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

These regular digests provide summary information 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. They include recent information relating to the EU sanctions regime, economic estimates of the war, and policies supporting economic and financial resilience, including the coordination of national economic and fiscal measures. It also highlights 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.

This edition covers: latest EU policy responses relating to energy supply and demand (Sections 1-3); recent estimates of the economic effects on Ukraine (Section 4) and on Russia (Section 5). For a list of previous Weekly Digest on the economic repercussions of Russia’s war on Ukraine see [here](#).

For an overview of the latest economic estimates for growth and inflation in the EU, please see this separate EGOV document (that is regularly updated).

1. Recent measures at EU level to tackle the energy crisis

Latest European Council conclusions

The Heads of State and Government agreed on the night of 20-21 October on efforts to reduce demand, ensure supply security and to lower energy prices. In particular, the conclusions give the Council a mandate to discuss measures along the lines proposed by the European Commission on 18 October (see details below), including:

- voluntary joint gas purchases;
- an additional gas price benchmark;
- a temporary “dynamic price corridor”;
- improvements of energy markets functioning;
- energy solidarity measures at national, regional or Union level;
- efforts to save energy;
- and a temporary EU framework aimed to cap the price of gas in electricity generation without modifying the “merit order” (of related production costs).

More details on the policy options for a temporary EU framework to cap the price of gas in electricity generation were set out in a non-paper that the Commission had shared with Member States before energy ministers met on 25 October. A copy of that non-paper has been obtained and published by EURACTIV. According to that non-paper, such scheme - inspired by similar measures already introduced by Spain and Portugal - would need to ensure that the merit order of electricity generation is kept intact, prevent an increase of gas consumption, address the financing and distributional impacts and address impacts on flows.
beyond the EU’s borders. The non-paper argues that the most important element of avoiding changes to the merit order is to set the subsidised target price sufficiently high so that gas-fired power does not become cheaper than producing electricity from other technologies. Moreover, the effectiveness of the measure as regards avoiding additional gas consumption very much depends on the question to what extent the export of subsidised electricity to non-EU countries (e.g. UK and Switzerland) can be avoided, given that the existing agreements with the EU’s trading partners prohibit the creation of higher export prices. As regards distributional impacts, the non-paper sets out that Member States which rely very heavily on gas-fired power generation (e.g. Germany, the Netherlands and Italy) would face the highest costs for the necessary subsidies, while net-importers of gas-fired power (e.g. France) would benefit from the subsidy mechanism.

Overall, the European Council’s conclusions are less specific than what the Commission had put forward and stop short of endorsing some of the proposed measures. Rather, they ask the European Commission and the Council for “mobilising relevant tools at national and EU level”. The European Council also stresses the “importance of close coordination and of common European level solutions, where appropriate”.

Latest proposals by the European Commission

The European Commission adopted on 18 October a series of measures to tackle the energy crisis:

1) Regulation on fossil gas transaction prices, joint procurement and solidarity mechanisms between Member States

The Commission has announced a new package of emergency measures on gas with the publication of a new draft Regulation:

   a) Maximum dynamic price for gas market transactions

The Commission draft Regulation foresees the possibility for the Commission to propose a Council decision to establish a “maximum dynamic price” at which transactions on the fossil gas spot market can take place at the Dutch TTF (Title Transfer Facility - a virtual trading index, which is currently the benchmark index usually used in the European gas market). The mandate requires the price limit to be determined in such a way as not to jeopardise the security of gas supply in the Union and not to lead to an increase in gas consumption. By referring to a “dynamic” limit, we understand that the Commission has in mind that the limit would vary in function of global market conditions.

The capping instrument proposed by the Commission would, however, only be temporary, pending the development of an alternative benchmark to the TTF for EU liquefied natural gas (LNG) import prices; this alternative benchmark would therefore by construction not be influenced by Russian market manipulation, thus contributing to market transparency and, indirectly, to lower wholesale gas prices. The European Agency for the Cooperation of Energy Regulators (ACER) is responsible for publishing a new benchmark by 1 March 2023.

   b) Capping intraday price peaks

The Commission draft Regulation also intends to propose a temporary intraday price cap mechanism to limit extreme variations in a short period of time (during the same trading day) on energy derivatives markets.

Trading venues would be required to put in place, by 31 January 2023, a mechanism based on an upper and a lower price limit defining the prices above and below which intraday transactions cannot be executed, under the supervision of the European Securities and Markets Authority (ESMA).
These price limits should be expressed either in absolute terms or in relative terms as a percentage change from the reference price (the latest market prices observed at regular intervals).

c) “Mandatory” joint gas purchases

The Commission also wishes to strengthen solidarity between Member States and the EU’s bargaining power on international gas markets, notably by stimulating joint purchases.

To this end, the Commission proposes that gas purchasing companies pool their demand for gas through a service provider contracted by the Commission for this purpose.

Participation in the joint purchases is proposed to be, for most part, voluntary. However, the text foresees to oblige Member States to ensure that fossil gas companies under their jurisdiction participate in the aggregation of demand for a certain quantity of gas: this minimum quantity should be equivalent to at least 15% of the total volume needed to reach the stock filling target set for next year.

In a second step, the Commission encourages companies that have participated in the demand aggregation process to form a gas purchasing consortium to coordinate elements of their positions such as volumes, prices, delivery points and timing of delivery.

d) Solidarity mechanisms between Member States

The draft Regulation further sets out the rules and procedures that will automatically apply between Member States that have not agreed bilateral solidarity agreements, in the event of a gas shortage, through the introduction of a default mutual assistance mechanism.

The obligation to provide solidarity will be extended to non-connected Member States with LNG facilities provided that the gas can be transported to the Member State where it is needed.

The legal basis chosen for this draft Regulation, (Article 122 of the Treaty), does not give the European Parliament a role in its adoption.

2) Using REPowerEU to help SMEs, self-employed and households with cohesion funds

The Commission presented a proposal on 18 October how parts of the national 2014-2020 cohesion funds (10% of the national funds, representing approximately € 40 billion in total) can be used to help SMEs, vulnerable households and the self-employed, allowing the Member States concerned to use EU funds to support their economies.

In concrete terms, the European Social Fund (ESF) may provide support to vulnerable households to cover energy consumption costs, and support short-time work schemes to help employees and self-employed, while the European Regional and Development Fund (ERDF) may support working capital of SMEs that are strongly affected by rising energy prices. All proposed actions may benefit from 100% co-financing.

A comparable flexibility in the usage of cohesion funds was previously applied to stem actions for refugees from the Ukraine.

3) Measures to alleviate liquidity problems in the energy sector

The European Commission adopted on 18 October two delegated acts concerning energy derivatives on financial markets. Those two targeted and time-limited delegated acts of 12 months focus on alleviating the liquidity constraints that some energy companies have faced in meeting their margin requirements and on tackling the extreme price volatility in energy derivatives markets:
The Commission decided to raise the threshold for mandatory commodity derivatives clearing from €3 billion to €4 billion. This will allow energy companies to conduct more over-the-counter transactions, potentially reducing their margin requirements to what they have to provide in bilateral dealings.

The second measure will temporarily expand the list of eligible collateral to meet margin requirements, allowing wider use of guarantees.

To the extent energy derivatives trading takes place on regulated markets and is centrally cleared by clearing houses (CCPs), the current regulatory framework provides the necessary safeguards to ensure financial stability, such as margin requirements for clearing between buyers and sellers: if one party defaults, other market participants are protected from this risk.

However, due to the sharp rise in gas and electricity prices, energy companies have had to provide more cash collateral to CCPs as margin calls have increased in line with prices. This has led to liquidity problems for energy companies.

To provide some relief to these non-financial clearing houses, ESMA suggested to temporarily expand the list of eligible collateral at EU CCPs on a temporary basis. The measure to increase the clearing threshold had been put forward by ESMA in June.

In addition, ESMA announced that it is strengthening its cooperation with the Agency for the Cooperation of Energy Regulators (ACER), which helps to ensure the smooth functioning of the European gas and electricity market. Their aim is to strengthen “their cooperation to further improve information exchange and avoid potential market abuse in Europe's spot and derivative markets”.

4) Coordination of Member States' action on critical infrastructure security

The Commission proposed, on 18 October, in an EU Council Recommendation to strengthen the resilience of EU critical infrastructure. The Commission states that "Russia's war of aggression against Ukraine has brought new risks, physical and cyber-attacks, often combined as a hybrid threat. The sabotage of the Nord Stream gas pipelines and other recent incidents made it clear that the resilience of the EU critical infrastructure is under threat". The Commission stresses that priority should be given to measures to strengthen resilience in the key sectors of energy, digital infrastructure, transport and space.

The proposed Recommendation builds on and extends the recently-agreed Directive on the resilience of critical infrastructure (CER Directive) and the Revised Directive on the security of network and information system (NIS2 Directive) and envisages better coordination of these two instruments and Member States' actions.

The aim is to maximise and accelerate critical infrastructure protection work in three priority areas: preparedness, response and international cooperation.

Preparedness:

The Commission encourages Member States to carry out stress tests of entities operating critical infrastructure on the basis of a common set of principles developed at EU level.

With regard to national critical infrastructure, given the possible consequences if the risks materialise, the Commission considers that priority should be given to improving the resilience of entities operating critical infrastructure.

1 For the Commission’s initial outline of how to better protect critical energy infrastructure, also see a previous edition of the Weekly Digest.
Member States should also develop the use of Galileo and/or Copernicus for monitoring and share relevant information within an expert group.

**Reaction:**

A ‘master plan’ on critical infrastructure incidents and crises will be developed at EU level and will describe and outline the objectives and modes of cooperation between Member States and EU institutions, bodies, offices and agencies in responding to critical infrastructure incidents.

The draft recommendation also aims to strengthen the early warning and response capacity to disruptions of critical infrastructure through the EU’s civil protection mechanism. The Commission will thus regularly review the adequacy and readiness of the existing response capacity and organise cross-sectoral cooperation tests at EU level.

**International cooperation:**

With regard to enhanced cooperation with key partners and neighbouring countries on critical infrastructure resilience, the Commission and the EU High Representative for Foreign Affairs and Security Policy will strengthen work with NATO through the EU-NATO structured dialogue on resilience. They will set up a task force for this purpose.

2. Member States’ saving measures due to high energy prices

**A need of demand reduction**

On 26 July 2022, EU countries agreed on a voluntary natural gas demand reduction of 15% between 1 August 2022 and 31 March 2023, compared to average consumption in the previous five years. Exemptions from the target include Cyprus, Ireland, Malta, Estonia, Latvia and Lithuania. Derogations for other countries are likely to follow after assessments by the European Commission. On 30 September 2022, EU countries agreed to an electricity demand-reduction target of -10% overall (voluntary) and -5% during peak hours (mandatory).

According to a recent note by OECD staff, unless European countries reduce demand now, they might have to *ration gas this winter*. The emergency plans and solidarity provisions in place in case of a shortage offer strong protection for households and social services but would leave firms bearing the brunt of the burden of adjustment. The economic and employment costs could be severe, which underlines the need to reduce demand across all sectors of the economy now in order to prevent the risk of rationing during the winter. Moreover, according to the authors, solidarity between EU members is well-established on paper but may prove challenging to implement. It needs to be made operational by putting the necessary bilateral agreements in place or agreeing on EU legislation to this effect.

If imports from Russia cease completely and the EU does not *reduce its gas consumption*, it risks a shortage in early 2023. Consumption would have to shrink by between 10-20%, depending on gas flows from Russia, deliveries from alternative suppliers, and winter temperatures (See OECD Figure below).
In the EU, the national emergency plans typically protect households, social services, essential infrastructure, and district heating systems from cuts (OECD Figure below). By contrast, firms would have to bear the brunt of the adjustment.

The staff of OECD concludes that while emergency plans and solidarity provisions are crucial in ensuring that citizens and critical infrastructure will not lose access to energy, they can only serve as measures of last resort. Rationing the gas consumption of firms would imply large economic costs and unpredictable cascading effects along supply chains. Governments should thus aim to ensure energy savings now and spread them across all sectors of the economy, rather than risk burdening firms with the costs of a sudden emergency adjustment in early 2023.

Together with the International Energy Agency (IEA), the Commission published in April 2022 "Playing my part", which includes a series of actions that citizens can take to reduce their energy use, save money and at the same time support Ukraine by reducing the EU’s dependence on Russian fossil fuels. The report suggests 9 individual actions, which, if implemented by many, can make a difference.
The IEA and the Commission presented in an online event on 21 October 2022 a brief guideline on concrete actions that small businesses can carry out and what supporting measures, specifically tailored to their needs, are available to them. The “Coping with the crisis – increasing resilience in SMEs through energy efficiency” guide provides advice on immediately actionable steps enterprises can take to reduce energy consumption and improve energy efficiency.

**Saving measures undertaken in EU Member States - outcome of a survey**

An initiative to collect available public information on energy-saving measures in the EU Member States was launched by EGOV in mid-September 2022 among staff of EU national parliaments (the data collected by the cut-off date 25 October 2022 covered 21 Member States).

The first part of the survey, covered energy-saving measures aimed at households. In this case, prevalent are public awareness campaigns that deliver information about energy saving measures, which should ultimately induce behavioural changes, such as giving households the advice to lower the temperature in their homes by 1-2 degrees. Some measures were introduced to improve the energy efficiency of equipment or heating systems as well as the obligation to obtain energy certificates when selling a property.

In contrast to the situation described for households, the saving measures are more frequently mandatory for companies. A wide range of measures are deployed to achieve the objective. One of them, which was quite regularly reported, concerns the setting of temperature limits in the workplace by either specifying a maximum temperature or decreasing the minimum temperature that is permitted. In addition to these measures, there are also, for example, initiatives concerning the reduction of the loss of heat in business premises changes to more efficient electricity equipment or incentives to shift loads to off-peak times.

The last part covered energy-saving measures targeted at public administrations. Direct actions to reduce energy consumption include reducing the heating in offices or likewise setting maximum heating temperatures. Another focus of the energy-saving measures is on lighting; some measures prohibit or restrict the illumination of buildings and monuments, limit the indoor and outdoor lighting of public buildings or aim at modernising the outdoor and street lighting. The public sector administrations are also advised to change their way of work by pooling remote work on specific days or making remote work obligatory. Additionally, some mandatory measures are asking public administrations to come up with their own energy-saving plans, or they are obliged to save a fixed amount of energy.

**Figure 3: The use of mandatory and voluntary measures**

<table>
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<th>Enterprises</th>
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</tr>
<tr>
<td>Mandatory</td>
<td>22</td>
<td>15</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: EGOV survey results
3. Member States’ fiscal support measures related to high energy prices

Reduced energy supplies confront the EU and its Member States with difficult policy choices and trade-offs, balancing the needs of end users (see in this context Figure 4 below), suppliers and other common policy objectives. In addition, co-ordination of national fiscal measures is warranted in order to have targeted and temporary measures that do not undermine policies taken in other countries, as well as the well-functioning of the internal market. For the coordination of fiscal support measures, the EU’s economic governance framework and state-aid framework plays a relevant role.

Figure 4: Households’ burden of higher energy prices across Europe (increase in cost of living due to energy prices in 2022, in percent of average household consumption)

As regards State aid, the Commission launched a further consultation on 26 October (following a previous consultation on 5 October 2022) on a prolongation and adjustment of the State Aid Temporary Crisis Framework. That Framework, aimed to allow Member States to support their economies in the context of Russia’s war against Ukraine, was initially adopted on 23 March and amended on 20 July. The Commission adopted a further amendment of the Temporary Crisis Framework on 28 October 2022, taking the feedback from the Member States into account. All measures that are set out in the Framework were prolonged until 31 December 2023.

In order to achieve a coordination of national fiscal policies in the Euro Area, the Member States, Commission and Euro group will assess the Draft Budgetary Plans (DBPs)², which are bound to give details on the budgetary costs associated with the response to the current energy crisis. On 7 November, the Euro group will hold a discussion of the DBPs and on fiscal policy responses to high energy prices and inflationary pressures.

² According to EU law Member States of the Euro Area submit their Draft Budgetary Plans (DBPs) for the forthcoming year to the European Commission and the Eurogroup by 15 October each year. These plans shall be consistent with the Council recommendations issued in the context of the SGP and, where applicable, with the Country Specific Recommendations. The Commission adopts an opinion on the DBPs by 30 November at the latest. Member States shall, as a rule, adopt and make public the central government budget by 31 December at the latest.
Some examples taken from 2023 DBPs:

In Greece, the discretionary measures to address the consequences of energy crisis in 2022 are estimated to have a net impact on the budget in the amount of EUR 4.2 billion (2.0% of GDP). The gross amount of all interventions – mainly subsidies for the consumption of electricity and natural gas by households and enterprises – is significantly higher (EUR 11.6 billion, or 5.5% of GDP), but the expenditure is partially offset by additional revenues from the Green Transition Fund, from the price cap mechanism on the wholesale energy market, and from the emissions trading system, which in total amount to EUR 7.5 billion. For 2023, the electricity and natural gas subsidy scheme is estimated to reach EUR 12.9 billion, but that expenditure is expected to be almost entirely offset by additional revenues from the Green Transition Fund.

The total impact of discretionary measures related to the sudden rise in energy prices and/or inflation on the Finnish budget is estimated to amount to EUR 615 million for 2022 (0.2% of GDP), and EUR 1.1 billion for 2023 (0.4% of GDP); the largest individual expenditure items thereof are support measures for the agriculture sector and financial support for households’ electricity consumption.

The level of detail shown in national DPBs differs. The Portuguese DPB, for example, describes the estimated impact of discretionary measures on the draft budget only in relative terms, as a percentage in relation to GDP, but doesn’t show the absolute amounts. In 2022, the total impact – combining the impact of measures on the revenue side and those on the expenditure side – is estimated to amount to 2.5% of GDP, yet estimated to be significantly lower in 2023 (0.4% of GDP).

For a wider set of data on national fiscal measures supporting households and companies, please see Figure 5 below (based on data collected by Bruegel).

Figure 5: Governments earmarked and allocated funding (Sep 2021 - Oct 2022) to shield households and businesses from the energy crisis (Last update: 20.10.2022)

Source: EGOV based on Bruegel.
4. Recent economic estimates for Ukraine

To examine the economic consequences of the war, the following section gathers some recent economic estimates for Ukraine, even though the forecast uncertainty is very high and largely depends on the evolving dynamics of the ongoing war.

Due to the damage and destruction that is following the current situation in Ukraine, different forecasts all expect a drop in Ukraine’s real GDP of at least 30% (EBRD), or even 35% (IMF, Focus Economics, World Bank) for the ongoing year 2022. Forecasts for 2023 and 2024 vary, being positive but assuming a rather slow recovery (see Table 1 below).

The World Bank Group goes into more detail describing the economic situation in Ukraine in their Europe and Central Asia Economic Update. A third of the Ukrainian population is expected to be displaced as a consequence of the invasion. The estimation of the costs of recovery and construction in Ukraine, as of 1 June 2022, stands at US$349 billion. Since this amounts to 1.5 times the GDP of Ukraine before the war, a vast impact on long-term productivity growth in the country is expected. Some challenges such as the demographic change, low birth rates and emigration were already severe before the war but got immensely exacerbated. Next to the problems imposed by the massive destructions of assets, the accompanying costs as well as capital flights happening, investments and innovation in the country are widely hindered by the war. Net FDI fell by 93% in the first seven months of the year, exports of goods by 28%. To be able to manage the reconstruction on a sustainable path, “Ukraine must show an unwavering commitment to domestic structural reforms, including strengthening institutional capacity and the rule of law, reducing corruption, improving protection of investor and property rights, and enhancing fiscal discipline”.

Table 1: Economic Forecasts Ukraine’s Real GDP

<table>
<thead>
<tr>
<th>Forecast: Real GDP Ukraine (annual change)</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
</tr>
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<tbody>
<tr>
<td>EBRD</td>
<td>-30%</td>
<td>8%</td>
<td>-</td>
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<tr>
<td>IMF</td>
<td>-35%</td>
<td>-</td>
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<td>Focus Economics</td>
<td>-34.5%</td>
<td>8.2%</td>
<td>-</td>
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<tr>
<td>World Bank</td>
<td>-35%</td>
<td>3.3%</td>
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</table>

Financial Support for Ukraine

Ongoing EU support that is directed towards the reconstruction of the Ukraine amounts to a total of EUR 19 billion for economic social and financial resilience (EUR 7.3 billion from Member States in grants loans and guarantees; EUR 12 billion macro-financial assistance, budget support and humanitarian and emergency support). An additional EUR 3.1 billion was made available under the European Peace Facility.

At the International Expert Conference on the Recovery, Reconstruction and Modernisation of Ukraine in G7 format in Berlin on 25 October 2022, a discussion on Ukraine’s recovery, reconstruction and modernisation took place. As co-hosts, the German Chancellor Olaf Scholz and Ursula von der Leyden called for "a new...

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3 The Institute for the World Economy (IFW) gathers data on financial support in their Ukraine Support Tracker and estimates the total support received (military, humanitarian and financial) to EUR 52.3 billion from the United States (of which EUR 27.6 is of military nature), EUR 29.2 billion from EU countries and institutions and EUR 12.3 billion from other donor countries.
Marshall Plan for the 21st century”, adding “that the reconstruction and modernisation of Ukraine cannot be managed by a single country nor the European Union alone”. The conference was organised in five thematic panels – ranging from lessons learned from previous programmes and a stock-taking of Ukraine’s reconstruction needs and their financing through to the framework conditions required for institutional change and the country’s economic stability.

As already pointed out at the European Council on 21 October, the European Commission estimated that between three and five billion euros per month would be needed for Ukraine in 2023. The Commission President explained that her institution was working with Member States on EU support of up to EUR 1.5 billion per month in 2023, or EUR 18 billion for the year. Ukraine’s Prime Minister, Mr Denys Shamba, estimated a need of three to four billion per month and is hoping for similar support from the US and to continue the cooperation with IMF.

To manage the support and reconstruction of Ukraine, the international community and Ukraine will set up a transparent and inclusive donor platform for financial coordination and recovery of the country and will fine-tune its reconstruction plan with the international community.

The Black Sea Grain Initiative

This UN-brokered initiative aims at providing a safe transportation of grain and foodstuffs from Ukrainian ports. On 22 July 2022, the Republic of Turkey, the Russian Federation and Ukraine signed such agreement, which was proposed by the Secretary-General of the UN, and aimed at remain in effect for 120 days from the date of signature by all Parties and can be extended automatically for the same period. Hence, the agreement, initially applicable for a period of only four months, will expire on 19 November 2022 unless renewed. In mid-October, Russian diplomats at the UN stated that a renewed agreement must also allow for increased exports of Russian grain and fertilizers. Ukraine criticized the Russian stance and stated it had no additional demands beyond the July terms it had previously agreed to.

On 29 October 2022, Russia suspended its participation in the agreement because of a massed drone attack on the Port of Sevastopol. Russia suggested that Ukraine had misused a cargo ship to conduct the strike, but UN stated that no cargo ships were in the grain corridor on the night of the attack. A number of grain ships continued to depart from Ukrainian ports with the UN and Turkey’s approval. Insurers paused the issuing of insurance for vessel movements under the initiative. Subsequently, Russia resumed its participation on 2 November after Turkish and UN mediation.

Nonetheless, immediate market price action was limited, with wheat futures up by 5.5% and corn by 2.3%. One of the reasons is that markets had already partially priced in the likelihood of the deal not being renewed following Russia’s complaints since early September. That said, the fact that ship movement through the Black Sea hadn’t stopped was a positive, prompting markets to take a wait-and-see approach.

When Russia announced that it will resume its participation in the Black Sea grain initiative, having previously suspended it, Russia cited written guarantees from Ukraine not to use the grain corridor to attack Russia as a reason for the reversal.

While the Sevastopol drone attacks may have spurred the Russia decision, officials -including President Putin- have been criticising the deal since September – on the grounds that Ukraine has been exporting most of its grain to Europe rather than developing countries. This allegation is not supported by data, however: according to UN Office for Coordination of Humanitarian Affairs, 47% of seaborne exports went to Europe, 13.4% to Turkey, and 26% to MENA and Asian countries. Besides, as the UN highlighted, the deal was meant to make food more accessible to poorer countries – including by lowering global prices not necessarily by ensuring direct shipments to poorer countries.
One may draw three conclusions from the U-turn. Firstly, it's likely that Turkey stepped in as a powerful actor in the tripartite deal – one on which Russia depends substantially in its multi-pronged efforts to bypass sanctions. Turkey, in turn, is a beneficiary from the grain deal, both geopolitically and in terms of grain trade, and would thus not want to see it collapse.

Secondly, it shows that it's much harder for Russia to re-impose a blockade without severely damaging its reputation with the "collective South", compared to the early days of the war.

Thirdly, the speed of the U-turn suggests that international pressure has had greater suasion than Russia's motivation to weaken Ukraine. But in the run up to 19 November, Russia may still try to use various bargaining tactics to remove obstacles to its own grain and fertilizer exports, which have suffered from sanction aversion or the loss of access to Ukraine's infrastructure (in the case of ammonia exports). Russia may also continue to trigger logjams of vessels in Istanbul, as we've seen over the past month, keeping up pressure on food prices.

Global wheat prices plunged on the news, with Chicago futures falling 6.6%, the highest drop since July. The price drop unwinds some of investors' worries over global food supplies, but uncertainty remains as market pricing does not yet reflect Russia's unequivocal extension of the UN deal.

Prior to the war, Ukraine was exporting 15% of world’s maize, 9% of wheat, and 10% of barley. Following the invasion, the volume of Ukrainian cereals exports plunged by two-thirds, effectively shrinking the size of world trade in cereals by about 8%. The Black Sea grain deal allowed Ukraine to increase its exports of cereals significantly. Indeed, Ukraine exported 6.9 million tons of agricultural products in September 2022 (+ 52% compared to August 2022) due to the resumption of shipping with food cargo from the three Black Sea ports. In terms of crops, 4.4 million tons of grain crops were supplied to foreign markets, of which 2.16 million tons of corn, 1.8 million tons of wheat and 440 thousand tons of barley. Should the seaborne route become blocked again, the land routes will not be able to compensate, and the world will again face shortages like the ones in March-June.

5. Recent economic estimates for Russia

This section compiles some recent estimates for the Russian economy. As before, we need to note that uncertainty surrounding those estimates is very high.

The Bank of Finland Institute for Emerging Economies (BoFit) is regularly publishing forecasts on the Russian Economy 2022-2024, the latest being from 10 October 2022. In their report they stress the strong impact of western sanctions, excluding Russia from international financial markets and frozen foreign currency reserves. The depressed imports by 25% ultimately lead to lower production levels. BoFit also looks closer at the development of imports by using trade statistics from other countries in the BoFit Weekly from 27 October 2022. While imports from the EU reached only 50% in August compared to the level reached before...
the war and imports from Thailand (35%) and Vietnam (60%) decreased similarly, imports from China have recovered to pre-war level and those from Türkiye have even doubled.

The private consumption is forecasted to go down by 9% in 2022, following a high economic uncertainty in the country, cutting of wages and the partial mobilisation that led to people leaving the country. This also hampers investments within the country. BoFit forecasts a drop in GDP by 4% in 2022 and 2023, see also Table 2. Overall, they expect a very slow recovery and a gradual adjustment to lower living standards in the country. The BoFit Weekly from 27 October 2022 estimates that federal revenues were down by 14% y-o-y over past 3 months, while public expenditure have increased with 30% y-o-y in September.

Other economic forecasts are implemented by the IMF, projecting a decrease of 3.4% in Russia’s real GDP in 2022, and by the OECD, estimating a 5.5% drop in 2022 and a drop of 4.5% in 2023. The EBRD expects the economy to contract 5% in 2022 and by another 3% in 2023.

The World Bank Group in its Europe and Central Asia Economic Update (Fall 2022) stresses that the strong fiscal response of 3% of Russia’s GDP and the loosing monetary conditions did absorb some of the economic downturn. Export volumes also hit unprecedented levels in the second quarter of 2022, compared to the drop in the first quarter due to high prices of fossil fuel sales to Europe and expanded sales to other countries such as China, India and Türkiye. Nevertheless, they project a drop in Russia’s real GDP of 4.5% in 2022, 3.6% in 2023 and a growth of 1.6% in 2024.

**Table 2: Economic Forecasts Russia’s Real GDP**

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<td>World Bank</td>
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ANNEX 1: Public monitors on the economic and other effects of the war in Ukraine

**Centre for Research on Energy and Clean Air (CREA):**
CREA has compiled a [detailed dataset of pipeline and seaborne trade in Russian fossil fuels in order](#) to shed light on who purchases Russia’s oil, gas and coal, and how the volume and value of imports have changed since the start of the invasion. CREA also leads a project that tracks detailed ship movements and pipeline flows, its [Russia Fossil Tracker](#) brings to light details of energy exports from Russia to other countries after the invasion of Ukraine.

**Kiel Institute for the World Economy:**

**The Ukraine Support Tracker:**
The Ukraine Support Tracker lists and quantifies [military, financial and humanitarian aid promised by governments to Ukraine](#) since January 24, 2022 (the day some NATO countries put their troops on alert). It focuses on support by 31 Western governments, specifically by the G7 and European Union member countries.

**Peterson Institute for International Economics (PIIE):**

Russia’s war on Ukraine: [A sanctions timeline](#).

**An International Working Group on Russian Sanctions by Stanford University:**

[A working group](#) of independent, international experts aim to recommend new economic and other measures to pressure Russian President Vladimir Putin to end his invasion of Ukraine as soon as possible and restore Ukraine’s territorial integrity within its internationally recognized borders.

**Think Tank - Bruegel:**

[A dataset covering national fiscal policies](#) to shield consumers from rising energy prices. It includes figures showing the funding allocated in the period September 2021 to September 2022 by selected EU countries to shield households and firms from the rising energy prices and their consequences on the cost of living.

[A dataset covering daily aggregate data on European natural gas](#) import flows and storage levels.
ANNEX 2: Policy recommendations in the public domain: Some recent picks

Maria Demertzis, Benjamin Hilgenstock, Ben McWilliams, Elina Ribakova, Simone Tagliapietra, Blinov S Djankov: Bruegel Policy brief: How have sanctions impacted Russia? (26 October 2022)

By late 2022, Russian revenues had not suffered as much as intended by western sanctions regimes. Consequently, Russia has been able to continue to finance its war in Ukraine. This may soon start to change.

The effects of sanctions on the Russian economy have been slow to manifest. Financial stability has been maintained by decisive policy measures taken by the Bank of Russia, which have prevented knock-on effects on the real economy. The EU’s energy strategy of sequencing – first meeting its own energy needs and only then sanctioning – has meant continued revenue streams into Russia.

This does not mean however, that the Russian economy will not suffer in the medium to long-term. The voluntary departure of a large number of western firms, the EU’s eventual energy decoupling and Russia’s inability to find equally good customers elsewhere will cause severe damage to the Russian economy. It may however become progressively more difficult to evaluate the impact of sanctions on the Russian economy, because the Kremlin is blocking public access to economic statistics (Starostina, 2022).

The main takeaway is that greater coordination of sanctions across the world is needed to isolate the Russian economy. Bringing forward the end-2022 EU embargo on Russian oil would also help limit the flow of income into Russian coffers, and would therefore also help bring an end to the war.


The researchers use a model simulation to examine which impact on welfare the 2012 Iran and 2014 Russia sanctions had, looking at the targeted countries and the coalition countries. The simulations find that the sanctions inflicted considerable economic harm: Russian exports were permanently 36 percent lower and imports over 30 percent lower than before the sanctions. The study compares the effects that occurred with those that could have been achieved by a hypothetical global coalition with the same sanctions policies.

The result is that even this smaller group of sanctioning countries achieved about 60 percent of the effect that a global sanctions coalition could have achieved in the case of both Russia and Iran. The simulations also show which other countries could have been particularly effective in contributing to the sanctions had they joined the coalition: In Russia’s case, these would be China, Vietnam, Belarus, Turkey, and South Korea in particular. Had they joined the sanctions, the economic harm to Russia would have been particularly severe.

The simulations also examined which of the sanctioning countries bear the highest burdens in the form of their own welfare losses. Overall, the costs of the Russia sanctions are significantly higher than those of the Iran sanctions. In the case of Russia, smaller countries such as Latvia, Lithuania, and Estonia in particular bear high costs in terms of their economic welfare, but Ukraine also does.