Economic and Social Impacts and Policy Implications of the War in Ukraine

17 March 2022

Mathias Cormann and Laurence Boone
OECD Secretary-General and OECD Chief Economist & Deputy Secretary-General

Click here to get the figures and data from the presentation
Recent developments and effects so far
Before the war, GDP had been recovering steadily but inflation was increasing

**World GDP**

![World GDP graph]

2019Q4=100

**Annual inflation**

![Annual inflation graph]

Source: OECD Economic Outlook 106 and 110 database; and OECD calculations.

Source: OECD Main Economic Indicators database.
Sanctions are hitting Russia hard

The rouble has plummeted
*Exchange rate to USD*

Note: Latest data 14 March 2022.
Source: Refinitiv.

Russian oil is trading at a deep discount
*Difference between Brent and Urals oil, USD/barrel*

Note: Latest data 14 March 2022.
Source: Refinitiv; Argus Media; and OECD calculations.
Commodity prices have risen sharply, reflecting concerns about possible supply disruptions.

Russia and Ukraine commodity exports
% share of world exports, 2020

Commodity prices
% change from Jan 2022 average

Note: * refers to potassic fertiliser.
Source: Comtrade data; and OECD calculations.

Note: * refers to potash, a common compound used in fertilisers. For fertiliser, the % increase denotes the difference between the monthly price for January and the monthly price for February. For all other items, it denotes the difference between the average price for January 2022 and the average price for the period from 24 February to 14 March 2022. Source: Refinitiv; World Bank; International Energy Agency; and OECD Agricultural Outlook database; and OECD calculations.
Prices of fossil energy are increasing dramatically

**Oil**
*Brent, USD/barrel*

Note: Latest data 14 March 2022. 
Source: Refinitiv.

**Gas**
*EUR/MWh*

Note: Shows the evolution of TTF Neutral Gas Price for Europe and Henry Hub for the United States. Latest data 14 March 2022. 
Source: Refinitiv; and OECD calculations.

**Coal**
*Newcastle (fob), USD/Mt*

Note: 6000 kcal/kg coal. Newcastle refers to Newcastle, Australia. Latest data 11 March 2022. 
Source: Refinitiv; and OECD calculations.
The consequences of the war are already weakening global growth and adding to inflation

Note: Based on simulations with the NiGEM macroeconomic model of the combined effect of differences between commodity prices in the period from 24 February to 9 March and the January average, a 50% rouble depreciation against the US dollar, bilateral currency depreciations of 5% against the US dollar in Bulgaria, the Czech Republic, Hungary, Poland, Romania and Turkey, increases of 10 percentage points in policy interest rates and risk premia in Russia, higher risk premia in emerging-market economies, ex-ante declines of 15% and 40% respectively in domestic demand in Russia and Ukraine in 2022H1.

Source: OECD calculations using the NiGEM global macroeconomic model.
The effects of reducing energy imports are uneven across Europe

Note: Based on a reduction of 20% of direct and indirect imported energy inputs from fossil fuels, refined fuel products and electricity and gas supply. The calculations use input-output tables for 2018.
Source: OECD IOTs 2021 database; OECD calculations.
Policy responses
The refugee crisis will require EU burden sharing

Refugee arrivals are surging

Eastern European countries have already received a large number of refugees

Receiving countries of refugees fleeing Ukraine

Note: Figures as of 15 March 2022.
Source: UNHCR; and OECD calculations.

Note: Asylum applicants are considered those who have submitted an application for international protection. The solid red bar is the estimated number of Ukrainian refugees between 24 February and 15 March 2022.
Source: Eurostat; UNHCR; and OECD calculations.
Increase production, support logistics, refrain from protectionism

The war could reduce cereal exports substantially…
Change in world cereal exports, %

…and lead to higher food prices on top of the current steep increase
FAO food price index (2014-16 average = 100)

Note: Based on simulations with the Aglink-Cosimo 2022 model version. The “mild scenario” assumes for 2022: a recession in Russia and Ukraine, 20% less harvested area in Ukraine and export problems in both countries. The “no Ukrainian exports” scenario assumes additionally that cereal exports from Ukraine are zero in 2022. The FAO Food Price Index (FFPI) is a measure of international prices of a basket of five commodities: cereals, vegetable oils, dairy, meat and sugar.
Well-targeted fiscal measures would provide cost-of-living support with minimum inflation impact

Note: Based on simulations with the NiGEM macroeconomic model of the combined effect of differences between commodity prices in the period from 24 February to 9 March and the January average, a 50% rouble depreciation against the US dollar, bilateral currency depreciations of 5% against the US dollar in Bulgaria, the Czech Republic, Hungary, Poland, Romania and Turkey, increases of 10 percentage points in policy interest rates and risk premia in Russia, higher risk premia in emerging-market economies, ex-ante declines of 15% and 40% respectively in domestic demand in Russia and Ukraine in 2022H1, plus a one year increase in government spending of 0.5% of GDP in the OECD economies.

Source: OECD calculations using the NiGEM global macroeconomic model.
Shelter vulnerable consumers from energy price rises

Lower-income households are more exposed to energy and food price increases
Consumption expenditure on food and energy, % of total, 2015

Measures should be temporary and targeted
Policies adopted in response to recent energy price increases in 28 OECD economies, % of measures

Note: Measures classified as income support are those that provide lump-sum transfer to energy consumers, i.e., households or businesses, to help alleviate energy cost increases. Price support includes all measures that reduce the post-tax energy price. Such measures include, price controls, reduced electricity charges and network fees, VAT and excise tax reductions, compensations to distributors for selling energy products at reduced prices. Those measures classified as targeted are the income and price support that is provided to specific groups, such as vulnerable households or businesses. Non-targeted measures apply to all consumers with no eligibility conditions. A total of 88 measures were assessed. Source: OECD country desks.

Note: Comprises consumption expenditure on food, non-alcoholic beverages, electricity, gas, and other fuels. Low income refers to the 1st income quintile and high income refers to the 5th income quintile.
Source: Eurostat; and OECD calculations.

Source: OECD country desks.
Enhance energy security: diversify away from Russia and fossil fuel

Dependence on Russian energy supplies is high in many EU countries
Imports of Russian energy products, % total energy supply, 2019

Green investment needs to be ramped up globally
Global investment by sector

Note: Source: * Country imports include transit trade figures ** Figures include amounts that went to stocks. Components for LTU are: oil (105.8%), gas (13.1%) and coal (2.3%).
Source: IEA Energy Balances database, and OECD calculations.

Note: The ‘Annual Target’ refers to the Net Zero Goal (NZE) by the International Energy Agency (IEA). The NZE includes the projected average annual investment required in order to bring global energy-related CO2 emissions to net zero by 2050 and limit global temperature rise to 1.5 °C. *IEA estimation.
Source: World Energy Outlook 2021, IEA; and OECD calculations.
Thank you

Find out more about our work at:

🔗 https://www.oecd.org/economic-outlook/
🔗 https://twitter.com/oecdeconomy
✉️ eco.contact@oecd.org
🔗 https://oecdecoscope.blog/