or modulating gas prices by regulatory means.

- In parallel, the proposed Regulation sets a mandatory minimum level of gas in storage facilities¹, a mandatory certification of storage system operators and a system of incentives to exempt storage users from transmission tariffs at storage entry or exit points.

According to the Communication, several options for emergency measures to limit the impact of high electricity prices have been put forward by Member States. However, according to the Commission, all

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¹ Levels will be of 80% for 2022 and 90% the following years, to be reached by November each year.
options on the table carry costs and drawbacks. The **short-term options on the electricity price can be broadly grouped in two categories**: financial compensation and regulatory.

**Figure 1:** Short term options on electricity prices

The Communication notes there is **no single easy answer to tackle high electricity prices**, given the **diversity of situations among Member States in terms of their energy mix, market design, and interconnection levels**. The Communication lays out the pros and cons of different approaches for the further consideration. The Commission recognises that while many of the options proposed address the symptoms, it is important to tackle the root causes of the current high electricity prices, with collective European action on the gas market.
Ten proposals by IEA to reduce oil demand in the short term

The International Energy Agency (IEA) proposes 10 actions that can be taken to reduce oil demand with immediate impact. IEA estimates that with the full implementation of the proposed measures, it is possible to cut oil demand by 2.7 million barrels a day within the next four months, relative to current levels. Even though the IEA focuses on the effects of the measures in advanced economies, the more countries adopt these measures the more impact they could have. These measures mostly rely on changing behaviours and mobility patterns.
**Figure 4:** IEA’s suggestions for 10 actions reduce oil demand with immediate impact

- Reduce speed limits on highways by at least 10km/h
- Increase car sharing and adopt practices to reduce fossil fuel
- Work from home up to three days a week where possible
- Promote efficient driving for freight trucks and delivery of goods
- Car-free Sundays in cities
- Using high-speed and night trains instead of planes where possible
- Make the use of public transport cheaper and incentivise micro-mobility, walking and cycling
- Avoid business air travel where alternative options exist
- Alternative private car access to roads in large cities
- Reinforce the adoption of electric and more efficient vehicles

*Source: IEA (2022), A 10-Point Plan to Cut Oil Use, IEA, Paris*
Latest proposals for food security and prices

The Commission adopted also on 23 March a Communication on “Safeguarding food security and reinforcing the resilience of food systems”. The EU is largely self-sufficient in many agricultural products and is a net exporter of wheat, but is a significant net importer of specific products that may be difficult to replace (quickly), such as dietary proteins or sunflower oil. While the stability of the EU’s food supply is not threatened, the Communication points out that these vulnerabilities, combined with high input costs, are
likely to lead to further increases in food prices. The Commission outlines various proposals to help EU farmers, including:

- in order to better monitor stock levels, the Commission will propose to Member States to provide monthly data on private stocks of essential food and feed products to give an accurate picture of their availability;
- in view of the current exceptional situation, the Commission will propose a support package (of €500 million, including by making use of the crisis reserve, intended to provide additional support for the agricultural sector in the case of major crises), including through the use of the crisis reserve, to support the most affected producers;
- to increase the EU's production capacity, the Commission will adopt an implementing act to allow Member States to derogate exceptionally and temporarily from certain greening obligations (countries will be able to allow the production of any crop on set-aside land that is part of the Areas of Ecological Interest in 2022 while maintaining the full level of the greening payment).

Other recent proposals

On 23 March, the Commission adopted the new Temporary State aid framework. The new framework allows Member States to (i) grant limited amounts of aid to companies affected by the current crisis or by the related sanctions and countersanctions; (ii) ensure that sufficient liquidity remains available to businesses; and (iii) compensate companies for the additional costs incurred due to exceptionally high gas and electricity prices. These measures will be available also to companies in difficulty; it will remain in place until 31 December 2022 and will be kept under review to better adjust to evolving circumstances. Sanctioned Russian-controlled entities will be excluded from the scope of these measures.

On 22 March the European Competition Network (ECN) issued a press release clarifying the institutions’ approach to implementation of competition law in the current circumstances. The press release clarifies that companies cooperating “in order to (i) ensure the purchase, supply and fair distribution of scarce products and inputs; or (ii) mitigate severe economic consequences including those arising from compliance with

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2 On 24 March, the European Parliament adopted a Resolution on the need for an urgent EU action plan to ensure food security inside and outside the EU in light of the Russian invasion of Ukraine. The Resolution, while expressing “deep concern about the impact that the current disruption in agricultural, fisheries and aquaculture processes will have on food security for the people of Ukraine”, calls in particular for the support of Ukraine’s agricultural production through the provision of seeds and fertilisers that are scarce and to make all efforts to safeguard the upcoming sowing and production season on Ukraine. The Resolution also “urges the Commission and the international community to coordinate and provide all impacted regions and cities with a robust long-term humanitarian food aid programme”. It underlines “that the sanctions may have a specific impact on European households in terms of food prices and energy costs, and that they should not be expected to pay the price of this crisis unsupporte”, against this background, the Resolution “calls on the Member States, therefore, to prepare plans and support for households to address the cost of living crisis”.

3 Limited amounts are of up to €35,000 for companies active in the agriculture, fisheries and aquaculture sectors and up to €400,000 per company affected by the crisis active in all other sectors. Aid does not need to be linked to an increase in energy prices; support can be granted in any form, including direct grants.

4 Member States will be able to provide (i) subsidised State guarantees to ensure banks keep providing loans to all companies affected by the current crisis; and (ii) public and private loans with subsidised interest rates.

5 According to the Commission press release, “Member States will be able to partially compensate companies, in particular intensive energy users, for additional costs due to exceptional gas and electricity price increases. This support can be granted in any form, including direct grants. The overall aid per beneficiary cannot exceed 30% of the eligible costs, up to a maximum of €2 million at any given point in time. When the company incurs operating losses, further aid may be necessary to ensure the continuation of an economic activity. To that end, Member States may grant aid exceeding these ceilings, up to €25 million for energy-intensive users, and up to €50 million for companies active in specific sectors, such as production of aluminum and other metals, glass fibers, pulp, fertilizer or hydrogen and many basic chemicals”. 

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sanctions imposed by the EU” will not trigger competition concerns. The ECN “will not actively intervene against strictly necessary and temporary measures specifically targeted at avoiding the aforementioned severe disruptions caused by the impact of the war and/or of sanctions in the Internal Market” but will remain vigilant and will “take action against companies taking advantage of the current situation by entering into cartels or abusing their dominant position”. This position is consistent with those adopted during the COVID-19 crisis and the Commission’s decision to set up a new Temporary State aid framework (see previous EGOV briefing).

On 21 March, the Commission launched a special call under the Technical Support Instrument (TSI)⁶ to support Member States welcoming refugees from Ukraine (see section below) and the phasing out of their reliance on fossil fuels from Russia. This particular call would address building institutional and operational capacity to welcome people fleeing the war in Ukraine; enhancing the social and economic integration of refugees from Ukraine; making the best use of available EU funds to provide accommodation for families or unaccompanied children; and phasing out of the Member States' reliance on fossil fuels from Russia notably by identifying the best reforms and investments, in line with the Commission's REPowerEU Communication (see a previous EGOV briefing on RePowerEU). Deadlines for submitting requests are the 8 of April for the first three and 24 March for the latter.

The President of the Eurogroup, in his letter of 18 March to the President of the Euro Summit in view of its meeting on 24-25 March, considers that the Russian invasion of Ukraine is clearly "a challenge" to the EU's prosperity, values and security - it will have a "high" cost, because it undermines growth momentum and exacerbates inflationary pressures - but stresses that the EU can overcome this challenge and the Eurogroup's main contribution to this will be to "work together to safeguard the recovery" (see below sections on coordination of national economic policies).

On 22 March, Commissioner Gentiloni called for a "more supportive framework of fiscal rules" and "new tools at the European level" to finance increased defence investment. These industrial and technological investments would be in addition to the "additional €520 billion per year" needed to accelerate the ecological transition and strengthen the bloc's energy independence. He stressed that he saw the crisis as "an opportunity to shape the EU's future direction'.

Confronted with the new economic, financial and social challenges imposed by the Russian invasion of Ukraine, current - and possible additional - EU and national budgetary resources will be needed and used in an targeted and effective way to support recovery and social cohesion and enhancing resilience in many policy areas, such as improving inter-connections of energy markets, energy savings and food security. EU policy makers will be confronted with short term trade-offs without losing sight of medium and longer term objectives.

Coordination of national economic policies

According to the 18 March Eurogroup President letter (see above), it is clear that the Ukraine crisis is denting growth momentum and exacerbating inflationary pressures. These negative impacts come through several channels – energy supply and energy prices are a key factor, but confidence effects, financial flows, and supply disruptions, are among the many other factors also at play. There will also be impacts related to the displacement of Ukrainian people seeking safety in the EU (see section below). The cost of these impacts are set to be high, and finance ministers are looking at ways to shield vulnerable groups.

The Eurogroup underlined in its 14 March statement that it will continue its strong coordination of fiscal policy in the euro area to weather the heightened risks and uncertainties, and the impact on EU economy.

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⁶ The TSI (see here for details) finances provision of technical assistance to Member States.
Ministers’ highlighted fiscal policies have to remain agile and flexible, and stand ready to adjust the policy stance to the changing circumstances as needed. In parallel, Ministers will urgently address and consider concrete options, building on the Commission Communication of 8 March 2022 for dealing with the impact of increased energy prices on citizens and businesses, especially vulnerable citizens and SMEs.

It may be particular valuable in the situation to find common and coordinate approach on how to best respond to higher energy and food prices. One may note that during the 2005-2008 food and oil price hike, the ECOFIN-Council took the following stance: “confirmed an agreement reached by [ECOFIN] ministers at an informal meeting in Manchester in September 2005 whereby distortionary fiscal and other policy interventions should be avoided, as they prevent the necessary adjustment by economic agents. Measures that can be considered to alleviate the impact of higher oil prices on the poorer sections of the population should remain short-term and targeted, and should avoid distortionary effects”.

As regards national measures to mitigate in the short term the higher energy and food prices, the Commission made the following recommendations on 24 March:

- the Commission proposed that in order to alleviate the impact of high food prices on the most vulnerable, Member States may implement reduced rates of Value Added Tax and encourage economic operators to reduce the price for consumers. In December 2021, the Council agreed on a reform of VAT rates at EU level, which enables Member States to further reduce their rates, down to 0%, on certain goods and services which address basic needs, notably food. Member States may already make use of this possibility, as well as making lump-sum transfers to households as an efficient and effective solution to address affordability.
- the Commission made clear that it considers providing guidance to Member States on how to make best use of the legal framework to mitigate excessive energy prices for end-consumers, including on targeted country-specific derogations under the Energy Taxation Directive so as to avoid distortions to the Single Market. According to the Commission, a majority of Member States have put in place reduced VAT rates for gas, electricity and/or district heating. However, many possibilities, notably in the framework of the Energy Taxation Directive, including reduced rates or exemptions for households, are not yet fully exploited.

One may note in this respect that Article 11 of the Treaty on Stability, Coordination and Governance in the EMU requires the Contracting Parties ensure that all major economic policy reforms that they plan to undertake are discussed ex-ante and, where appropriate, coordinated among the Parties. This coordination shall involve the institutions of the European Union as required by EU law.

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7 One may note that according to the Commission, fertilisers represent 18% of the input costs of arable crops farms (2017-19 average). Natural gas is the main determinant for the price of nitrogen-based fertilisers. Even though the EU imports EUR 3 billion worth of fertilizer from Russia, the reliance on imports for nitrogen-based fertilisers remains limited, with more than 90% of the EU consumption provided by the EU domestic industry. However, the industry is heavily dependent on gas of Russian origin.
EU responses to the Ukrainian refugees

The Commission has taken immediate action to help mobilise financial support to Member States hosting those fleeing war in Ukraine. This includes the proposal on the Cohesion’s Action for Refugees in Europe (CARE) and amendments to the 2014-2020 Home Affairs Funds. Tailor-made support via the Technical Support Instrument (see above) will provide Member States help to build institutional and operational capacity to welcome people fleeing the war in Ukraine, enhancing their social and economic integration and making the best use of available EU funds to provide accommodation for families or unaccompanied children. In addition, available funding under REACT-EU, in particular its 2022 tranche of up to €10 billion, can be used by the Member States. To support Member States, and particularly those closest to the EU border with Ukraine, €3.4 billion pre-financing payments under REACT-EU will be made available to speed up access to funds. Significant funding is also available under the agreed 2021-2027 financial framework from both Home Affairs and Cohesion Policy funds.

The Temporary Protection Directive stipulates that those with temporary protection should be able to engage in employed or self-employed activities, as well as vocational training. The Commission therefore invited Member States to take national measures to implement these provisions as a matter of urgency, in close cooperation with social partners. Informing the people concerned about their rights is key, so that those arriving can start working as soon as possible.

According to the Commission, food security in war-torn Ukraine is of great concern, particularly as Russia seems to be deliberately targeting and destroying food stocks and storage locations. The UN Appeal estimates that up to 18 million people will be affected in Ukraine, including up to 6.7 million who will be newly internally displaced. Food shortages in cities and millions of refugees and displaced persons call for urgent food aid to Ukraine. Humanitarian actors, such as the World Food Programme, are providing food assistance and scaling-up operations. Hence, the EU is mobilising aid through both its civil protection and humanitarian mechanisms. EU humanitarian aid, already operational, amounts to EUR 93 million for Ukraine and Moldova including food assistance and support for basic needs.

Box 3: Examples of national responses to address higher fuel prices

On 21 March 2022, the Swedish Government presented a package of measures with both short- and long-term investments. The package includes reduced fuel taxes, a new compensatory payment for fuel costs for private individuals who own cars, increased housing allowance for families with children and a new travel deduction system. The short term measures, include that fuel tax on diesel and petrol will be temporarily reduced to the lowest level permitted under EU regulations; a new compensatory payment for fuel costs will be introduced for private individuals who own a car (the total cost of this measure is estimated at SEK 4 billion); to meet rapidly increasing sales of climate bonus cars (primarily electric), the appropriation for the climate bonus will be increased by SEK 3.9 billion; and the housing allowance for families with children will be temporarily increased from July to December 2022.

The Portuguese government put in place a number of measures to mitigate the impacts of rising energy prices in citizens and businesses. Measures already implemented include, notably, giving back to citizens the windfalls of VAT through a discount on other taxes on fuels; a credit line for companies more energy dependent; a direct discount on fuel prices for transport companies to avoid overburdening users with the increased prices; and direct benefits for low income households. The Government also plans to temporarily decrease the VAT rate on fuels to a lower rate from 23%, if so allowed by EU legislation and the national parliament. The estimated impact would be of around EUR 65 million per month. Together with other Member States, Portugal also presented proposals for a united EU response to high energy prices.
According to the Commission, part of assimilation into normal life for those arriving from Ukraine is access to bank accounts in the EU, so that people can receive social support payments or salaries or make payments. The beneficiaries of temporary protection have the right to a basic bank account. Hence, the Commission is in contact with the banking industry to ensure implementation, and this will be part of information campaigns. The guidance on implementing the Temporary Protection Directive also recommends that Member States facilitate the opening of a bank account even before a residence permit is issued.

On 18 March 2022, the National Bank of Ukraine and Narodowy Bank Polski signed an agreement allowing Ukrainian refugees staying in Poland to exchange Ukrainian hryvnia for Polish zloty, taking effect on 25 March 2022. Starting from this date, Ukrainians may exchange hryvnia cash for Polish zloty in selected bank branches in Poland for a total of up to 10,000 hryvnias in cash per person, at the official exchange rate as of March 25, which should result in about 1,400 zloty, or €300 per adult refugee.

Christine Lagarde, ECB President, said on 10 March that the ECB is seeking a solution permitting it to convert refugees’ hryvnia into euros. While the ECB has decided that it is unable to exchange hryvnia for euros without a state guarantee because of the risk that it would be considered monetary financing of governments, it sent a proposal to the Commission on 21 March outlining how a scheme to convert hryvnia into euros would work, using an EU guarantee to cover the risk of foreign exchange losses at the central bank. Under this proposal, the Commission needs to establish a mechanism for EU member states to fund the guarantee, which might need to be between €1bn and €3bn, assuming a cap of €300 for each refugee, according to a document seen by the Financial Times.

According to OECD estimates the budgetary costs are difficult to predict due to uncertainty about the number of refugees, the length of time they will stay, and the amount of spending per refugee. The cost for processing and accommodating asylum seekers for the first year in 2015-16 was estimated to be around EUR 10 000 per application by the OECD, and up to EUR 12 500 per refugee in national studies for Germany—though to varying extent across countries, depending on the level of support. At this level, the inflow of 3 million refugees seen so far could result in a direct first year cost of at least 0.25% of EU GDP, and much more in the major host economies. So far, refugees have primarily gone to a small number of countries, with Hungary, Moldova, Poland, Romania and Slovakia taking in large shares. The initial costs are manageable for the EU as a whole, but difficult to support – and deliver – by individual neighbouring countries. Burden sharing and EU support to the major host countries would allow support to be delivered more effectively.

Since the outbreak of the war and until today, 3,674,952 persons have fled from Ukraine.

**Figure 5:** Refugees in EU Member States fleeing Ukraine

![Figure 5](source: UNHCR, figures as of 23 March 2022)
Policy recommendations in the public domain: Some recent picks

E. Chaney, C. Gollier, T. Philippon, R. Portes: Economics and politics of measures to stop financing Russian aggression against Ukraine (22 March 2022)

The financial and economic sanctions so far imposed on Russia to force it to end its invasion of Ukraine have not yet had the desired impact. This column argues that cutting off the financing of the Russian aggression is essential and requires immediately banning imports of Russian oil and taxing imports of Russian gas, while cushioning the shock of these measures on households, especially those with low incomes.

This is why, in addition to the ten measures put forward by the International Energy Agency, the authors are proposing three measures to be enforced immediately by EU members, in order to cut off the financing of the war of terror waged by Russia: 1. Complete ban on Russian oil imports; 2. A tax on Russian gas imports, proceeds allocated to Ukrainians; 3. Cushion the shock on low incomes.

T. Akhvlediani & W. P. D. Groen: Sanction-proof or sanction-hit: How can the EU make Putin’s war even more costly (18 March 2022)

Even though sanctions imposed on Russia cannot deter the outbreak of the war, yet they can still make the war costly for Putin. The imposed sanctions have led to the closure of Moscow’s stock market, a devaluation of the Russian rouble, significant hikes in interest rates with the Russian central bank doubling its already high rate of 9% to 20%. However, the EU and its Western allies still have options to hit the Russian economy harder in every category of sanctions. Although the imposed sanctions for now leave out the restriction of energy trade with Russia due to the EU’s high dependence on Russian energy supplies, yet there are optional options for the EU to sanction energy trade with Russia. These could include cutting the oil imports from Russia, which makes up a significant share of Putin’s revenues for funding the war. Taking into consideration the EU’s high dependence on Russian gas supplies, levying a tariff on Russian gas imports could be a feasible form of sanction in the short term. In the long run, Russian gas should be replaced with alternative sources. Although the sanctions imposed are targeted at Putin and his inner circle, they also affect ordinary citizens. Therefore, sanctions on the imports of absolute essentials and those limiting the movement of ordinary people should be put on hold. Instead, the enforcement of sanctions should remain the main focus of the EU. In this regard, strong cooperation with allies like the US and UK should enhance the effectiveness of the imposed sanctions. Although the sanctions on Russia will have economic consequences for the EU and the West, they will be much more costly for Putin, which could push the Kremlin to rethink the war and seek an agreement with Ukraine.

R. Berner, S. Cecchetti, K. Schoenholtz: Russian sanctions: Some questions and answers (21 March 2022)

Few conclusions can be drawn from the situation arising from the financial and trade sanctions imposed on Russia. The current episode is heightening perceptions of vulnerability arising from cross-border financial and economic exposure. Especially, Russia’s strategy of accumulating foreign assets during peacetime no longer appears viable, while there is now further reason to question the wisdom of dependence on potential rogue states for critical supplies of energy and other raw materials. Moreover, pre-existing pressures on countries to slow or scale back global integration may rise substantially further. The leading sanctions imposed so far are financial, with the effective freezing of assets held abroad by Russia’s central bank and selected Russian commercial banks, and the exclusion of most Russian intermediaries from the SWIFT being on top of the list. The question that remains is if the US will impose secondary sanctions on Chinese firms and commercial banks should they help Russia evade the sanctions. As the Bank of Russia accumulated more than $600 billion of international reserves, $346 billion as of January 2022 is estimated to be frozen now. In response to all this, the Bank of Russia boosted its policy interest rate sharply to support the ruble while it can further strengthen capital controls and lend in rubles to commercial banks, providing the liquidity necessary to prevent bank runs. Had a CBDC [Central Bank Digital Currency] existed, this run out of Russian banks and into CBDC likely would have been even larger and
faster. **SWIFT** is the most widely used bank-to-bank system. When a bank is excluded from SWIFT, it can no longer send or receive messages for transactions. However, Russian sales of natural gas are excluded from sanctions. Energy buyers outside of Russia can make payments to Russian suppliers without interruptions - Russia’s largest bank, Sberbank, and one of the primary energy sector banks, Gazprombank, retain access to SWIFT. The EU sanctions on Russia currently do not ban energy imports due to the EU’s great reliance on Russian gas. However, there is an increasing pressure to halt energy imports from Russia, which based on estimates would reduce GDP in Germany by between 0.5%-3%. Nonetheless, sanctions affect trade worldwide. As Russia and Ukraine are important global wheat suppliers, wheat prices have increased by more than 35% since the invasion started. Many financial and non-financial firms are also halting operations in Russia. Generally, global supply chains are affected and shipments from Russia and Ukraine are diminished. Although crypto seems to provide a way for Russia to evade the sanctions, the crypto infrastructure does not appear to be efficiently scalable to provide a large escape hatch from sanctions. Financial institutions outside Russia can also be affected as a result of severing financial ties with Russia. The continued closure of markets for Russian equity with debt defaults can have further effects in the future.

**D. Gros: The Smartest EU Sanction on Russia** (18 March 2022)

Whether the European Union should ban gas imports from Russia is becoming increasingly urgent. As a ban would carry very severe short-run economic consequences for Europe, there is a better way that would cause the minimization of the economic disruption: the introduction of an import tariff on Russian gas. As Russia has long imposed a 30% export tax on gas, the EU can claim that its import tariff simply compensates for this distortion. This energy tariff could have significant political advantages. First, it would facilitate the reduction—and eventual elimination—of Europe’s energy dependence on Russia while producing substantial revenues of around net €30-50 billion for the EU budget annually. In addition, the impact on prices and liquefied natural gas flows would give policymakers much-needed information about the challenge of decoupling the European gas network completely from Russia. A tariff could also apply to imports of Russian oil, though the rate should be much lower than for gas because oil is more easily transportable.

**IGM Forum: Economic consequences of Russia’s invasion of Ukraine: Views of leading economists** (10 March 2022)

The IGM Forum at Chicago Booth invited its panel of leading European and US economists to express their views about the likely economic consequences of Russia’s invasion of Ukraine. On the first statement about whether the fallout from the invasion will both reduce global growth and raise global inflation over the next year, over three-quarters of the panel agree, with Larry Samuelson at Yale commenting, “A protracted conflict, on top of existing supply-chain woes, will be detrimental to the world economy.” Among those who say that they are uncertain, Olivier Blanchard at the PIIE states: “I am reasonably confident about inflation, but less sure about output. Demand may be strong for other reasons.” On the second statement about whether the sanctions implemented to date will lead to a deep recession in Russia, over 90% of the panellists agree, with Karl Whelan of UCD noting, “Russia runs a large non-energy current account deficit. Loss of access to supplies and services will hurt the economy. On the third statement about whether a total ban on oil and gas imports risks recession in European economies, 70% agree with considerably stronger expectations of a recession among the European panel. For example, Christopher Pissarides concurs that, “Germany is totally dependent on them. A recession in it and some others will bring recession to Europe.” Finally, on the fourth statement about whether weaponising dollar finance is likely to lead to a significant shift away from the dollar as the dominant international currency, reactions are mixed with percentages being 24% agree, 36% uncertain and 36% disagree. Those who disagree focus on the absence of realistic alternatives to the dollar, focusing specifically on China and its currency while those that agree suggest as potential alternatives to the dollar being gold and crypto.

**P. Weil & G. Zachmann: The impact of the war in Ukraine on food security** (21 March, 2022)
Russia and Ukraine play a significant role in food export. However, the war in Ukraine and the consequent sanctions exacerbate the already high food prices. Russia and Ukraine play the biggest role in the supply of wheat, barley, maize, sunflower seeds and sunflower oil. Even though European and Central Asian countries have a higher share of domestic cereal production than Middle Eastern and Northern African countries, they still rely fully on Ukraine and Russia for the imported cereals. Russia and Ukraine also jointly account for 57% of global sunflower oil exports and around 40% of the EU’s sunflower oil comes from Ukraine. The war is likely to further increase vegetable oil prices, which have already been the main driver of food inflation since the end of 2021. Food supply will be affected through the disruptions to the global fertiliser market. Farmers will be impacted by the increased prices and renewed trade restrictions. Anticipating future shortfalls can help limit the impacts of food supply shocks. The EU could boost production on fallow land and enable its farmers to step-up grain production. Crops for food consumption should be prioritised over fodder and biofuels. Global measures should focus on improving the efficiency of fertiliser use and multilateral engagement to limit protectionist measures on food and fertiliser also needs to be enhanced.

N. Mulder: The toll of economic war: How sanctions on Russia will upend the global order (22 March, 2022)

The Russian-Ukrainian war constitutes a geo-economic turning point. However, economic sanctions rarely succeed at achieving their goals due to weaknesses in their design. Nonetheless, the sanctions, in this case, could fail not because of their weaknesses but because of their great and unpredictable strength. There are at least four different kinds of broader effects besides their direct hit on the Russian economy: spillover effects into adjacent countries; multiplier effects through private-sector divestment; escalation effects in the form of Russian responses; and systemic effects on the global economy. Spillover effects have already caused turmoil in international commodities markets while the collapse of the ruble has caused serious financial distress in Central Asia’s economies. Moreover, Russia’s impending isolation has set in motion a massive corporate flight with major Western firms pulling out of the country. The Russian government has responded to the sanctions by undertaking emergency stabilization policies to protect foreign exchange earnings and shore up the ruble. If the economic war between the West and Russia continues further into 2022 at this intensity, it is very possible that the world will slide into a sanctions-induced recession. The combination of spillover effects, negative multiplier effects, and escalation efforts imply that the sanctions against Russia will influence the world economy. If the goal of the sanctions is to exert maximum pressure on Russia with minimal disruption to the world economy, the current sanctions might be the politically most feasible options. Maintaining the current sanctions will require active compensatory policies. If the economic war persists, Europe needs more than laissez-faire economic policies or fiscal fragmentation. In case, the pressure on Russia is further maximized, far-reaching economic interventions will be needed. Intensified sanctions are likely to cause a wave of material shocks that will require stabilization efforts. However, even then economic damage can be serious with high risks for strategic escalation. Therefore, diplomatic and economic paths should be pursued to end the conflict.

O. Blanchard, J. Tirole: Major future economic challenges (21 March 2022)

In January 2020, President Macron asked for the creation of a commission to address the structural challenges for the global economy. The conclusions and recommendations apply not only to France but also to Europe and the world economy, as many of the policy prescriptions will require international cooperation. The report is divided into three sections, namely climate change, inequality, and demographic change. Regarding the first, the commission made three recommendations: carbon pricing done properly; R&D subsidies to speed up the green transition and carbon abatement; collective action among nations. As for inequality, the commission proposed inheritance tax revenues to be explicitly allocated to financial redistribution; international agreements for fairer taxation; better interactions between educators and private-sector employers; intervention of the state to influence the nature of production and the creation of better jobs. Finally, concerning the demographic change, several measures are being recommended, like workers accumulating points on an individual account of their entire work life; low-income workers receiving ‘bonus points’ when they retire as a redistribution mechanism; a
consistent dependency ratio to maintain economic balance like a transparent rule that maintains a 2:1 ratio of work compared to retirement years. All three challenges are time bombs, but solutions exist even though they are sometimes expensive or unpalatable.

F. Mollet, G. Riekeles: Europe must prepare for a wartime economy (24 March 2022)

The immediate shock of the Russo–Ukrainian war is already threatening to stall the EU’s burgeoning economic recovery, creating a new supply chain crunch and threatening financial stability. The primary concern is the surge in energy prices, where Europe’s geopolitical naivety and lack of security-conscious policy has left it reliant on Russia. Meanwhile, Europe must accommodate the largest refugee flows since World War II, already over 3 million. In parallel to the end of the ‘peace dividend’, the EU faces unprecedented investment needs to avert catastrophic climate change and modernize its economy. Finally, the West’s financial and trade sanctions on Russia will probably significantly reconfigure global economic relations. The only way forward for the EU is to double down on solidarity mechanisms. First, the EU must speed up its investment push; for not only the twin green and digital transitions but also defense through the creation of a central investment capacity funded through EU-level borrowing. Secondly, the European Commission’s upcoming revision of the fiscal rules must avoid any sharp adjustment that would repeat the euro crisis of 2011–2013. Thirdly, the current crisis requires building more resilience into the European economic model, mitigating critical economic interdependencies, and exploring new sources of growth. In so many ways, the current crisis is a decisive moment in European Union history.

Box: Previous EGOV weekly Digest:

Economic repercussions of Russia’s war on Ukraine: Weekly Digest - 18 March 2022

EU economic and financial developments: Weekly Picks - 11 March 2022