

PRESS RELEASE

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Economic consequences of the Ukraine conflict

The Ukraine conflict is having serious consequences not only for Russia and Ukraine, but potentially threatens to damage the still frail economic recovery in Europe. In Ukraine, which is the main victim of the conflict, the war-related damage in Donbass is currently estimated at 6% of GDP, and the economy may decline by up to 10% this year. In Russia, the costs of the conflict are estimated to be in the tune of 1% of GDP in 2014-2016, primarily on account of increased investment risks. The effects on the individual EU countries differ depending on their exposure to the Russian market: the Baltic states, Finland and several new EU Member States (NMS) are generally most affected. The impact on Austria is expected to be relatively modest.

The Ukraine conflict is having serious consequences not only for Russia and Ukraine, but potentially threatens to damage the still frail economic recovery in Europe. The Western sanctions imposed on Russia since March are no longer of a purely symbolic character: apart from travel bans and asset freeze of more than 100 individuals, there are now (mid-October 2014) bans on borrowing by the leading Russian banks and companies, as well as restrictions on the exports of military and dual-use goods and oil extraction technologies to Russia. Russia has retaliated with a ban on agri-food imports and restricted travel to the West. The general climate between Russia, Ukraine and the West has been seriously damaged.

Clearly, Ukraine has been the main victim of the conflict. In Donbass, which used to account for 16% of Ukraine's GDP and a quarter of its exports, the war-related damage is currently estimated at some EUR 6 billion (or 6% of GDP), and industrial production has nearly come to a standstill, largely as a result of power cuts and railway disruptions. On top of that, the enacted ban on exports of military and dual-use goods to Russia has further contributed to the export decline. At the same time, domestic private consumption has been eroded by the spike in inflation and the IMF-imposed austerity measures. All in all, Ukraine's economy may contract by up to 10% this year, and the stabilisation prospects are unclear.

In Russia, the country which was 'stuck in transition and stagnation' already before the Ukraine crisis, the impact of the conflict is increasingly felt as well. The Western (first of all financial) sanctions and the related increased political risks are hampering investments, economic growth and modernisation still further. A crude estimate of economic effects – lower GDP growth by about 1 percentage point compared to the pre-conflict scenario – yields a loss of Russian GDP close to EUR 20 billion in 2014, and more than EUR 30 billion in 2015 and EUR 50 billion in 2016.

The effects on the individual EU countries differ depending on their varying exposure to the Russian (and Ukrainian) markets. Despite the relatively low EU trade exposure to Russia (and especially Ukraine) on average, there are a number of EU countries which trade quite a lot with Russia: the Baltic states (in particular Lithuania), other NMS and also Finland. Austria is not too much exposed: just 1.4% of Austrian GDP was exported to Russia in 2013 (respectively, only 0.6% of Austrian GDP in terms of domestic value

added of exports). Cyprus, Greece, Great Britain, Portugal and Spain have very little goods trade with Russia, though the two former have extensive exposure in tourism and finance.

For the EU as a whole, there are five industries where the share of Russia in total exports exceeds 3%: textiles, pharmaceuticals, electrical equipment, machinery and transport equipment. In Austria it is machinery, equipment and pharmaceuticals which play the key role in exports to Russia. Food products (banned by Russia as a retaliatory measure since August) do not feature prominently among EU exports to Russia. In EU services exports to Russia, travel (tourism) and transportation are important, and the number of Russian tourists has already suffered a blow, by 20% in some cases. The import exposure of individual EU countries to Russia differs as well: Lithuania imports nearly 30% of all goods from Russia, Bulgaria and Finland nearly 20%, Greece 14%. The bulk of these imports – 80% on the EU average – consist of energy: crude oil, natural gas and refined petroleum.

On the assumption of a 10% loss in exports of goods and services to Russia, the estimated GDP loss would be 1% in the case of Cyprus, 0.7% for Lithuania, 0.6% for Estonia, and less than 0.1% for Austria. In absolute figures, Germany might lose nearly EUR 3 billion, followed by Italy (EUR 1.3 billion), France and Poland (EUR 0.8 billion each). Austria could lose close to EUR 300 million in this scenario. The estimated impact of Russia's ban on meat, dairy products, fruit, vegetables and fish imports from the EU imposed in August 2014 is expected to be the highest in the Baltics. The banned products amount to more than EUR 5 billion of EU exports to Russia, with Lithuania, Poland, Germany and the Netherlands affected the most in absolute terms. Austrian exports of banned agri-food products amounted to only EUR 100 million in 2013. In the case of an escalating spiral of sanctions, trade disruptions would result in bigger losses for the EU. For instance, Russia might consider imposing an embargo on car imports from the EU, restrict state purchases of pharmaceuticals or even freeze some Western assets. These losses are undoubtedly painful, yet manageable (a trade decline bigger than 10% would obviously lead to greater losses).

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EU trade exposure towards Russia and estimated effects of the conflict, based on data from 2013

	Exports of goods		Share in	Scenario: Exp -10%		Exports of services		Scenario: Exp -	Total loss (Exp -10%)		Total loss (Exp -10%)		Food exports	
	EUR mn	domestic	total	Gross exports	Value added	EUR mn	Shares of RU	10%	gross goods + services		VA goods + services		banned by Russia	
									exports	gross loss, %	EUR mn	GDP loss, %	EUR mn	% of GDP
	gross	value added	gross (%)	GDP loss, %	GDP loss, %	2012	in total (%)	Exports	gross loss, %	EUR mn	GDP loss, %	EUR mn	EUR mn	% of GDP
			(1)	(2)			(3)	(1) + (3)		(2) + (3)				
EU28	119763	81531	2.62	-0.09	-0.06	29309	1.99	-0.02	-0.11	-14907	-0.08	-11084	5098	-0.04
AUSTRIA	4313	1785	3.28	-0.14	-0.06	1087	2.31	-0.03	-0.17	-540	-0.09	-287	104	-0.03
BELGIUM	5117	1607	1.45	-0.13	-0.04	797	1.01	-0.02	-0.15	-591	-0.06	-240	281	-0.07
BULGARIA	569	755	2.56	-0.14	-0.19	590	10.28	-0.15	-0.29	-116	-0.34	-134	8	-0.02
CYPRUS	24	134	1.62	-0.01	-0.08	1543	25.02	-0.93	-0.95	-157	-1.02	-168	12	-0.07
CZECH REPUBLIC	4475	2347	3.68	-0.30	-0.16	643	3.74	-0.04	-0.34	-512	-0.20	-299	12	-0.01
GERMANY	36095	24638	3.30	-0.13	-0.09	4710	2.24	-0.02	-0.15	-4080	-0.11	-2935	594	-0.02
DENMARK	1562	1171	1.87	-0.06	-0.05	876	1.70	-0.04	-0.10	-244	-0.08	-205	341	-0.14
ESTONIA	1404	594	11.44	-0.76	-0.32	482	11.33	-0.26	-1.02	-189	-0.58	-108	60	-0.33
SPAIN	2818	2660	1.18	-0.03	-0.03	1805	1.68	-0.02	-0.05	-462	-0.04	-446	326	-0.03
FINLAND	5354	2495	9.58	-0.28	-0.13	2070	9.43	-0.11	-0.38	-742	-0.24	-457	274	-0.14
FRANCE	7721	6180	1.77	-0.04	-0.03	2095	1.24	-0.01	-0.05	-982	-0.04	-827	233	-0.01
UNITED KINGDOM	4667	5509	1.14	-0.02	-0.03	2380	1.04	-0.01	-0.04	-705	-0.04	-789	21	0.00
GREECE	406	309	1.48	-0.02	-0.02	1147	4.17	-0.06	-0.09	-155	-0.08	-146	114	-0.06
CROATIA	282	.	3.16	-0.07	.	260	2.80	-0.06	-0.13	-54	.	.	7	-0.02
HUNGARY	2537	1196	3.12	-0.26	-0.12	196	1.24	-0.02	-0.28	-273	-0.14	-139	78	-0.08
IRELAND	633	541	0.74	-0.04	-0.03	-332	-0.37	0.02	-0.02	-30	-0.01	-21	70	-0.04
ITALY	10797	11232	2.77	-0.07	-0.07	1721	2.10	-0.01	-0.08	-1252	-0.08	-1295	163	-0.01
LITHUANIA	4870	1427	19.83	-1.41	-0.41	1132	24.67	-0.33	-1.73	-600	-0.74	-256	922	-2.66
LUXEMBOURG	156	55	1.13	-0.03	-0.01	233	0.41	-0.05	-0.09	-39	-0.06	-29	5	-0.01
LATVIA	1749	512	16.04	-0.75	-0.22	301	8.47	-0.13	-0.88	-205	-0.35	-81	67	-0.29
MALTA	36	23	1.35	-0.05	-0.03	67	1.76	-0.09	-0.14	-10	-0.13	-9	0	0.00
NETHERLANDS	7940	2712	1.59	-0.13	-0.05	1215	1.17	-0.02	-0.15	-916	-0.07	-393	523	-0.09
POLAND	8110	6976	5.33	-0.21	-0.18	1109	3.76	-0.03	-0.24	-922	-0.21	-808	840	-0.22
PORTUGAL	264	447	0.56	-0.02	-0.03	142	0.74	-0.01	-0.02	-41	-0.04	-59	13	-0.01
ROMANIA	1382	1095	2.79	-0.10	-0.08	88	1.05	-0.01	-0.10	-147	-0.08	-118	1	0.00
SWEDEN	2728	2773	2.16	-0.06	-0.07	482	0.87	-0.01	-0.08	-321	-0.08	-325	13	0.00
SLOVENIA	1190	526	4.63	-0.34	-0.15	104	2.01	-0.03	-0.37	-129	-0.18	-63	10	-0.03
SLOVAKIA	2564	1832	3.95	-0.36	-0.25	519	9.32	-0.07	-0.43	-308	-0.33	-235	6	-0.01

Sources: Own estimates based on Eurostat Comext, Eurostat Trade in Services and WIOD databases.