

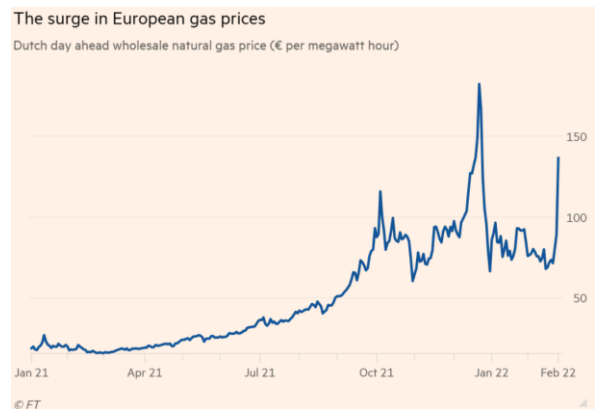
# THE ECONOMIC CONSEQUENCES OF THE WAR IN UKRAINE

ECONOMIC BRIEF 21.022022

Creating **Progress**

Russia's invasion of Ukraine will result in the isolation of the world's 11th-largest economy and one of its largest commodity producers. The immediate global implications will be higher inflation, lower growth and some disruption to financial markets as deeper sanctions take hold. The longer-term fallout will be a further debilitation of the system of globalised supply chains and integrated financial markets that has dominated the world economy since the Soviet Union collapsed in 1991.

As well as being the dominant supplier of gas to Europe, Russia is one of the world's largest oil producers and a key supplier of industrial metals such as nickel, aluminium and palladium. Both Russia and Ukraine are major wheat exporters, while Russia and Belarus (a Russian proxy) are big in potash, an input into fertilisers. The prices of these commodities have been rising this year and are now likely to rise further. Amid reports of explosions across Ukraine, the price of Brent oil breached \$100 per barrel on the morning of February 24th and European gas prices rose by 30%.<sup>1</sup>



## EU sanctions against Russia following the invasion of Ukraine – Financial Sector

### FINANCIAL SECTOR SANCTIONS

They will cut Russia's access to capital markets of the EU, increase borrowing costs for the sanctioned entities and gradually erode Russia's industrial base by:

- prohibiting any form of lending and buying of securities by Russian banks and government (including the Central Bank);
- a full asset freeze and financial ban on three crucial Russian banks;
- extending the list of state-owned companies sanctioned;
- target the Russian elite by prohibiting their deposits in EU banks so that they cannot hide their money in the EU.

**FACT:**



**70% of the Russian banking system (in assets), government and key state-owned companies, will no longer be able to refinance in EU capital markets.**

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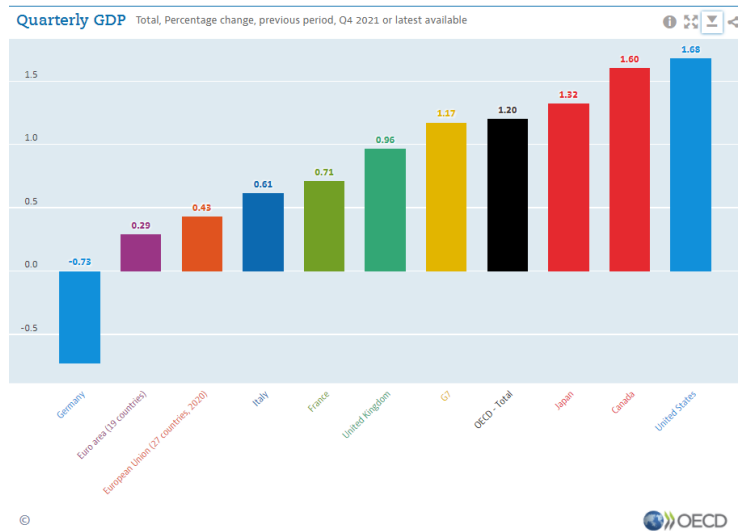
<sup>1</sup> The economic consequences of the war in Ukraine | The Economist

<sup>2</sup> EU\_sanctions\_against\_Russia\_EN.pdf.pdf

## 1. OECD GDP growth

Gross domestic product (GDP) in the OECD area rose by 1.2% between the third and fourth quarter of 2021 according to provisional estimates, slightly up from the 1.1% increase recorded between the second and third quarter.

In the G7, quarter-on-quarter GDP growth accelerated to 1.2% in the fourth quarter of 2021 from 0.9% in the third quarter, driven by increases in the United States (1.7%, compared with 0.6% in the previous quarter), Canada (1.6%, compared with 1.3%) and Japan (1.3%, compared with minus 0.7%).



GDP growth slowed markedly in major European economies in Q4 2021, including France (to 0.7%, compared with 3.1% in the previous quarter) and Italy (to 0.6%, compared with 2.6%). In Germany, GDP contracted by 0.7% in Q4 2021 compared with growth of 1.7% in Q3 2021. In the United Kingdom, GDP growth stabilised at 1.0% in Q4 2021.

Looking back on growth for 2021 as a whole, according to initial estimates GDP in the OECD area increased by 5.5% in real terms following the sharp fall recorded in 2020 (minus 4.6%) due to the COVID-19 pandemic. Among G7 countries, the United Kingdom saw its economy shrink the most in 2020 (minus 9.4%) and recorded the highest annual growth in 2021 (7.5%).

France experienced an increase of 7.0% in 2021 compared with a contraction of 7.9% in 2020, while Italy's economy expanded by 6.4% in 2021 after contracting by 8.9% in 2020.<sup>3</sup>

**Annual and quarterly (year-on-year) real GDP growth**  
Percentage change on the previous year or the same quarter of the previous year

	annual growth 2019	2020				annual growth 2020	2021				annual growth 2021
		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
OECD area	1.7	-0.7	-11.6	-3.7	-2.7	-4.6	-0.2	13.3	4.7	4.9	5.5
G20	2.9	-1.5	-9.1	-2.0	-0.4	-3.2	3.6	11.7	4.8	..	..
European Union	1.8	-2.5	-13.7	-3.9	-4.1	-5.9	-1.1	13.8	4.1	4.8	5.1
Euro area	1.6	-3.1	-14.5	-4.0	-4.4	-6.4	-1.1	14.4	3.9	4.6	5.1
G7	1.6	-1.1	-11.8	-4.0	-2.9	-4.9	-0.5	13.0	4.2	4.5	5.1
Canada	1.9	-0.6	-12.4	-4.9	-3.1	-5.2	0.3	11.8	4.0	3.4	4.7
France	1.8	-5.5	-18.6	-3.6	-4.3	-7.9	1.7	19.0	3.5	5.4	7.0
Germany	1.1	-1.9	-11.3	-3.7	-2.9	-4.6	-2.8	10.4	2.9	1.4	2.8
Italy	0.4	-6.0	-18.2	-5.4	-6.4	-8.9	-0.3	17.3	4.0	6.4	6.4
Japan	-0.2	-1.8	-10.1	-5.3	-0.8	-4.5	-1.8	7.3	1.2	0.7	1.7
United Kingdom	1.7	-2.1	-21.2	-7.8	-6.4	-9.4	-5.0	24.6	7.0	6.5	7.5
United States	2.3	0.6	-9.1	-2.9	-2.3	-3.4	0.5	12.2	4.9	5.5	5.7

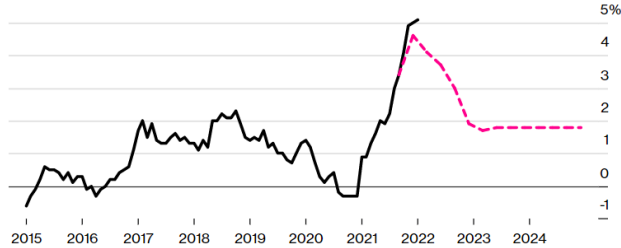
<sup>3</sup> News Release: OECD GDP growth

## 2. ECB Officials Edge Toward 2022 Rate Hike to Stem Inflation

### Inflation Outlook

Prices are surging faster than ECB predicted in December

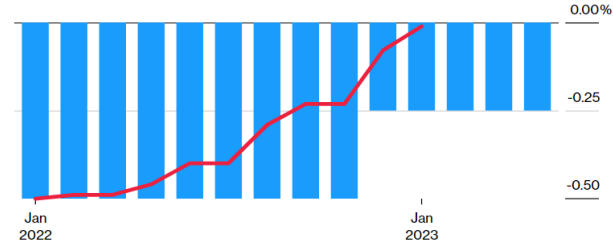
Actual inflation rate / ECB's December projections



### ECB Liftoff

Economists predict a first hike in December, markets bet on October

Economists forecast for ECB deposit rate / Market implied deposit rate



Euro-zone inflation has repeatedly broken records and, at 5.1%, is more than double the ECB's 2% target. The Federal Reserve, meanwhile, is far more advanced in its own exit from pandemic support. The Bank of England has raised rates twice already.<sup>4</sup>

## 3. Central Banks Monetary Policy

The world's leading central banks are expected to start tightening monetary policy in the coming months as inflation in many countries hits its highest level for many years, increasing households' cost of living. One of the points of debate among policymakers and economists is whether the rise in consumer prices is transitory and will fade soon, or whether it may prove more permanent. Yet even among those who believe that inflation will fall later this year, there is an acceptance that the inflationary shock will last longer than first estimated. Leading forecasters polled by Consensus Economics have steadily revised up their expected inflation figures for 2022. They are starting to do the same for 2023, reflecting high energy prices resulting from strong demand and geopolitical tensions. Rising consumer price inflation is a challenge for central banks, not least those G7 countries that have a price stability target of 2 per cent. To reach that goal, central banks can adjust monetary policy to curb demand. But such tools are less effective in tackling inflation created by supply shortages.<sup>5</sup>

### Data explorer: consumer price inflation

Annual % change in consumer price index

Albania | Bulgaria | Kosovo | Eurozone | North Macedonia | Choose countries...



<sup>4</sup> ECB Officials Edge Toward 2022 Interest-Rate Hike to Stem Inflation - Bloomberg

<sup>5</sup> Inflation tracker: latest figures as countries grapple with rising prices | Financial Times (ft.com)

## 4. North Macedonia

Forceful policy support has cushioned the economic impact of the pandemic. Fiscal lifelines helped prevent large job losses and protect the most vulnerable, while monetary and financial measures kept credit flowing to the economy.

After a 6 percent drop in real GDP in 2020, the economy recovered by an estimated 4 percent in 2021, driven by domestic consumption, reflecting improved mobility, a return of the diaspora, and continued policy support. Private investment continues to lag, and while external trade has recovered, certain export-oriented sectors remain negatively impacted by global supply disruptions, which, along with rising energy and food prices, weakened the external position and pushed up inflation to 3.2 percent in 2021.

The recovery is expected to continue in 2022, although the year starts out on a weaker footing than previously anticipated due to the global resurgence of the pandemic. Real GDP is expected to grow by 4 percent. The sharp rise in Covid-19 cases, combined with low vaccination rates, pose downside risks to the near-term outlook. Inflation is expected to rise to 4.3 percent in 2022, before stabilizing around 2 percent in 2023.<sup>6</sup>

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<sup>6</sup> IMF Executive Board Concludes 2021 Article IV Consultation with North Macedonia