Special Report

Russia-Ukraine Crisis: Multidimensional Global Economic Impact

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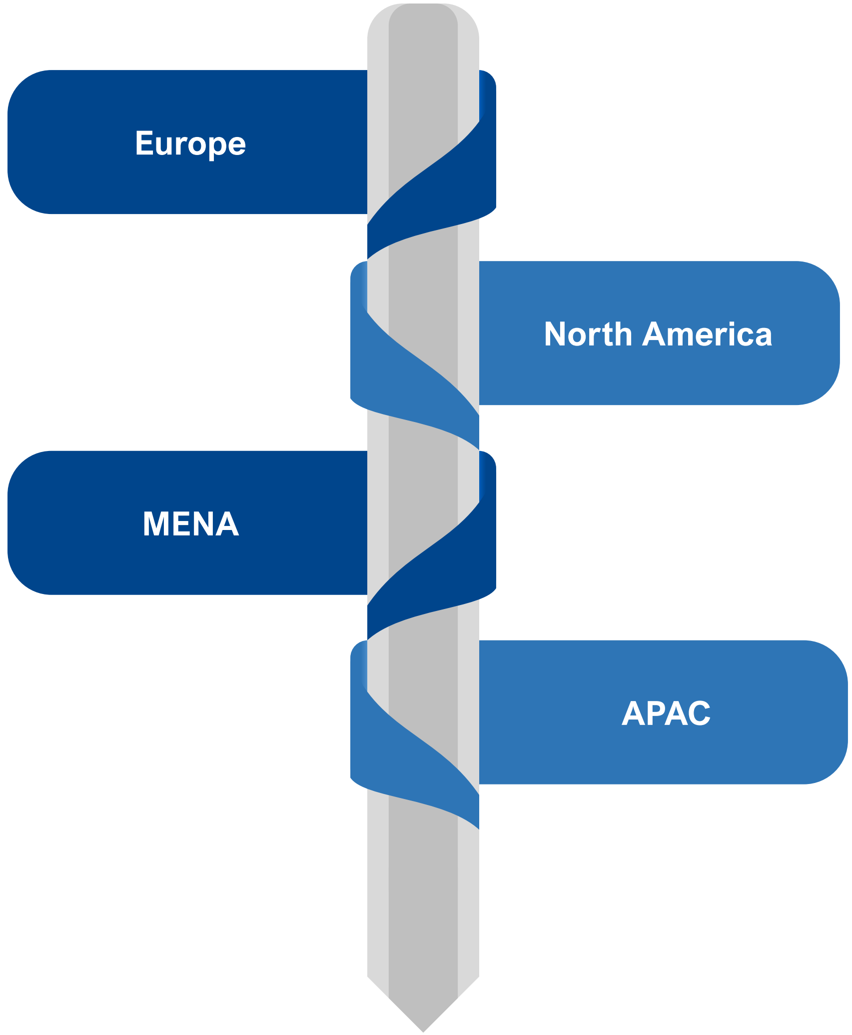
Contents

Russia-Ukraine conflict: Pushing the world into a spate of uncertainties

- The current geopolitical conflict between Russia and Ukraine is creating a ripple effect across the globe.
- The conflict is weighing on global economies, with adverse ramifications for energy, commodities, and more.
- The longer the war lasts, the more unfavorable conditions would become for countries dependent on Russia and Ukraine for import of oil, commodities, and grains for consumption.
- The crisis has created a considerable supply shock for key commodities in major parts of the world, but the pressure is most acute for Europe and MENA.
- Global inflation is inching higher, and there is a direct drag on growth from higher commodity prices and possibly a further drag from uncertainty.

Russia-Ukraine crisis: Ripple effects globally



Most Impacted   Moderate Impact

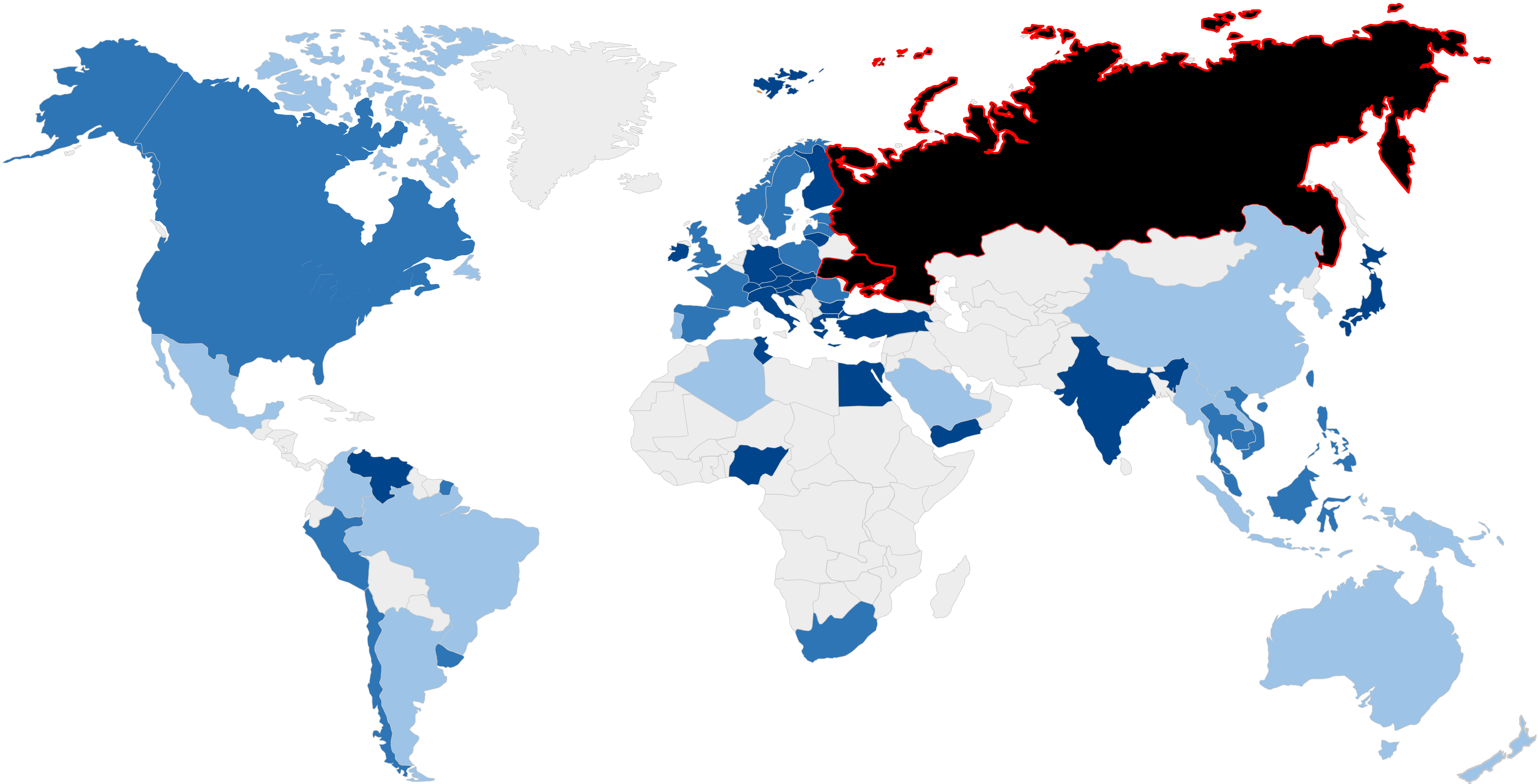
Most impacted region, as ~45% of natural gas imported from Russia; European banks have high exposure to Russian corporates

More hedged as oil production matches consumption; however, surge in commodity prices is pushing up inflation, already at 40-year high

Major impact to be felt in the form of hunger crisis as 50% of wheat imported from Russia/Ukraine

Mixed picture as countries with high import bill feel the heat more

Global impact: Prolonged crisis to shave off 1% from global growth in 2022



Regions of Conflict | Most Impacted | Moderate Impact | No Significant Impact | Impact Not Known

Europe: Material disruption

Germany

- Germany is **highly dependent on Russia**, from where it imports 55% of natural gas for power production in line with its plan to move away from fossil fuels and phase out nuclear power plants.
- The country also **meets demand for oil (35%) and hard coal (55%) through imports from Russia**. Germany plans to replace Russian gas by increasing imports from the US and other neighboring countries, but this would prove costly.
- Germany is also **increasing focus on renewable energy** to reduce dependence on Russian gas. However, this would take some time and hence not an immediate remedy to fill the gap as both countries have been trade partners for more than five decades. Russia/Ukraine also supply industrial metals to Germany, whose prices have skyrocketed because of the crisis.

Italy

- Italy **imports ~95% of the natural gas it consumes, of which Russia supplies 50%.** Gas represents ~42% of the energy mix, which is significant. Currently, the country has gas **stock that would last for two weeks without Russian imports**.
- To fill the gap in case of emergency, Italy is contemplating increasing imports from the US and reactivating its coal-fired power plants, despite harmful effects on the environment.
- The country plans to phase-out coal-fired power plants by 2025 in a move towards a greener economy. Italy also **plans to end reliance on Russian gas by 2025 completely**.

France

- France imports less than 20% of gas from Russia, which constitutes ~16% of the fuel mix. This is low compared to 25% for Germany and 42% for Italy.
- In the short term, **any supply cut from Russia would be manageable until summer 2022** as the country's energy reserves are 34% full, but any **long-term disruption in supply would lead to more complicated issues.**

Spain

- Spain **does not have a high degree of exposure** to Russia in terms of energy dependency as it imports only 11% of oil and 6% of gas from Russia.
- Furthermore, the country **houses Europe's largest natural gas storage and regasification capacity.** Spain also gets most of its gas supplies from Algeria (~90%), which places it in a better position to face the current crisis compared to other EU nations.

Europe: Reduction in GDP growth

Czech Republic, Slovakia

The Czech Republic has suffered due to its high dependency on Russia for import of gas and oil. It imports around 90% of natural gas and 50% of oil and plans to minimize reliance on Russian fossil fuels. However, it is not in complete favor of banning energy import from Russia.
In **Slovakia**, 87% of all gas consumed comes from Russia. Its move to cut-off energy imports from Russia would have a debilitating impact on the economy.

Lithuania, Bulgaria, and Finland

Lithuania, which depends on Russia for 83% of its oil needs, has banned imports. Russian gas cannot be easily replaced as Norway – Europe's second largest supplier – is already operating at maximum capacity, and Europe's existing LNG terminals have limited available capacity to absorb the extra supply.
Bulgaria relies on Russia for 70% of its gas supplies and 100% of nuclear fuel. Though the government has favored sanctions on Russia, it wants to seek an exception from a potential energy import ban as the country does not have alternatives at present.
Finland gets 80% oil and 50% of coal from Russia. The government wants to get away from Russian fossil fuel in line with its carbon-free sustainability goal for 2030 and has accelerated its ambitious plans to build green energy over the past five years.

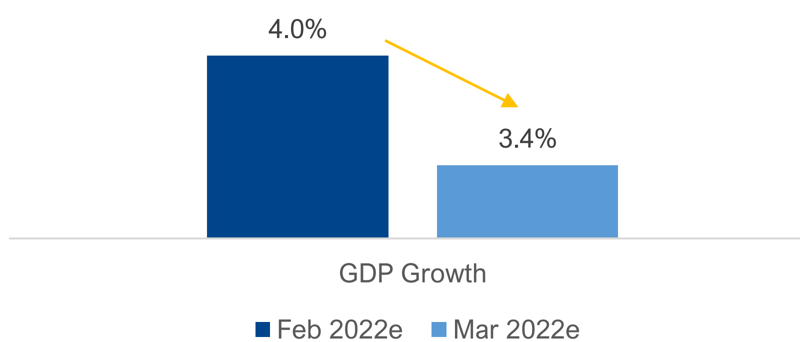
Poland

Russia currently caters to about **half of Poland's annual gas demand and two-third of oil demand**. However, Poland is in the final stages of completing a Baltic gas pipeline to Norway, wherein the gas terminal is supplied gas from Qatar and the US; hence, the country is not dependent on Russian gas. Moreover, Poland has **recently sold a stake in a state-controlled refiner to Saudi Aramco in a bid to diversify from Russian oil**.

EU Outlook

- The EU heavily relies on Russia for fossil fuels.
- About 90% of gas used in the region is imported, according to the European Commission, with Russia providing 45% of those imports at various levels to EU member states in 2021.
- The EU has said it would slash Russian gas imports by two-third in 2022, with a longer-term goal of ending Russian energy imports by 2030.

Change in Eurozone Growth Projections: Pre- and Post-invasion



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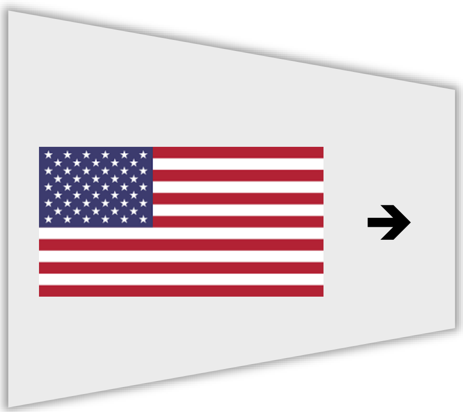
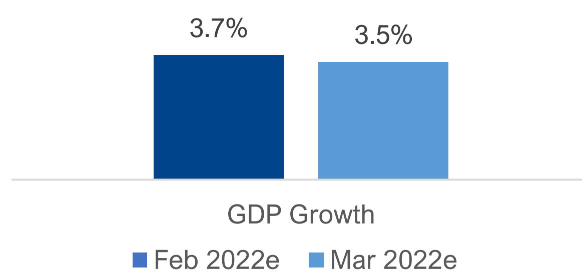
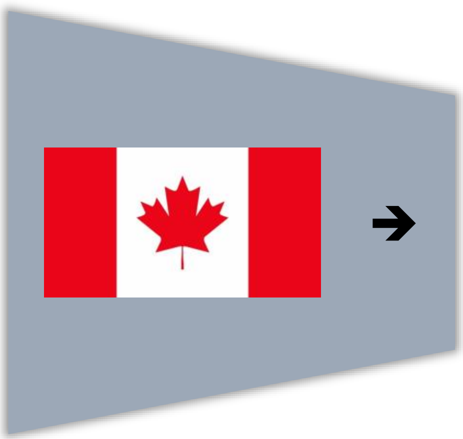
North America: Moderate Exposure



- The US economy is facing an **indirect impact** from the war as prices of fuel oil, commodity, fertilizer, and agri-commodity are soaring, considering that Ukraine and Russia are the major suppliers.
- Moreover, **supply chain disruptions have magnified** due to the crisis, leading to higher shipping costs. **Escalating prices are driving inflation**, which is at 40-year high.
- This has prompted the **Fed to hike interest rates, thus increasing borrowing costs**.

Change in US Growth Projections: Pre- and post-invasion





- Canada imports agri-produce and fertilizer from Russia, and **any disruption in supply would not have a major impact**.
- However, the country **faces a significant inflationary threat** as a result of rising oil and commodity prices.
- The Bank of Canada has **raised its interest rate by 25 bps to 0.5%**, its highest in two decades, in a bid to tame inflation.

APAC: Mixed bag

India

- India faces a **major secondary impact** primarily due to the **soaring price of crude oil**, which is a major concern for the country as it imports 85% of oil. A 10% rise in crude prices wipes out ~20 bps from GDP growth.
- An uptrend in the prices of commodities, metals, and gas is further stressing the current account deficit. The **combination of war and stressed budget is putting the national currency (rupee) under pressure**.

Singapore/Thailand/ Philippines

- Most countries do not have direct ties to Russia's energy sources, but the **war is disrupting the supplies of key manufacturing and agricultural imports**. Singapore and Thailand import oil and fertilizer from Russia/Ukraine while Philippines' wheat supplies come from both these nations.
- However, imports from Russia/Ukraine constitute a small percentage of the total import bill.

Japan

- **Rising inflationary pressures are putting a heavier burden on Japan's consumption**, which is already weak compared to Western countries.
- This could also **delay the country's recovery from the pandemic**, signaling a need to continue the stimulus package to support the fragile recovery. The central bank has hinted that it has no intention to follow the US Fed's lead in policy tightening.

Indonesia

- The country is a net importer of crude oil but would benefit from higher demand for non-oil commodities such as crude palm oil, coal, and LNG.
- This would result in a net neutral impact on current account.

China

- **Russia exports ~33% of oil to China**. Due to sanctions, Russia would have to find another buyer for its energy products. Given that oil and gas account for 60% of Russia's exports and generate 40% of government revenues, **China would be in a strong bargaining position**.
- Additionally, the current crisis is severely altering the consumption pattern of China's population as well as the operations of domestic manufacturers. However, the **Chinese government's neutral political stance on the Russian-Ukraine war could be economically rewarded**.

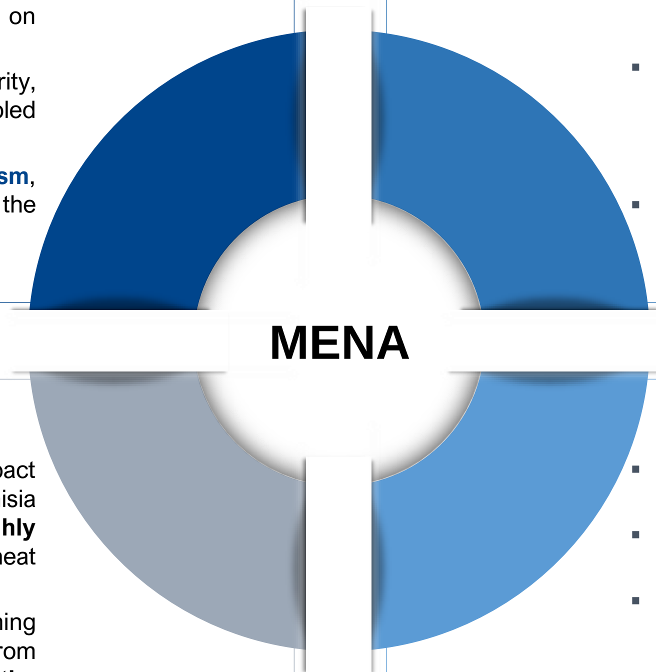
MENA: Severe impact from ensuing food crisis

Turkey

- Turkey meets ~75% of its wheat requirements through imports from Russia and Ukraine.
- Hence, the country is impacted by **both supply chain disruption** due to the Ukrainian crisis and **sanctions** on Russia.
- This would only increase the risk of food insecurity, considering Turkey's already high inflation and troubled economy.
- Furthermore, a protracted crisis could **affect tourism**, which accounts for ~4% of GDP and employs 8% of the population.

Egypt

- Egypt is heavily dependent on Russia/Ukraine as it is the largest importer of wheat in the world; it imports 85% of wheat.
- The country also imports 75% of sunflower oil from the conflicted region and is on the brink of hunger if the crisis is extended.
- A higher food import bill is would negatively impact the country's net fiscal deficit position.



Yemen/Tunisia

- **Tunisia –** Rising wheat prices can have a major impact on Tunisia, both economically and politically. Tunisia imports about 70% of grain and is therefore **highly vulnerable to food inflation**. More than half of its wheat imports come from Russia/Ukraine.
- **Yemen –** Due to the war, food shortages are becoming rampant in the country. It imports ~40% of wheat from Russia and Ukraine. As the conflict continues, **the country's food supply would dwindle**. This would worsen the already distressed humanitarian situation that war-torn countries have been experiencing since 2014. Even when food is available, people cannot afford it due to their ongoing financial difficulties.

Saudi Arabia

- KSA would largely benefit from a **bull run in oil prices** due to the geopolitical conflict.
- This is expected to offset its import bill of barley as it is the largest importer of the crop.
- If the current price of oil is sustained at USD100/barrel, KSA may not face a fiscal deficit in 2022, which has been the case since the 2014 oil crash.

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