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

29 March 2022

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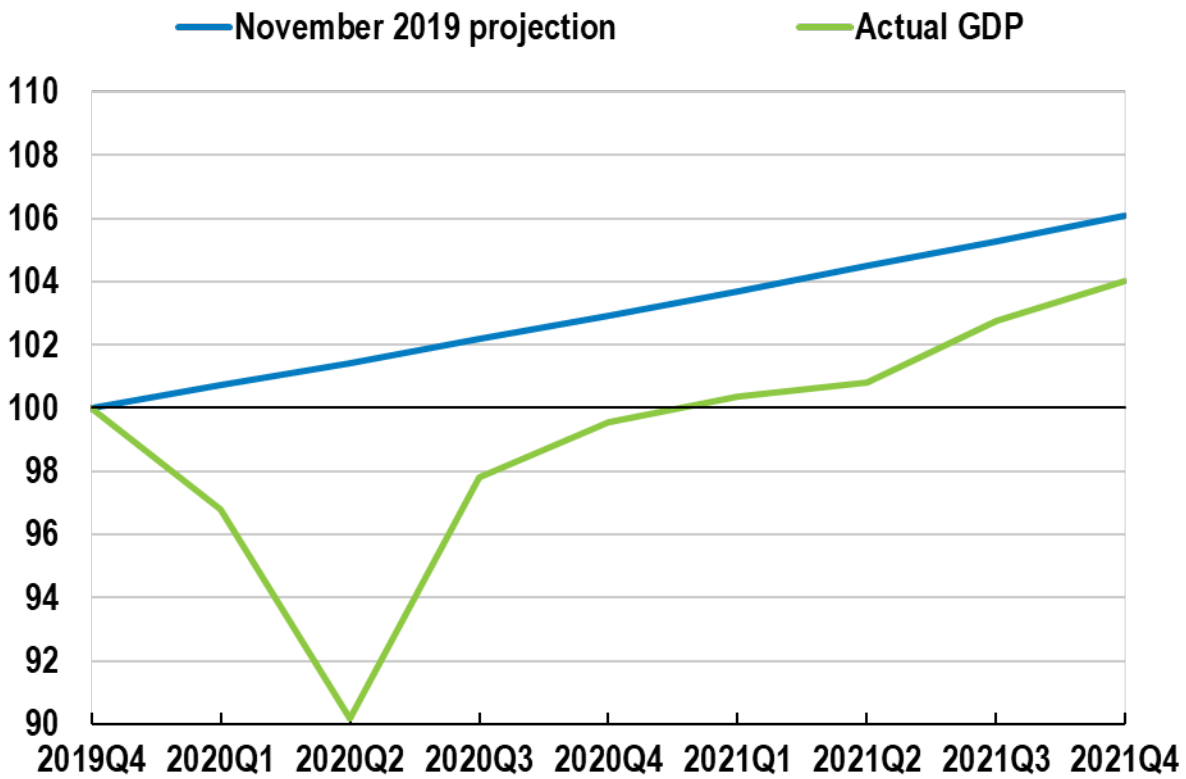
Before the war, GDP had been recovering steadily but inflation was increasing

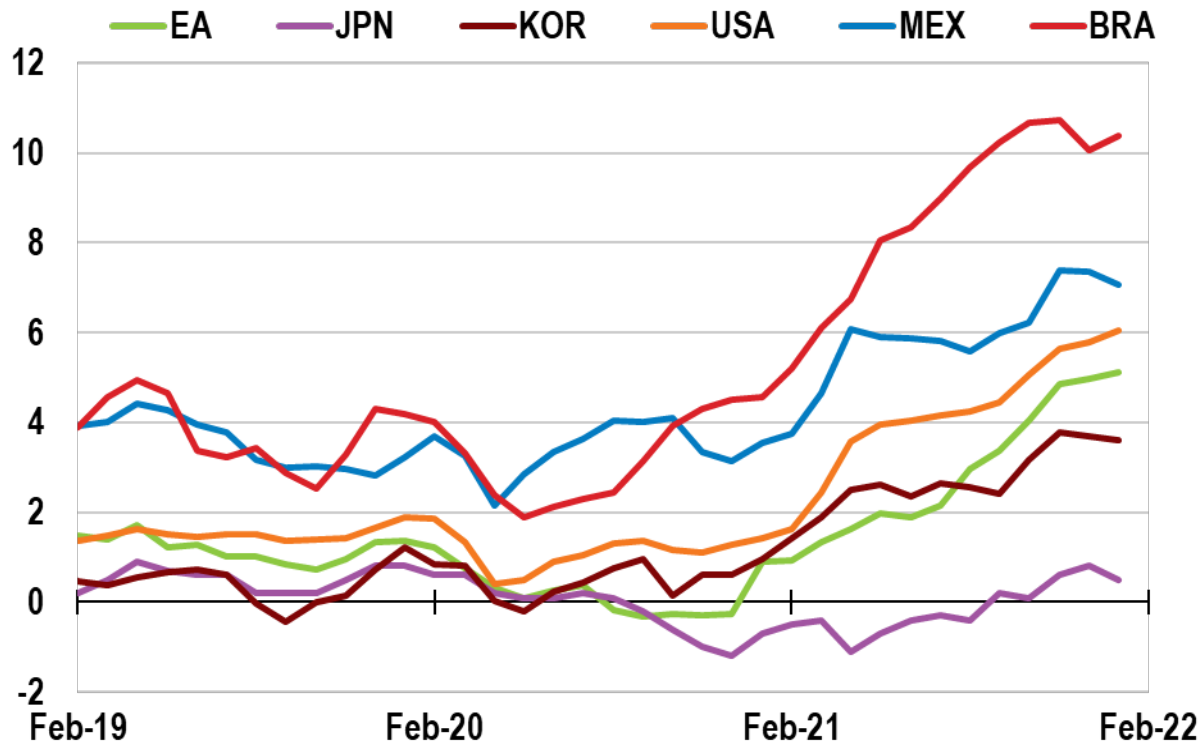
World GDP

2019Q4=100



Annual inflation

%



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

Source: OECD Main Economic Indicators database.

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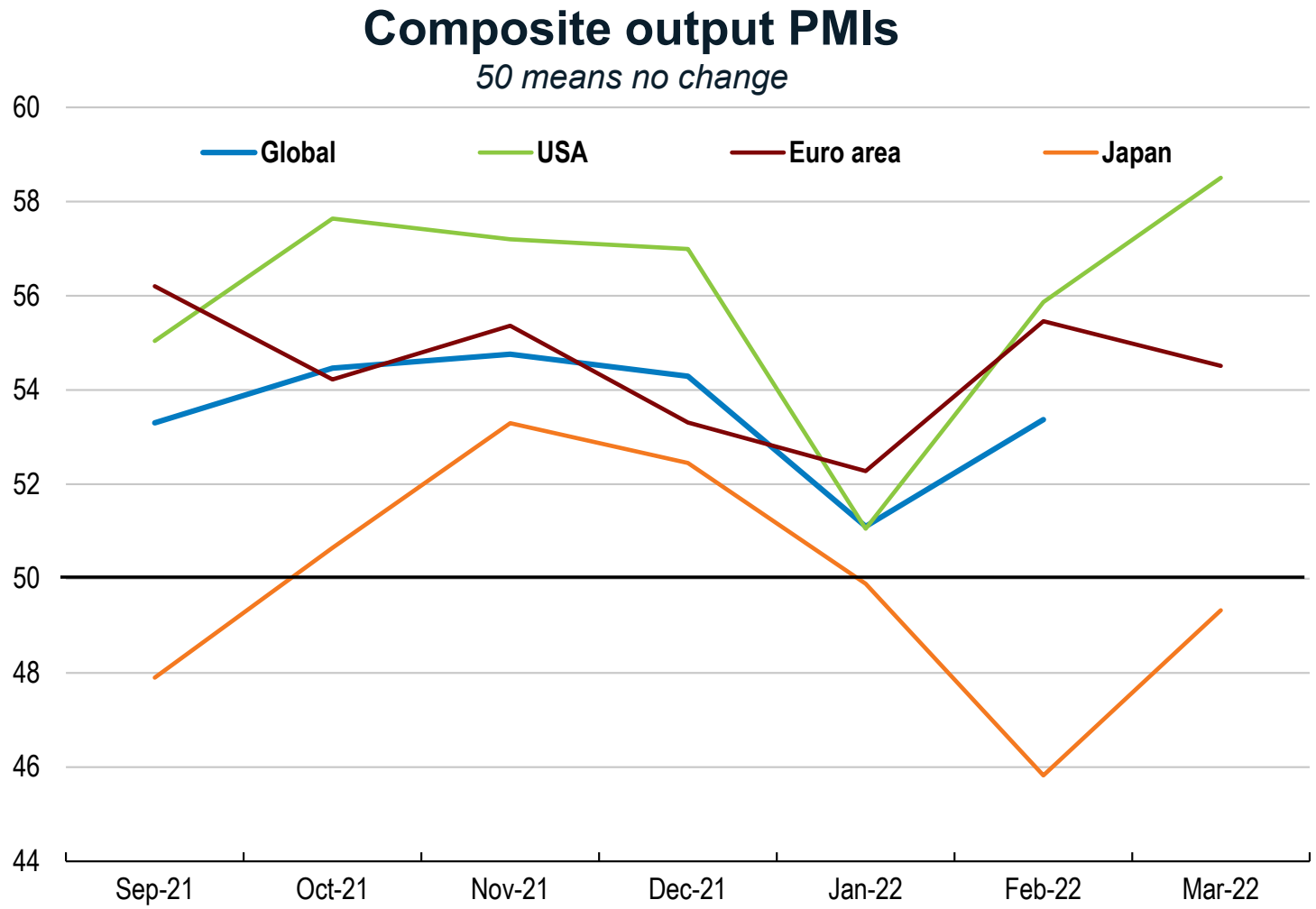
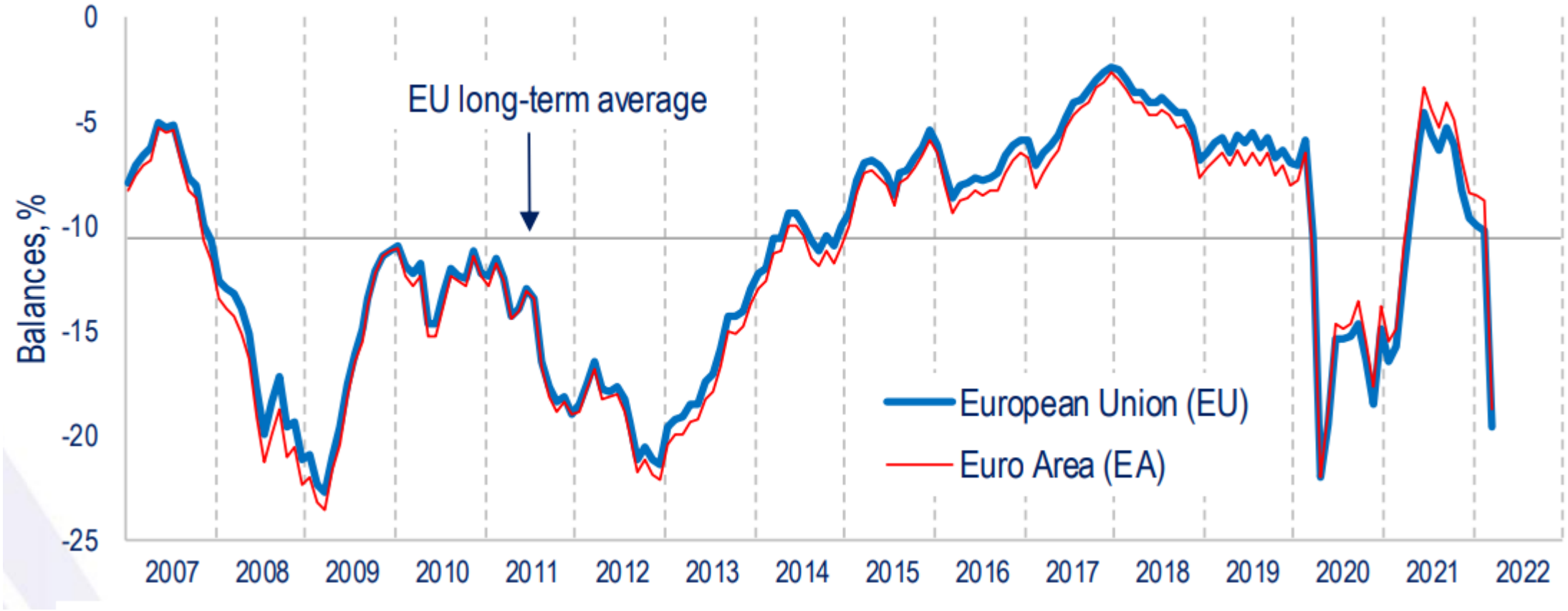
Activity in March remained relatively stable in major economies



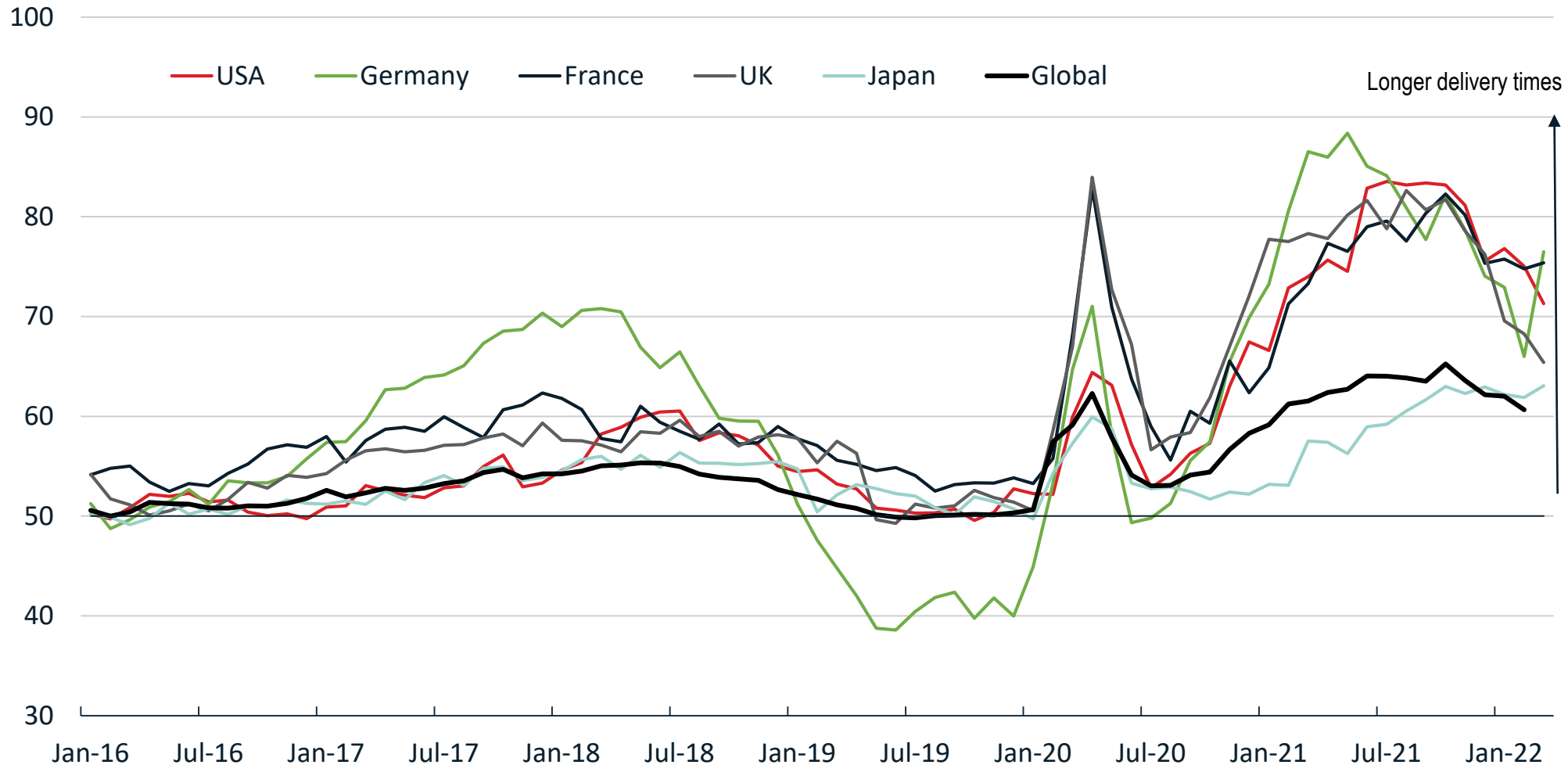
Source: Markit.

Consumer confidence fell sharply in March in Europe



Source: Markit.

The reduction in supplier delivery time observed up to February has reversed in March for Germany, Japan and France



Source: Markit.

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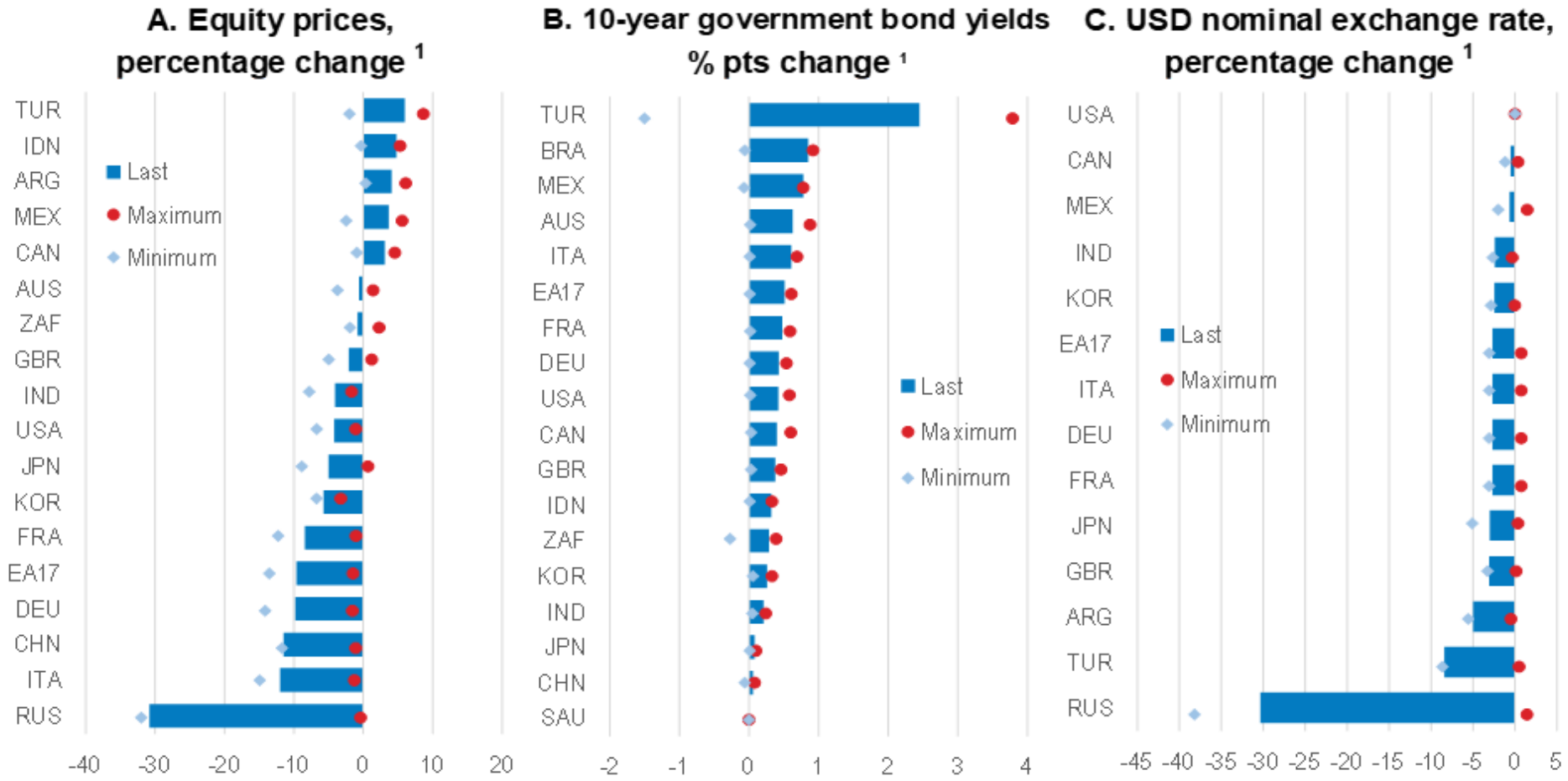
Sanctions are hitting Russia hard but financial conditions tightened in other countries too



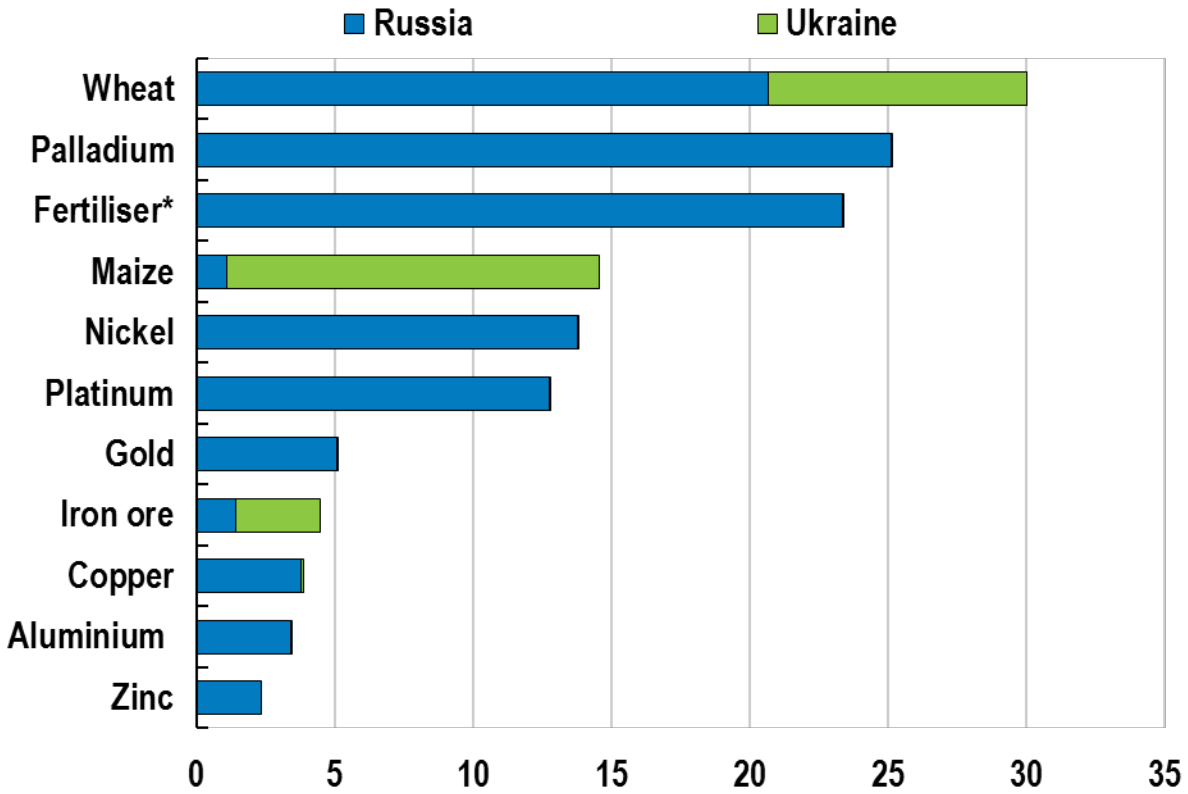
1. "Latest" refers to the change between average of January 2022 and the latest available data up to 23March 2022. Maximum and Minimum referes to the biggest falls and increases from the average of January 2022. Based on a 10-day average of daily observations.

Source: Refinitiv; and OECD calculations.

Commodity prices have risen sharply, reflecting concerns about possible supply disruptions

Russia and Ukraine commodity exports

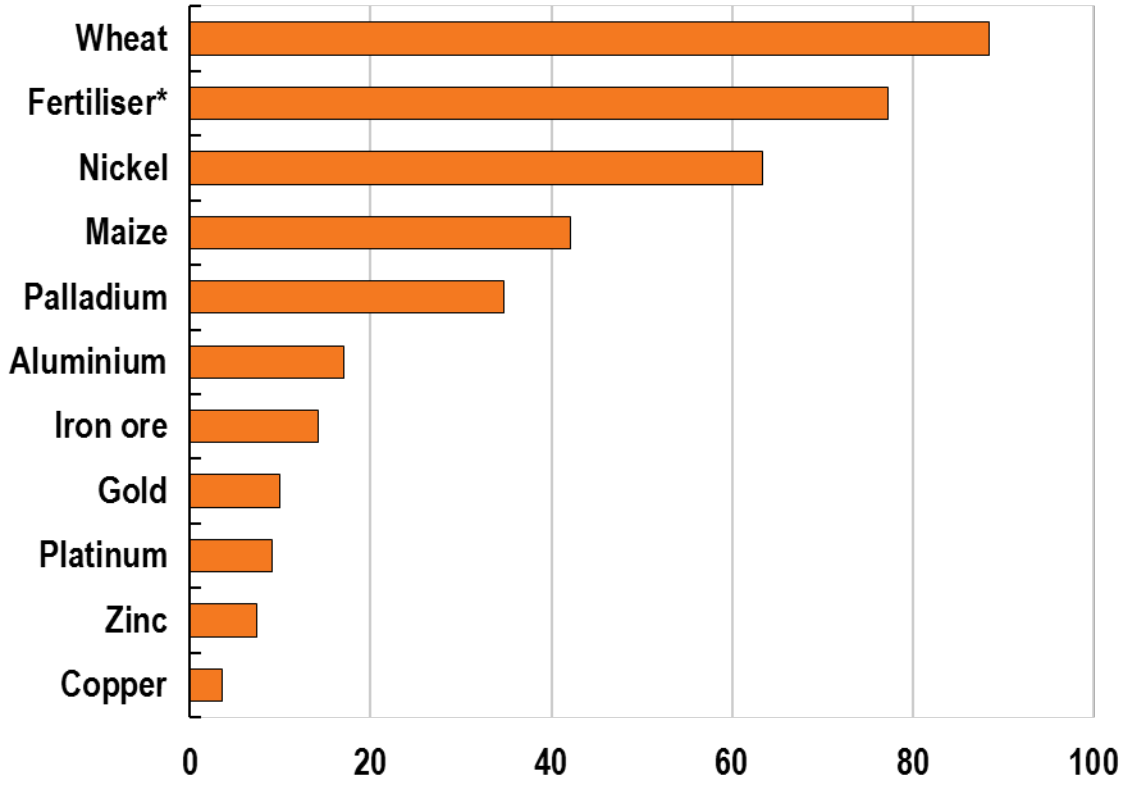
% share of world exports, 2020



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

Commodity prices

% change from Jan 2022 average



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.

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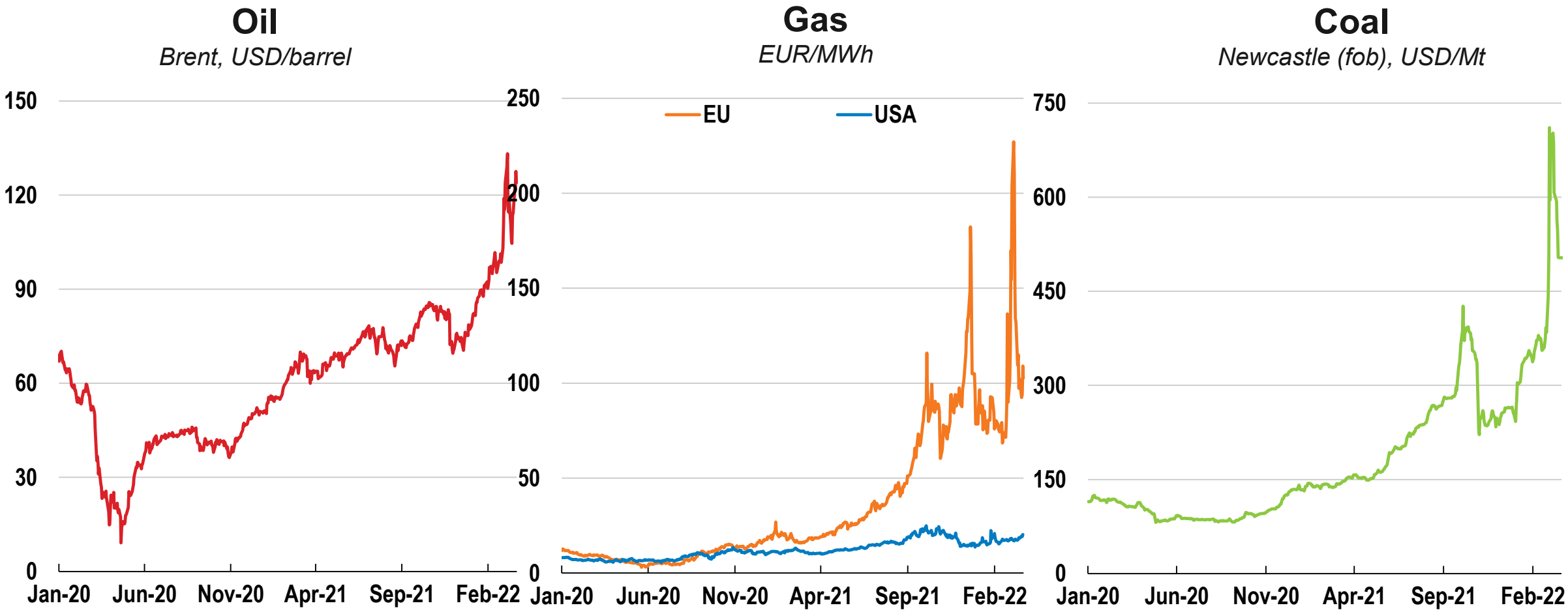
Prices of fossil energy are increasing and have become volatile



Note: Latest data 24 March 2022.
Source: Refinitiv.

Note: Shows the evolution of TTF Neutral Gas Price for Europe and Henry Hub for the United States. Latest data 24 March 2022.
Source: Refinitiv; and OECD calculations.

Note: 6000 kcal/kg coal. Newcastle refers to Newcastle, Australia. Latest data 18 March 2022.
Source: Refinitiv; and OECD calculations.

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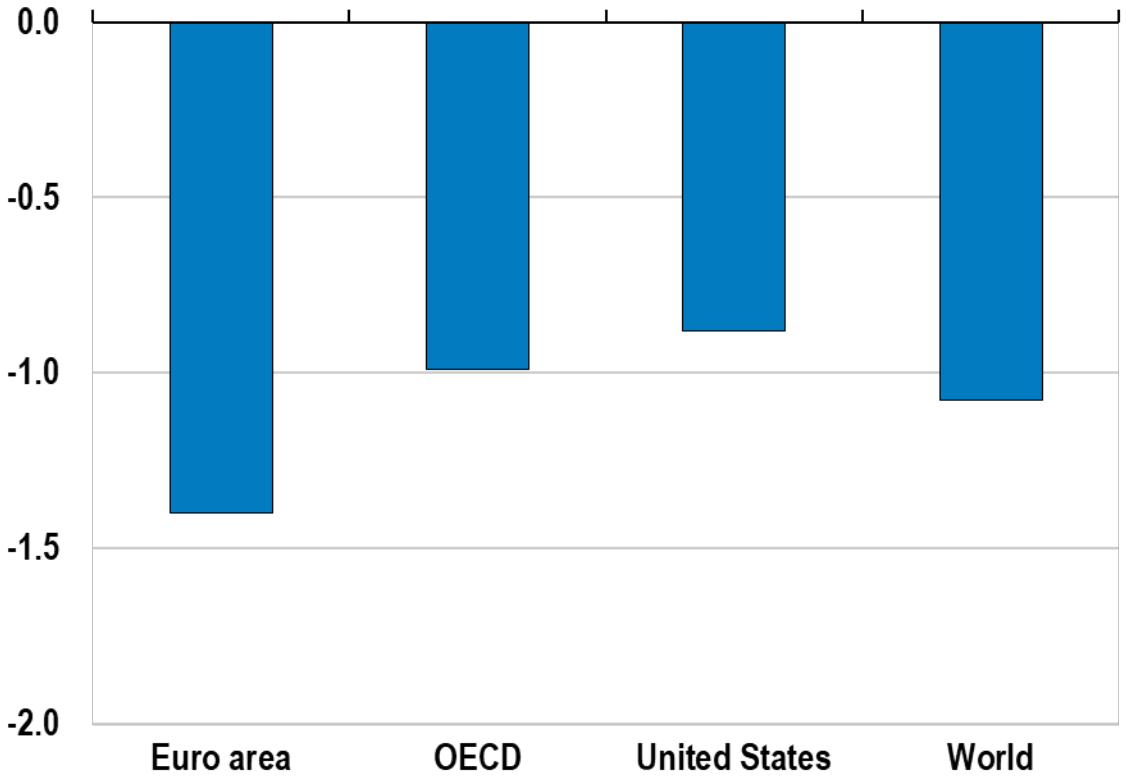
The consequences of the war are expected to weaken global growth and to add to inflation

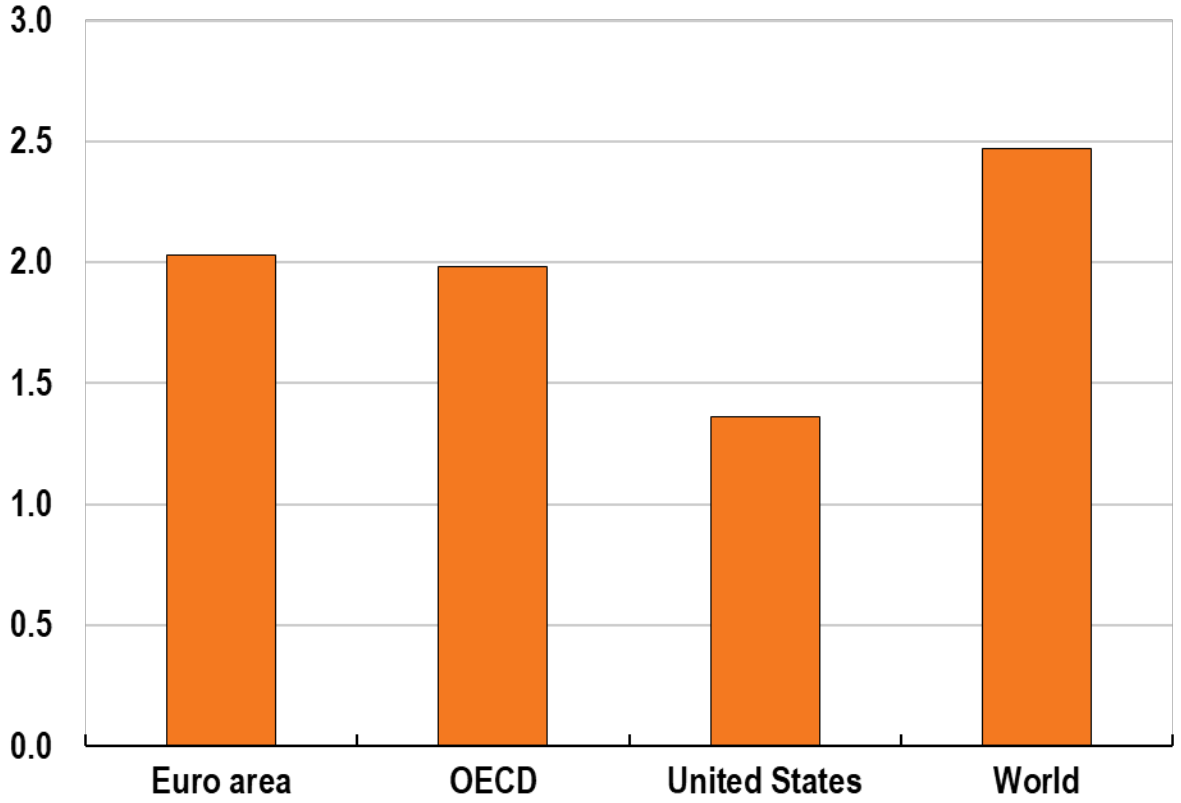
Simulated impact on GDP, first full year

%



Simulated impact on annual inflation

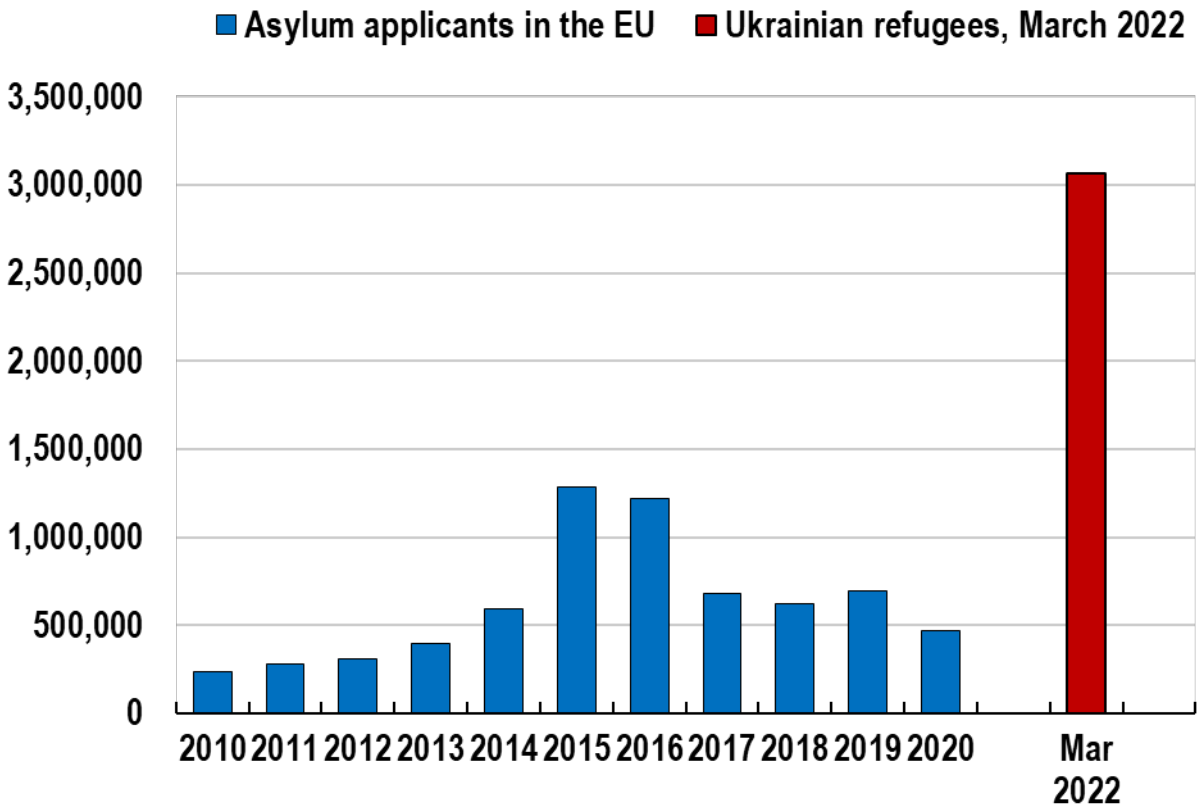
% points



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.

A refugee crisis

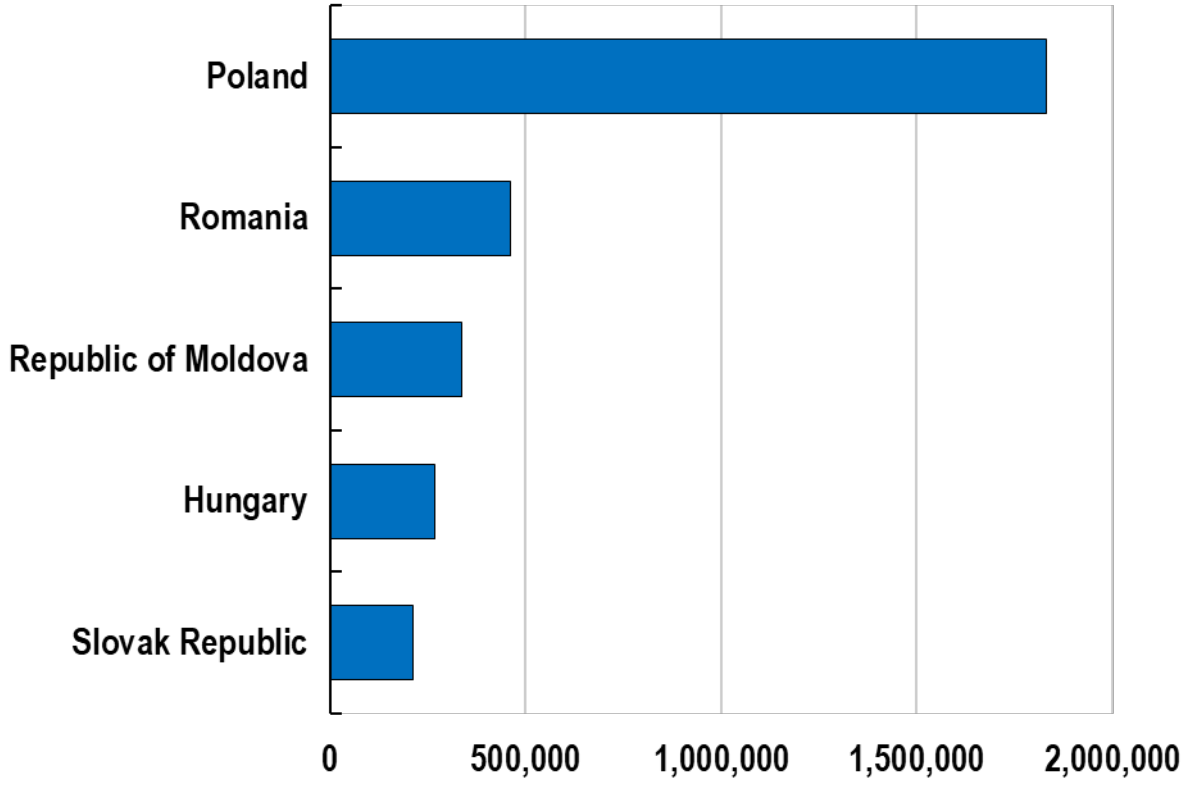
Refugee arrivals are surging



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.

Eastern European countries have already received a large number of refugees

Receiving countries of refugees fleeing Ukraine

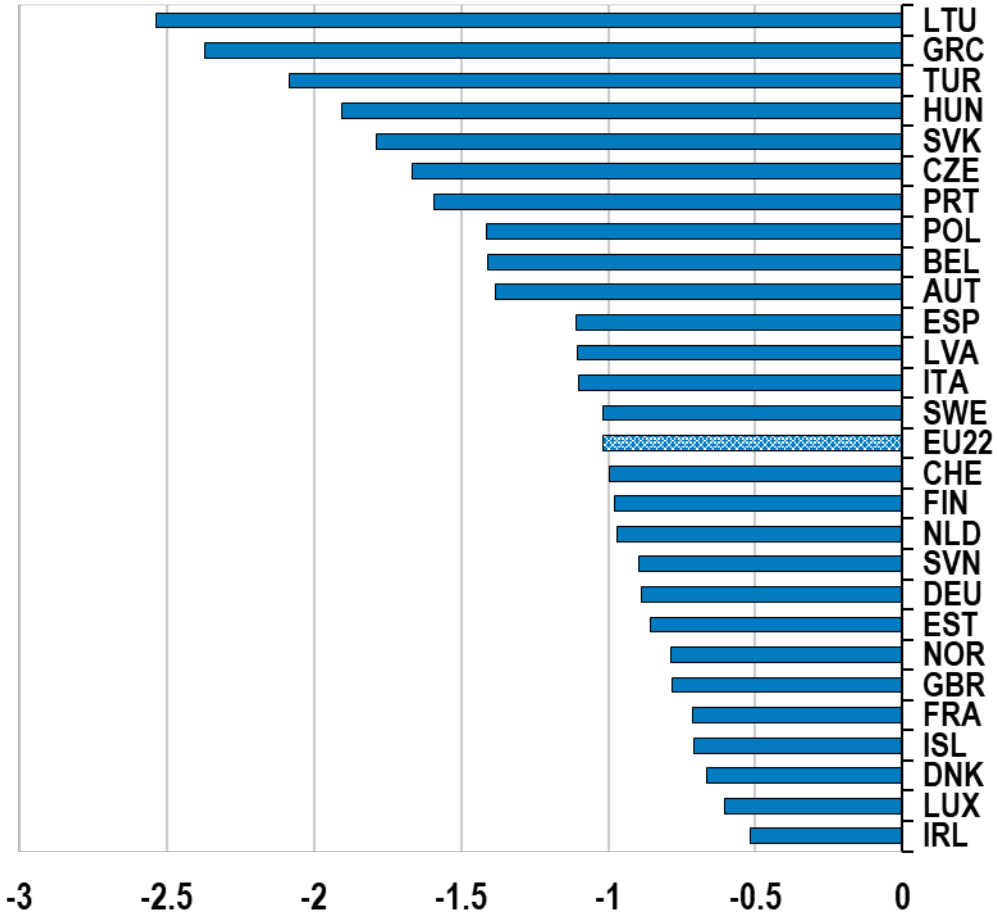


Note: Figures as of 15 March 2022.
Source: UNHCR; and OECD calculations.

The effects of reducing energy imports are uneven across Europe

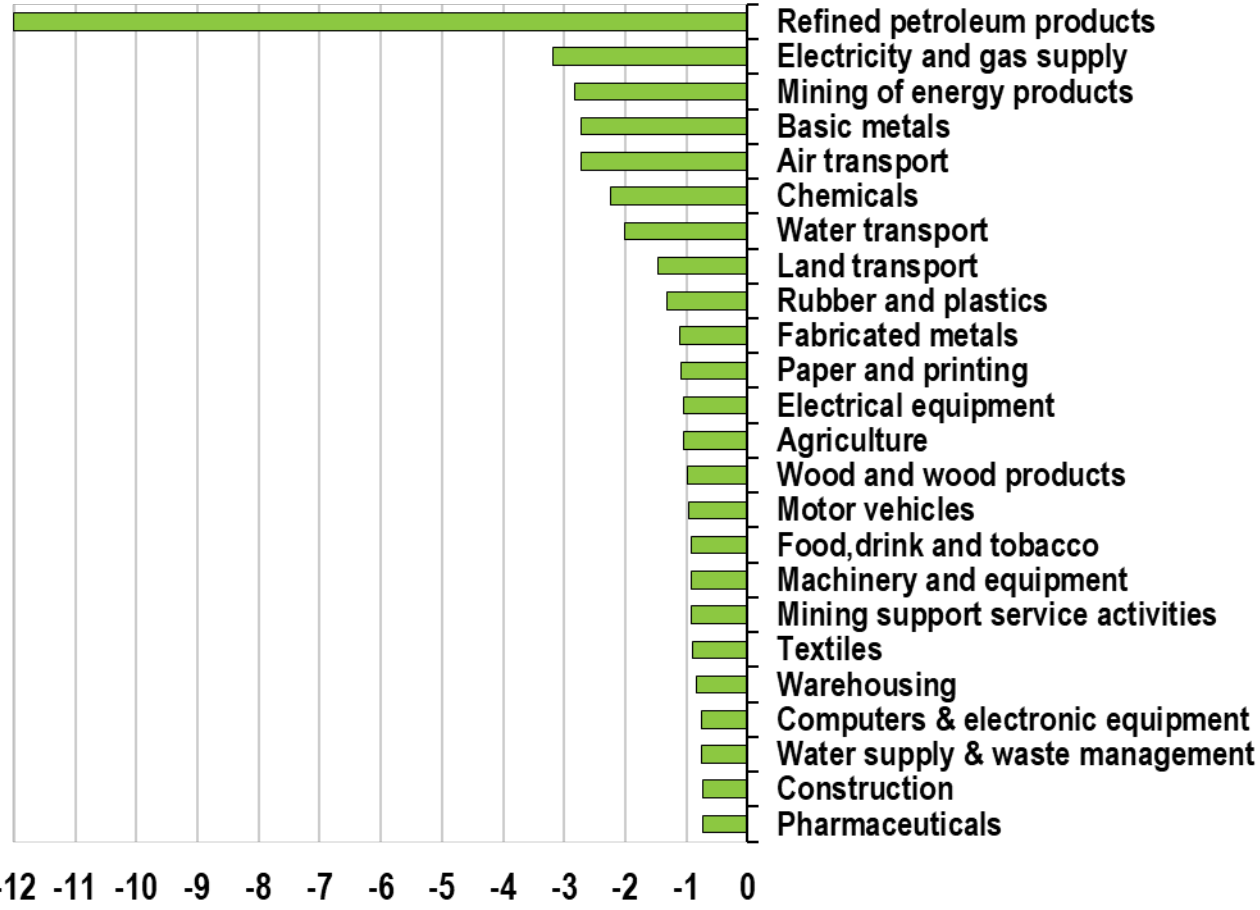
Country impact

% change in gross output



Sector impact

% change in gross output

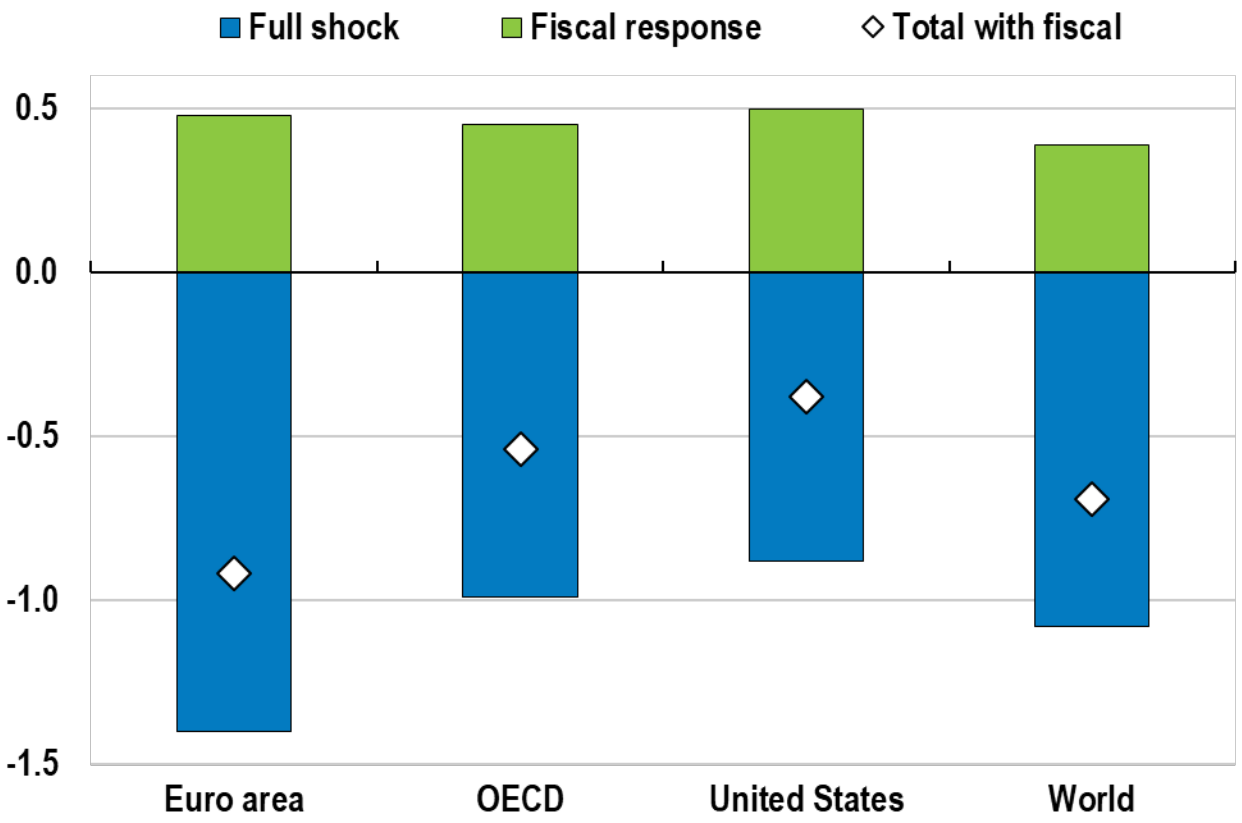


Note: Based on a reduction of 20% of direct and indirect imported energy inputs from fossil fuels, refined fuel products and electricity and gas supply. The calculations use input-output tables for 2018.
Source: OECD IOTs 2021 database; OECD calculations.

Well-targeted fiscal measures would provide cost-of-living support with minimum inflation impact

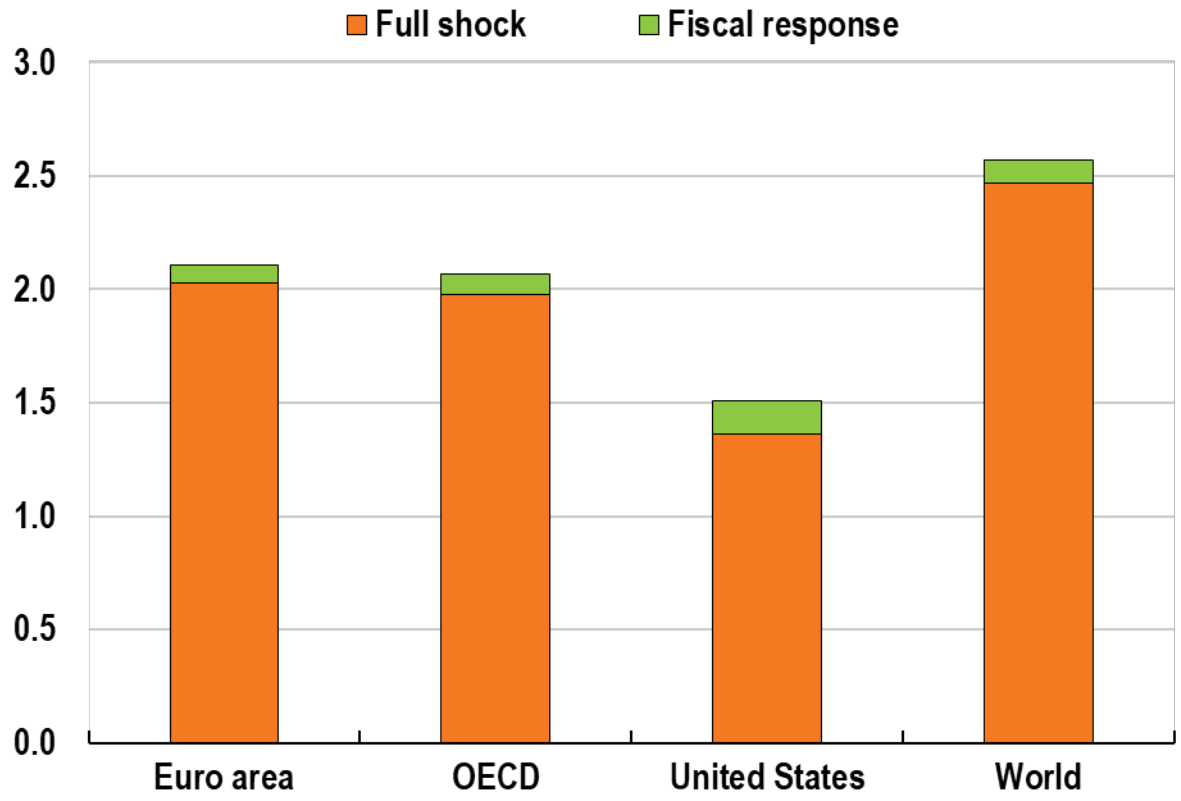
Simulated impact on GDP, first full year

%



Simulated impact on annual inflation

% points

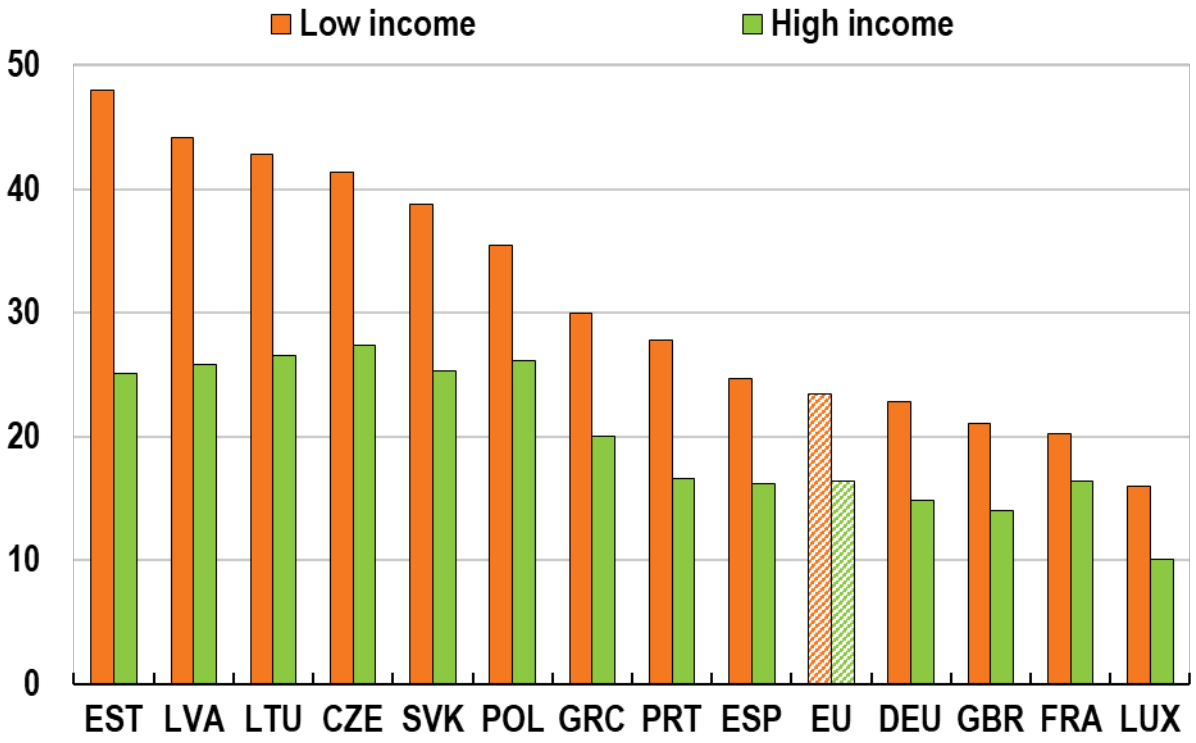


Note: Based on simulations with the NiGEM macroeconomic model of the combined effect of differences between commodity prices in the period from 24 February to 9 March and the January average, a 50% rouble depreciation against the US dollar, bilateral currency depreciations of 5% against the US dollar 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

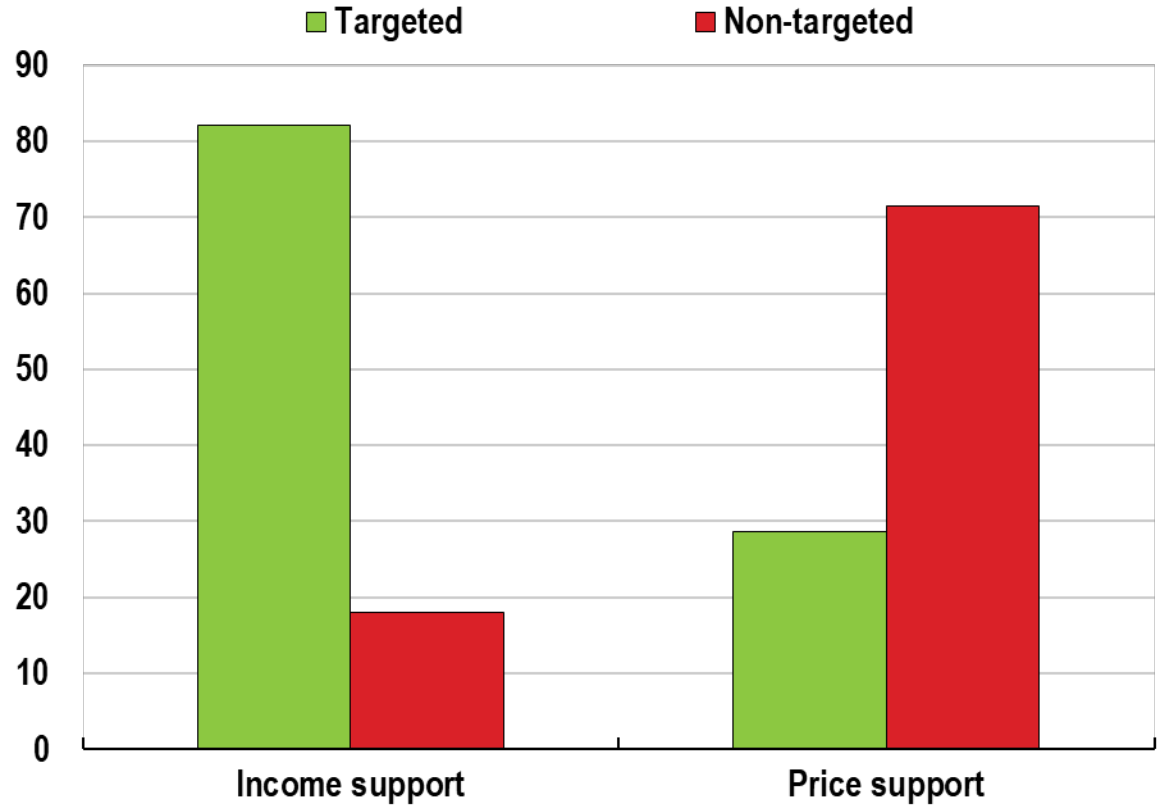
Consumption expenditure on food and energy, % of total, 2015



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.

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.

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