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How Russian & Ukraine war effect Global Economy

Prepared By:

Muhammad Faizan

M.sc (Hons) Environmental & Resource economics

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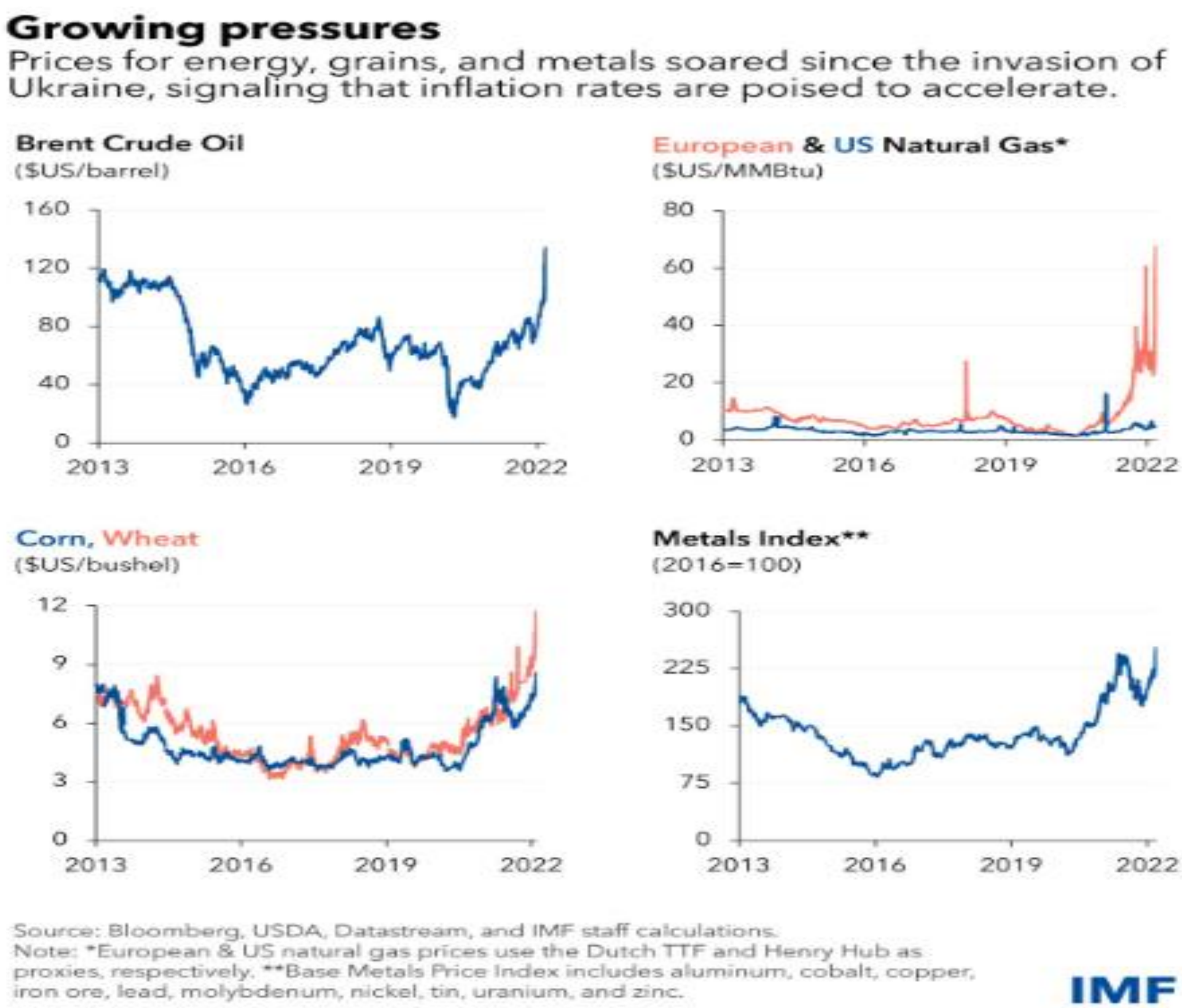
Facts Regarding Russian & Ukraine War

How global economy can be rocked due to Russian invasion some of the aspects are mentioned here. The conflict is a major blow to the global economy that will hurt growth and raise prices.

Three main channels will impact on the economy. One, higher prices for commodities like food and energy will push up inflation further, in turn eroding the value of incomes and weighing on demand. Two, neighboring economies in particular will grapple with disrupted trade, supply chains, and remittances as well as an historic surge in refugee flows. And three, reduced business confidence and higher investor uncertainty will weigh on asset prices, tightening financial conditions and potentially spurring capital outflows from emerging markets. Russia and Ukraine make 30 percent of world export.



Beyond global spillovers, countries with direct trade, tourism, and financial exposures will feel additional pressures. Economies reliant on oil imports will see wider fiscal and trade deficits and more inflation pressure, though some exporters such as those in the Middle East and Africa may benefit from higher prices.

Global Shocks:

The consequences of Russia's war on Ukraine have already shaken not just those nations but also the region and the world, and point to the importance of a global safety net and regional arrangements in place to buffer economies.

"We live in a more shock-prone world," IMF Managing Director Kristalina Georgieva recently told reporters at a briefing in Washington. "And we need the strength of the collective to deal with shocks to come."

While some effects may not fully come into focus for many years, there are already clear signs that the war and resulting jump in costs for essential commodities will make it harder for policymakers in some countries to strike the delicate balance between containing inflation and supporting the economic recovery from the pandemic.

Russian invasion effects on continents

Europe

The toll is already immense in Ukraine. Unprecedented sanctions on Russia will impair financial intermediation and trade, inevitably causing a deep recession there. The ruble's depreciation is fueling inflation, further diminishing living standards for the population.

Energy is the main spillover channel for Europe as Russia is a critical source of natural gas imports. Wider supply-chain disruptions may also be consequential. These effects will fuel inflation and slow the recovery from the pandemic. Eastern Europe will see rising financing costs and a refugee surge. It has absorbed most of the 3 million people who recently fled Ukraine, United Nations data show.

European governments also may confront fiscal pressures from additional spending on energy security and defense budgets.

While foreign exposures to plunging Russian assets are modest by global standards, pressures on emerging markets may grow should investors seek safer

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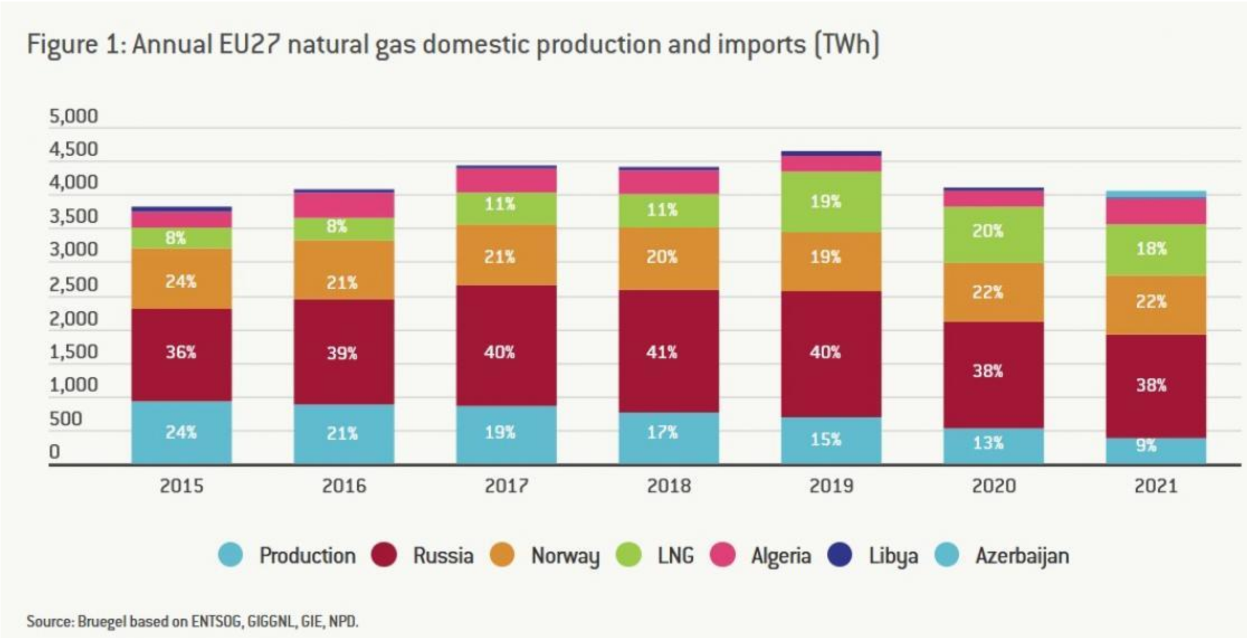
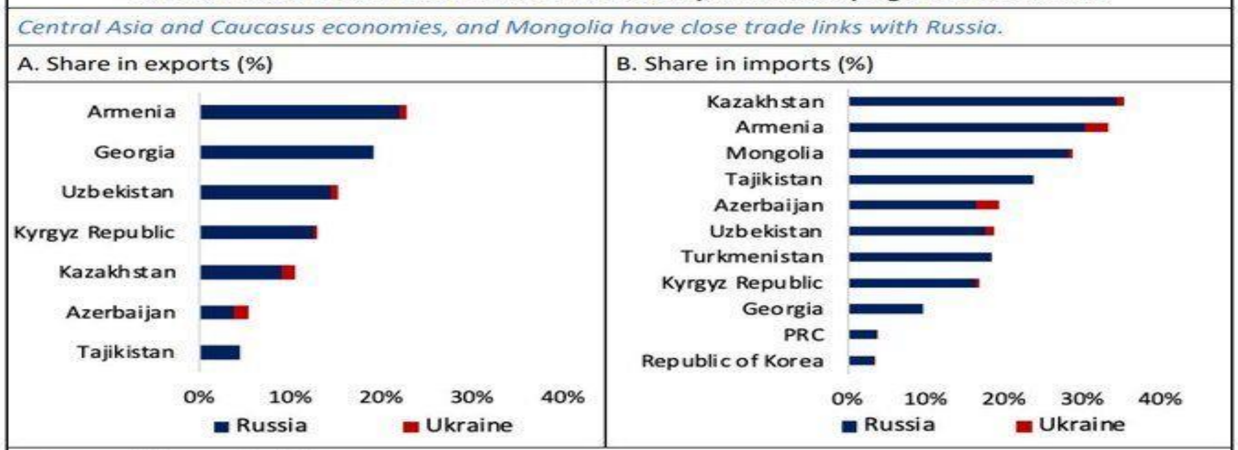
havens. Similarly, most European banks have modest and manageable direct exposures to Russia.



Caucasus and Central Asia

Beyond Europe, these neighboring nations will feel greater consequences from Russia's recession and the sanctions. Close trade and payment-system links will curb trade, remittances, investment, and tourism, adversely affecting economic growth, inflation, and external and fiscal accounts.

While commodity exporters should benefit from higher international prices, they face the risk of reduced energy exports if sanctions extend to pipelines through Russia.



9. Trade share of Russia and Ukraine for most exposed developing Asian economies

PRC = People's Republic of China.
Note: The chart includes the economies for which Russia and Ukraine jointly account for more than 4% of import or exports, respectively.
Source: Observatory of Economic Complexity (accessed 22 Feb).

Middle East and North Africa

Major ripple effects from higher food and energy prices and tighter global financial conditions are likely. Egypt, for example, imports about 80 percent of its wheat from Russia and Ukraine. And, as a popular tourist destination for both, it will also see visitor spending shrink.

Policies to contain inflation, such as raising government subsidies, could pressure already weak fiscal accounts. In addition, worsening external financing conditions may spur capital outflows and add to growth headwinds for countries with elevated debt levels and large financing needs.

Rising prices may raise social tensions in some countries, such as those with weak social safety nets, few job opportunities, limited fiscal space, and unpopular governments.

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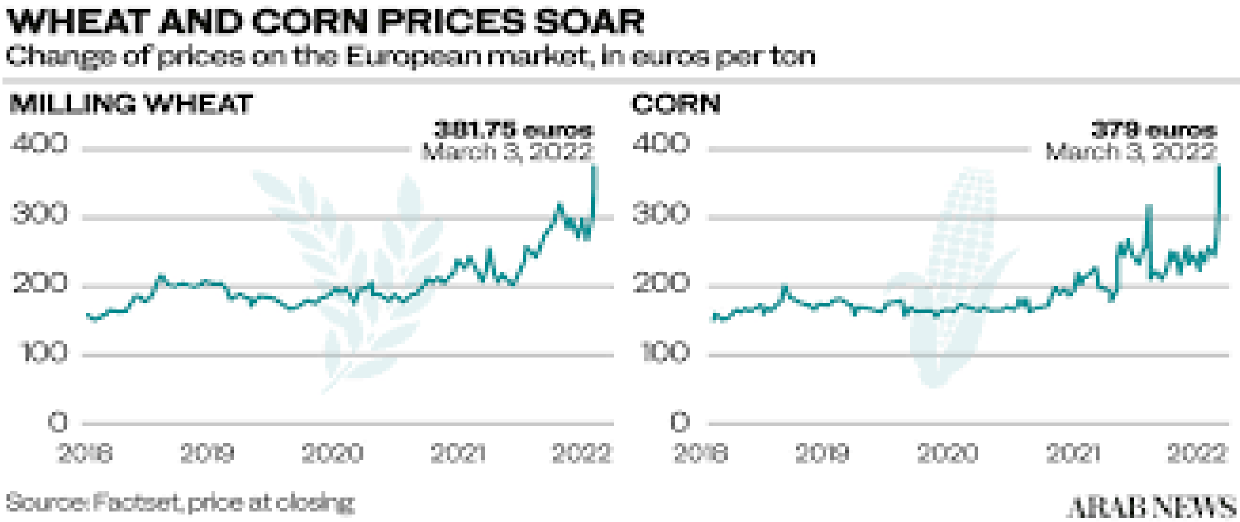

Sub-Saharan Africa

Just as the continent was gradually recovering from the pandemic, this crisis threatens that progress. Many countries in the region are particularly vulnerable to the war's effects, specifically because of higher energy and food prices, reduced tourism, and potential difficulty accessing international capital markets.

The conflict comes when most countries have minimal policy space to counter the effects of the shock. This is likely to intensify socio-economic pressures, public debt vulnerability, and scarring from the pandemic that was already confronting millions of households and businesses.

Record wheat prices are particularly concerning for a region that imports around 85 percent of its supplies, one-third of which comes from Russia or Ukraine.

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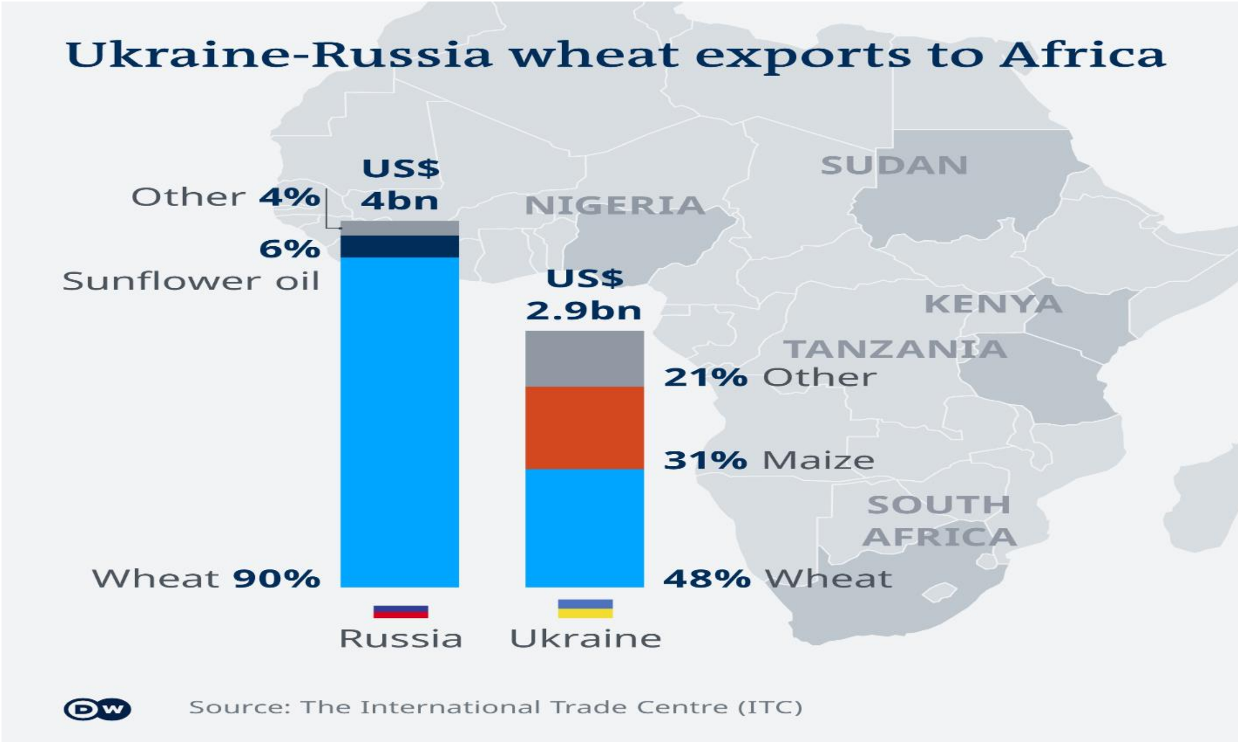


Asia and the Pacific

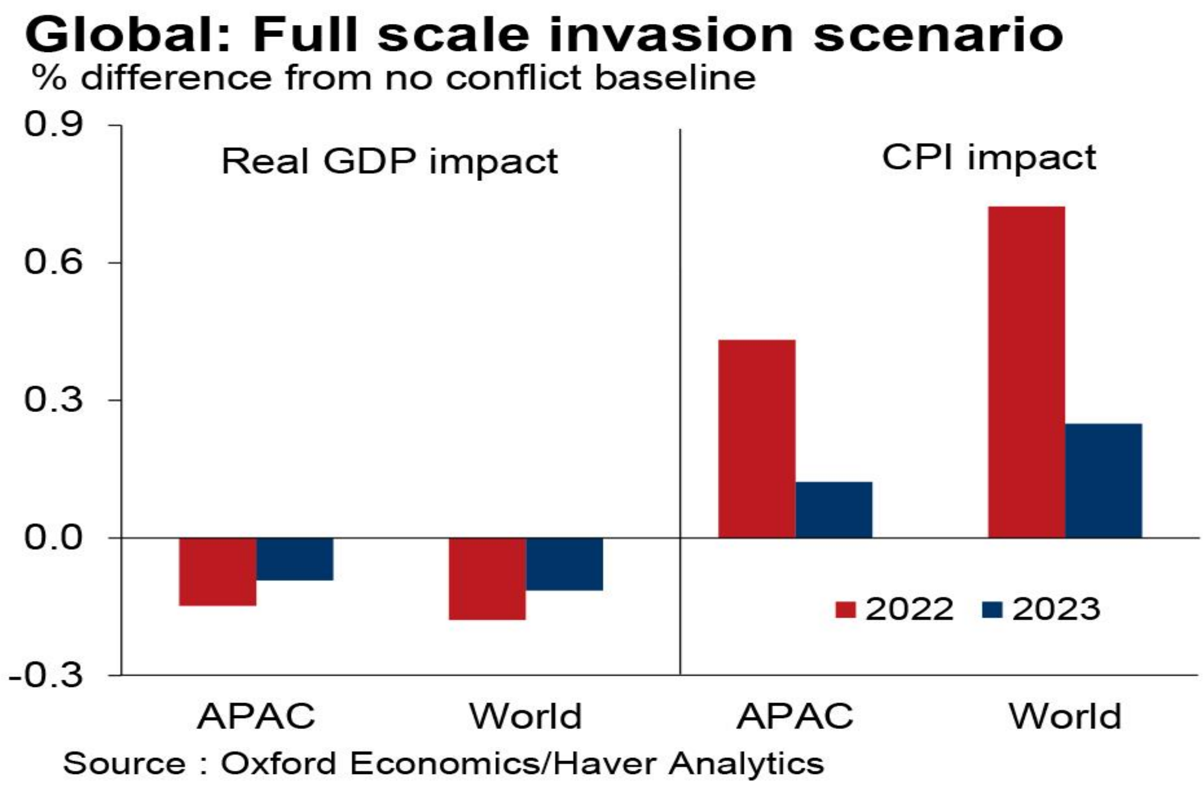
Spillovers from Russia are likely limited given the lack of close economic ties, but slower growth in Europe and the global economy will take a heavy toll on major exporters.

The biggest effects on current accounts will be in the petroleum importers of ASEAN economies, India, and frontier economies including some Pacific Islands. This could be amplified by declining tourism for nations reliant on Russian visits.

For China, immediate effects should be smaller because fiscal stimulus will support this year's 5.5 percent growth goal and Russia buys a relatively small amount of its exports. Still, commodity prices and weakening demand in big export markets add to challenges.

Spillovers are similar for Japan and Korea, where new oil subsidies may ease impacts. Higher energy prices will raise India's inflation, already at the top of the central bank's target range.

Asia's food-price pressures should be eased by local production and more reliance on rice than wheat. Costly food and energy imports will boost consumer prices, though subsidies and price caps for fuel, food and fertilizer may ease the immediate impact—but with fiscal costs.



How Russian and Ukraine war impact on the world economy

Food threat

Russia and Ukraine are breadbaskets for the world, accounting together for 30 percent of global wheat exports.

Prices of cereals and cooking oils have risen.

The UN's Food and Agriculture Organization says the number of undernourished people could increase by eight to 13 million people over the course of this year and next.

Ships are not leaving Ukraine and there are concerns about the upcoming sowing season in the country.

The United States, India and Europe could cover wheat shortages. But it could be more complicated to replace sunflower oil and corn, of which Ukraine is the world's number one and number four exporter, respectively.

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Markets rattled

Stock markets had started off 2022 on a good note as economies recovered from the Covid pandemic and companies posted healthy results.

But the war has brought volatility to the markets while Moscow's stock exchange closed for three weeks and only partially reopened on Monday.

Western sanctions have paralyzed the Russian banking sector and financial system, while the ruble has collapsed.

The measures include efforts to freeze $300 billion of Russia's foreign currency reserves held abroad.

Russia now faces the risk of defaulting on debt for the first time in decades.

Moscow paid interest on two dollar-denominated bonds last week, giving the government some breathing room until the next debt payments in the coming weeks.

Firms flee

Hundreds of Western firms have closed shops and offices in Russia since the war started -- due to the sanctions, political pressure or public opinion.

The list includes famous names such as Ikea, Coca-Cola and MacDonald's.

Russian President Vladimir Putin has raised the threat of nationalizing foreign-owned companies.

Some companies have chosen to stay in Russia, citing their social responsibility to not abandon their local employees and deprive the population of essential goods.

Slower growth

The OECD has warned that the conflict could inflict a one-percentage-point hit on global growth.

The IMF is expected to lower its growth forecast, which currently stands at 4.4 percent for 2022.

"The entire global economy will feel the effects of the crisis through slower growth, trade disruptions, and steeper inflation, harming especially the poorest and most vulnerable," the IMF, World Bank and European Bank for Reconstruction and Development (EBRD) warned in a joint statement.

With inflation soaring, analysts fear economies could face a period of stagflation -- a toxic mix of rising prices and weak growth.

"Even if the war stopped today, the consequences of this conflict would be felt for months to come, and that would work through commodity prices," the EBRD's chief economist, Beata Javorcik, told AFP.

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Sources:

IMF

Economic Times

WTO