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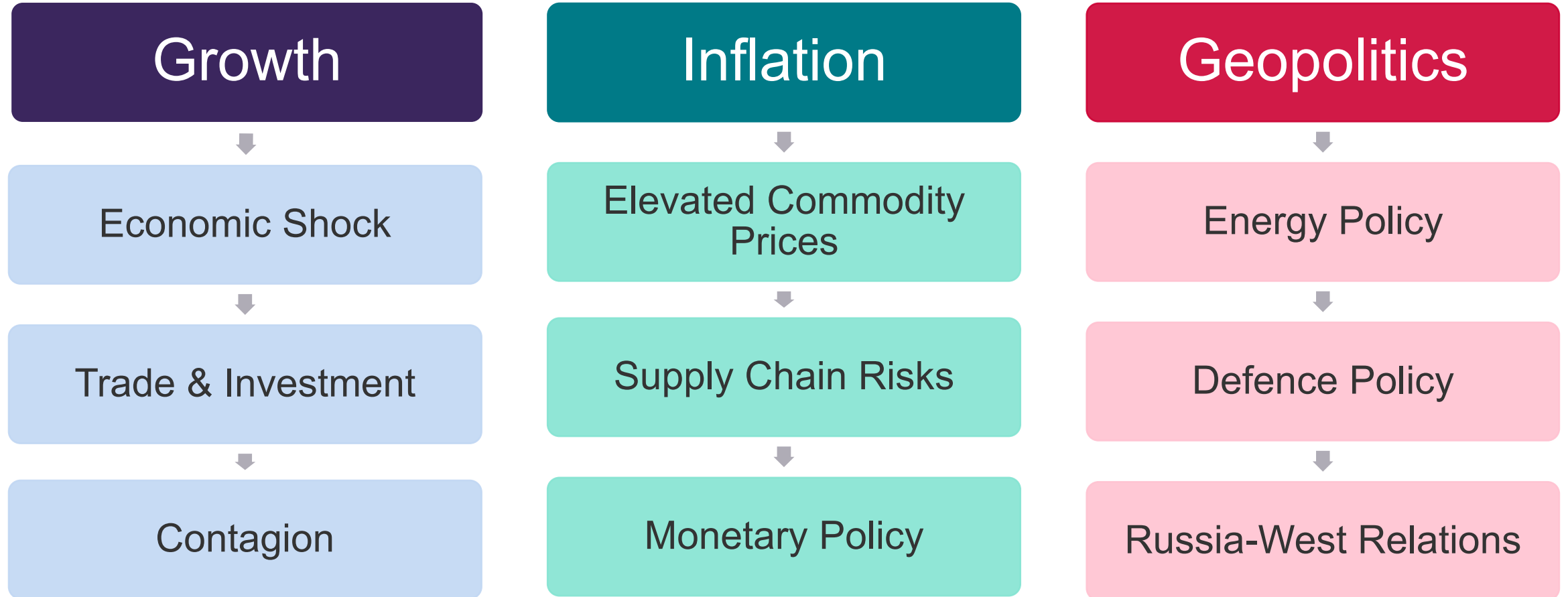
# Global Implications of Russia's Invasion of Ukraine

February 2022

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# Global Implications Of The Russia-Ukraine Crisis



# Sanctions Might Have Unintended Consequences

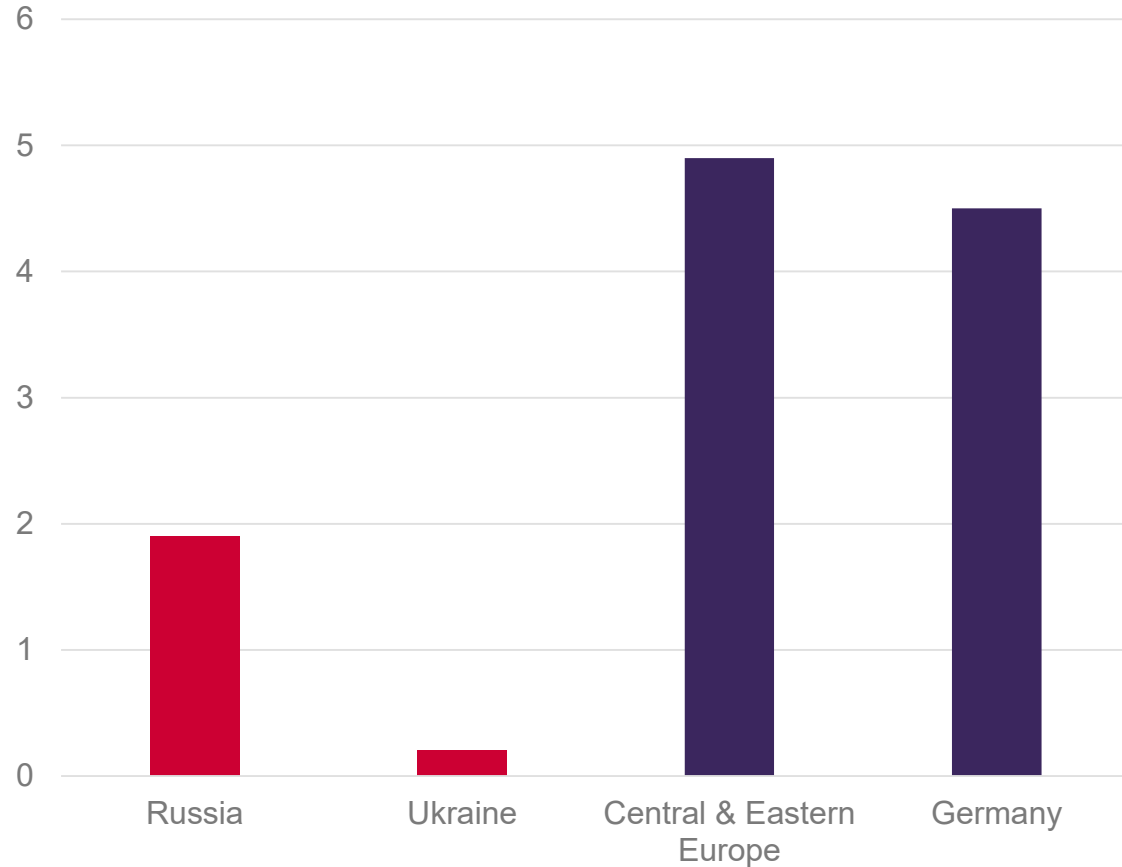
Date	Imposed By	Sector	Details
22-Feb	Germany	Energy	Nord Stream 2 halted.
24-Feb	Multiple	Trade	Export controls banning certain equipment and technology sales (electronics, energy).
24-Feb	Russia	Logistics	Sea of Azov closed to shipping.
25-Feb	US	Banking	Assets of VTB Bank frozen; Sberbank cut off from US dollar transactions; Alfa-Bank, Russian Agricultural Bank, Credit Bank of Moscow and Gazprombank banned from debt and equity markets; full blocking sanctions on Bank Otkritie, Sovcombank, Novikombank; smaller banks also sanctioned (30-day transition period given to some banks).
25-Feb	Multiple	Financial Markets	Russian government bonds barred from secondary markets.
25-Feb	UK	Banking	Asset freeze on VTB Bank, VEB, IS Bank, Genbank, and Black Sea Bank for Development and Reconstruction (30-day transition period given to some banks).
25-Feb	EU	Financial Markets	Russian state-owned firms banned from EU trading venues.
25-Feb	EU	Banking	Asset freezes on Bank Rossiya and Promsvyazbank; Alfa-Bank and Bank Otkritie banned from issuing bonds.
25-Feb	EU, UK	Banking	Russian nationals are prohibited from having more than GBP50,000 (in UK) and EUR100,000 (in EU) in their bank accounts.
25-Feb	US, UK, EU	Trade	Blanket bans on any business in Donetsk and Luhansk.
25-Feb	US, UK, EU, others	Defence	Blanket bans on doing business with a number of Russian defence sector companies (sanction lists differ between US, UK, EU and others).
28-Feb	US	Ru Central Bank	Transactions with Russian Central Bank banned, except for 'certain energy-related transactions'.
28-Feb	EU	Ru Central Bank	Transactions with Russian Central Bank banned, unless 'strictly necessary to ensure financial stability'.
28-Feb	Russia	Capital controls	Ban on foreign currency transfers out of Russia, except for existing loans or transfers to Russian subsidiaries of foreign banks.
28-Feb	Russia	Capital controls	Ban on selling Russian assets by foreigners.
28-Feb	Russia	Expropriation	Russian exporters required to sell 80% of proceeds since January 1 2022, est. at USD650bn for 2022 by VTB Capital.
28-Feb	Russia	Logistics	Airspace closed to aircrafts from 36 different markets.
28-Feb	EU	Logistics	Airspace closed to Russian aircrafts.
28-Feb	Singapore	Banking	Certain Russian banks to be sanctioned, TBC.
1-Mar	Global	SWIFT cut-off	Russian banks targeted: VTB, VEB, Otkritie, Novikombank, Promsvyazbank, Rossiya and Sovcombank. Not included: Gazprombank and Sberbank (to maintain energy payments).
1-Mar	South Korea	Banking	Prohibiting financial transactions with Sberbank, VEB, Promsvyazbank, VTB, Otkritie, Sovcombank, Novikombank and their subsidiaries.
Ongoing	UK	Financial Markets	Russian companies to be barred from issuing transferable securities and money market instruments (TBC).

Source: News reports, Fitch Solutions

# Russian Crisis Poses Slight Downside Risks To Growth

## Russia And Ukraine Only Account For 2% of Global GDP

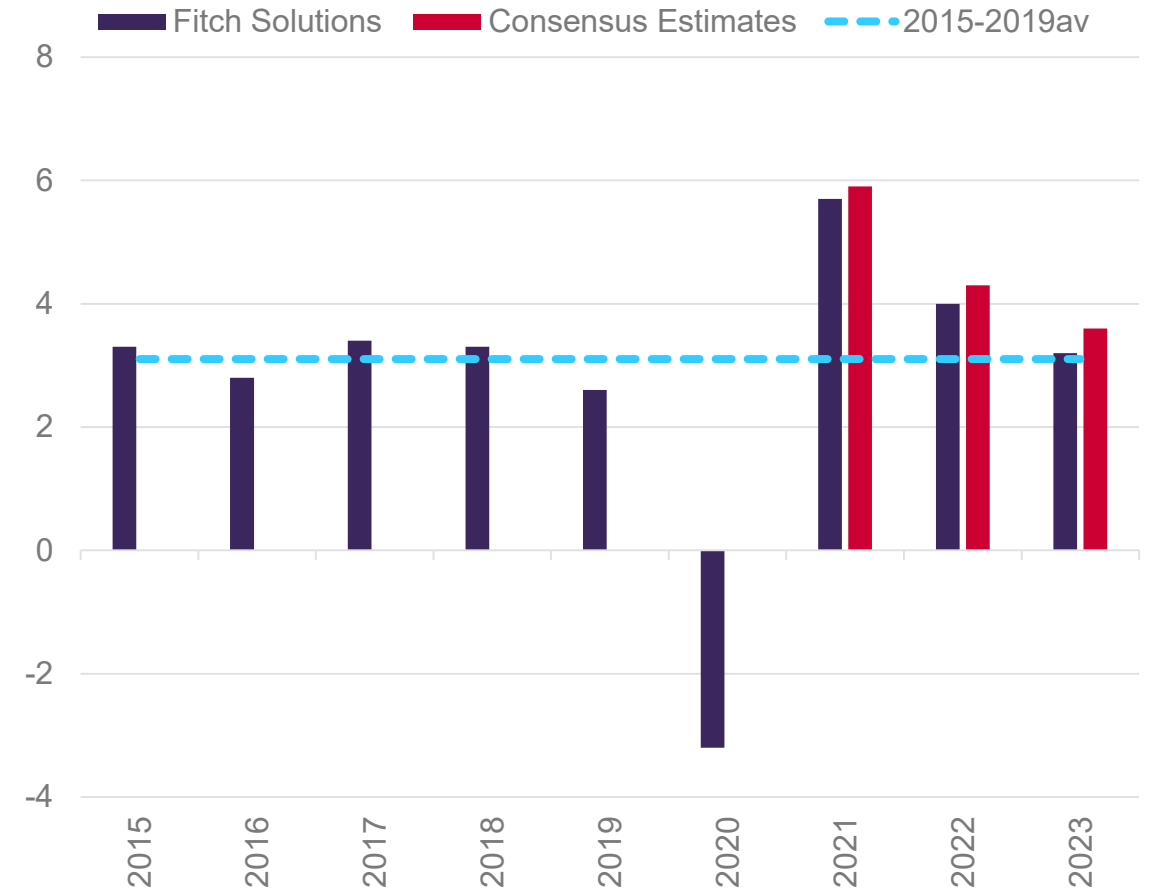
Share Of Global GDP, %



Source: Fitch Solutions

## Global Growth Has Momentum

Real GDP Growth, %

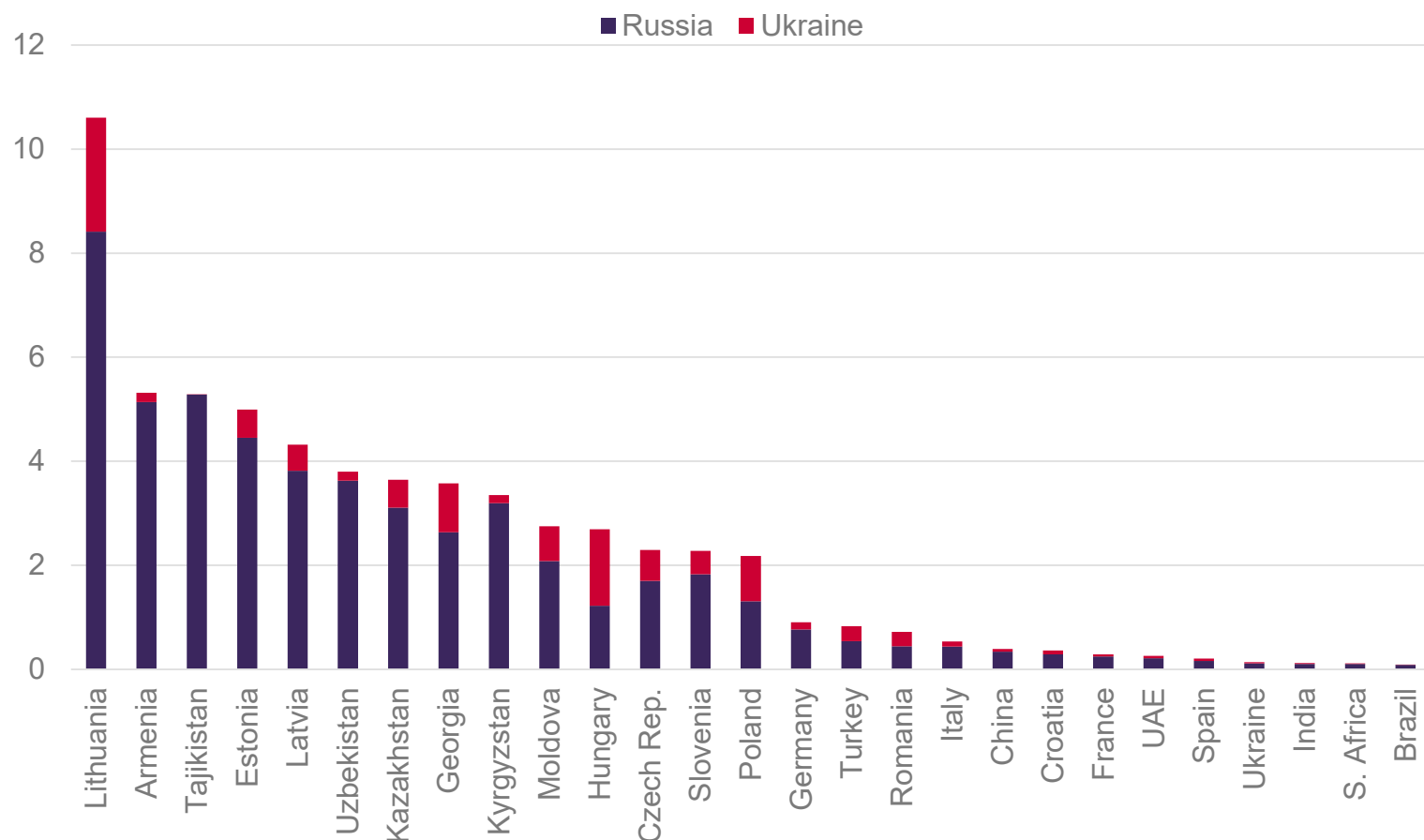


Source: Fitch Solutions

# Growth Exposure Highest For Only A Small Handful of Economies

## Most Major EMs Have Low Exposure To Russia

Exports To Russia & Ukraine, % of GDP



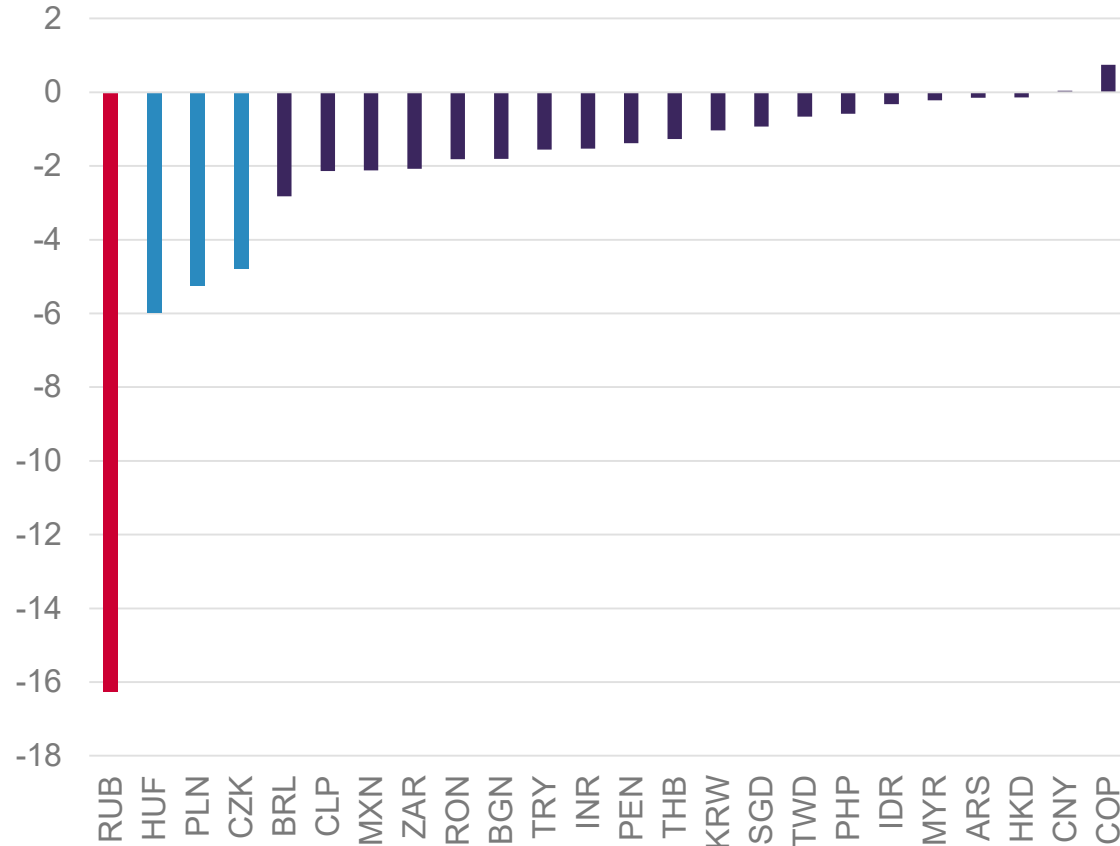
Source: Intracen, Fitch Solutions

- The direct impact from an economic contraction in Russia and Ukraine will be felt most in Lithuania, as exports to the two economies account for just over 10% of GDP.
- Commonwealth of Independent States and former Soviet Union states are also exposed to a degree.
- However, major developed and emerging markets have very limited direct exposure to Russia and Ukraine.
- The increase in spending on military equipment by developed markets may provide additional fiscal support.
- That said, there are many indirect channels to watch, including financial market uncertainty, sanctions, inflation and potential central bank tightening.

# Contagion Limited Thus Far, But Some Markets Stand Out

## Currency Risks Seem Fairly Limited

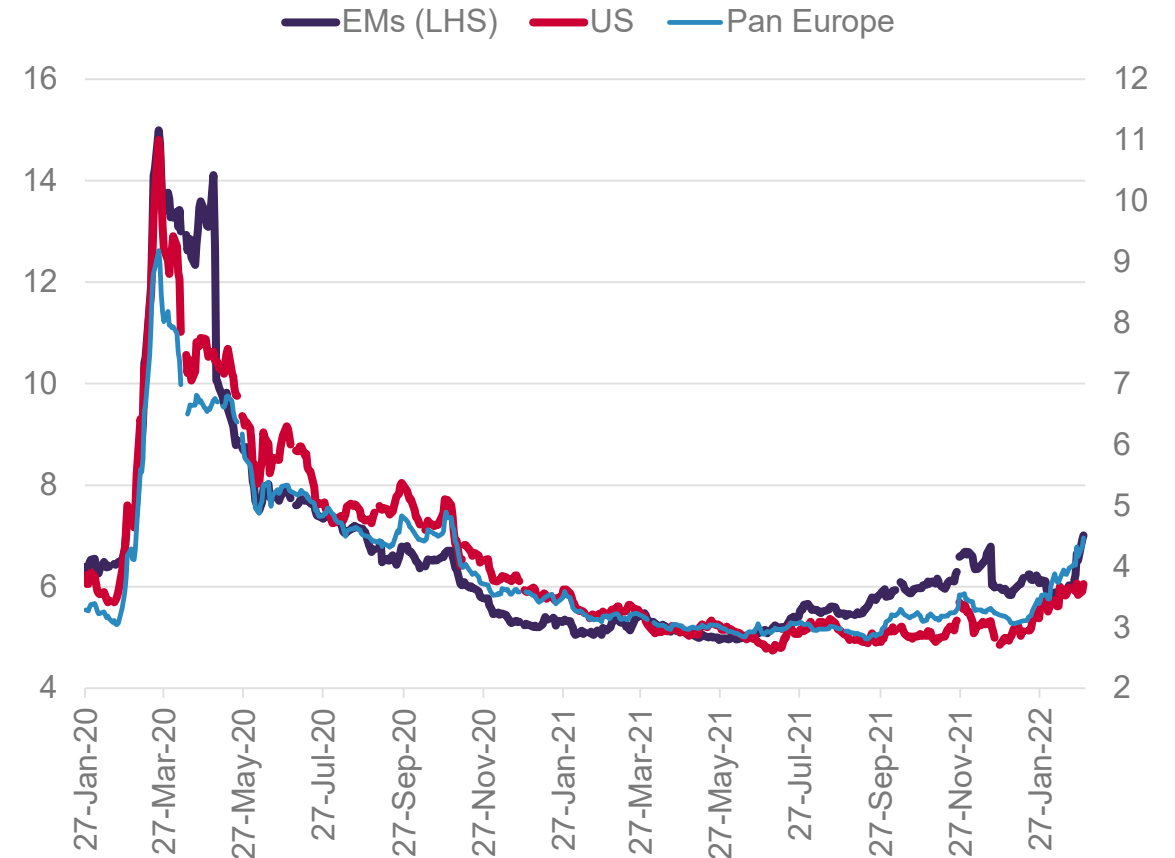
Performance Of Currencies vs US Dollar, % (as of February 23 2022)



Source: Bloomberg, Fitch Solutions

## High Yield Spreads Widening, But Not Too Much Yet

Bloomberg High Yield OAS, %



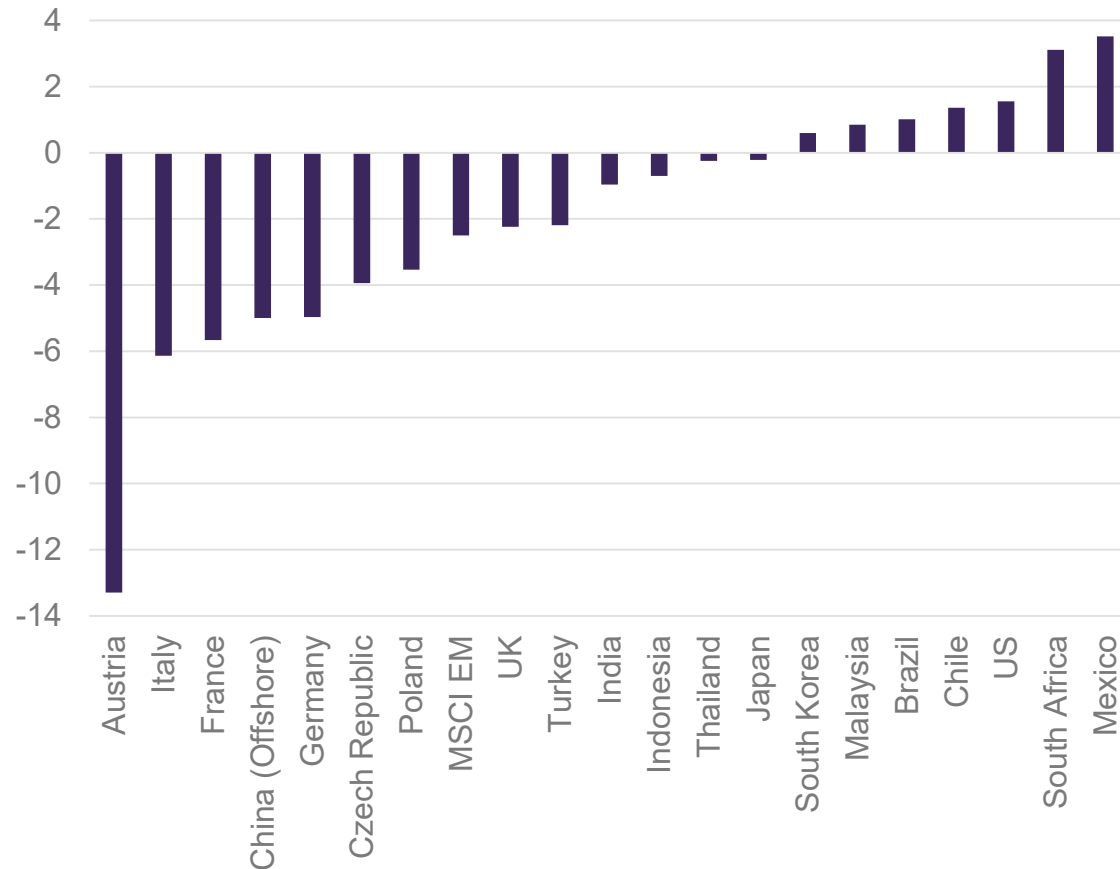
Source: Bloomberg, Fitch Solutions



# Contagion To European Equities Via The Banks

## Equities With Banking Exposure Seem To Be Hit Worse

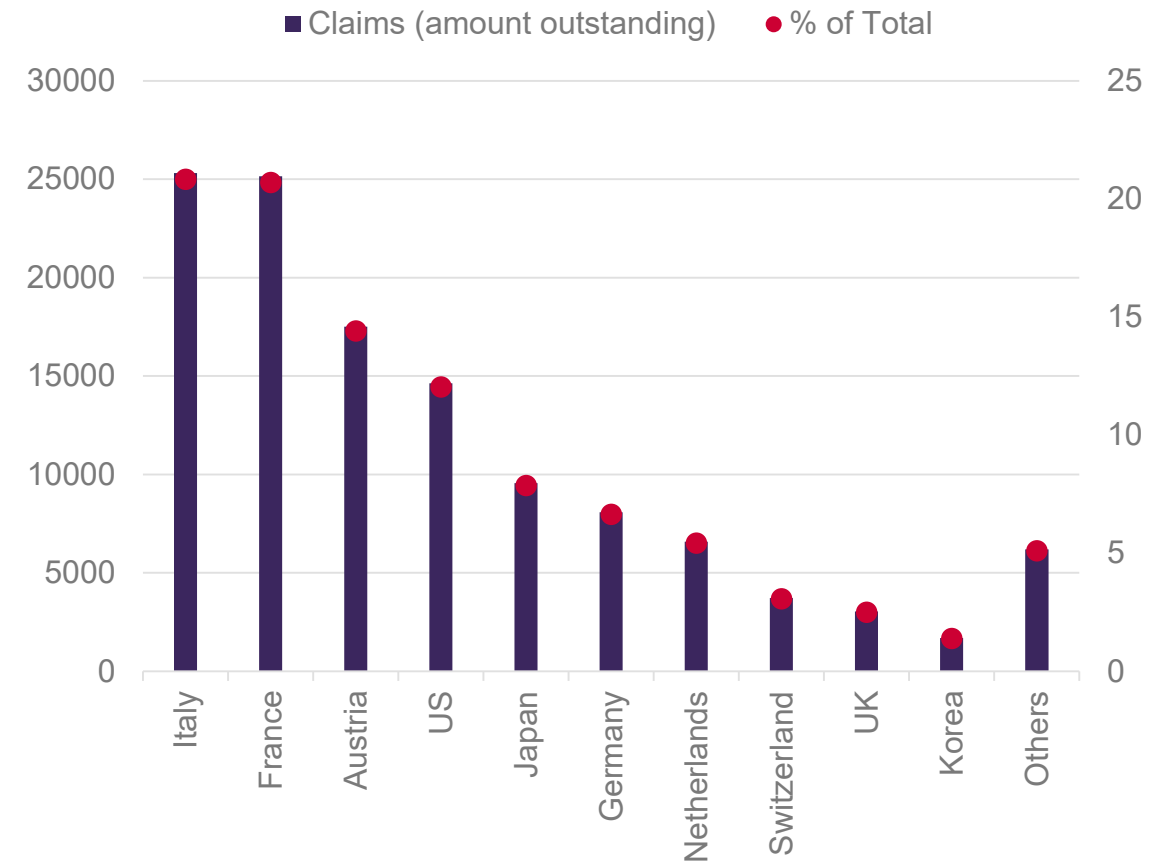
Performance Of Equity Markets, % (as of February 23 2022)



Source: Bloomberg, Fitch Solutions

## Italian, French And Austrian Banks Most Exposed To Russia

Claims On An Immediate Counterparty Basis, USDmn



Source: BIS, Fitch Solutions

# Rising Commodity Prices To Push Inflation Higher

## Commodities To Add Upside Pressure To Inflation

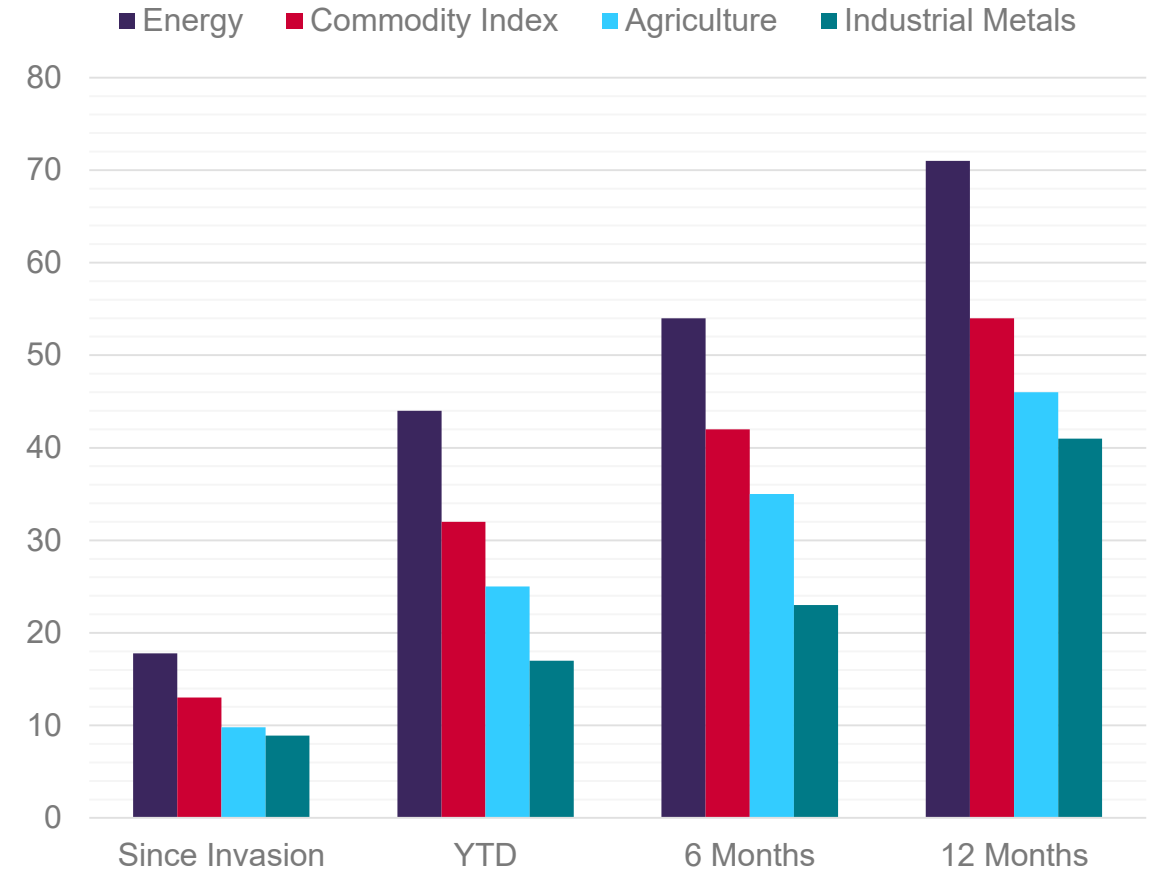
Bloomberg Commodity Index



Source: Bloomberg, Fitch Solutions

## Energy Prices Rising Quickest

Change In Commodity Index Price, %

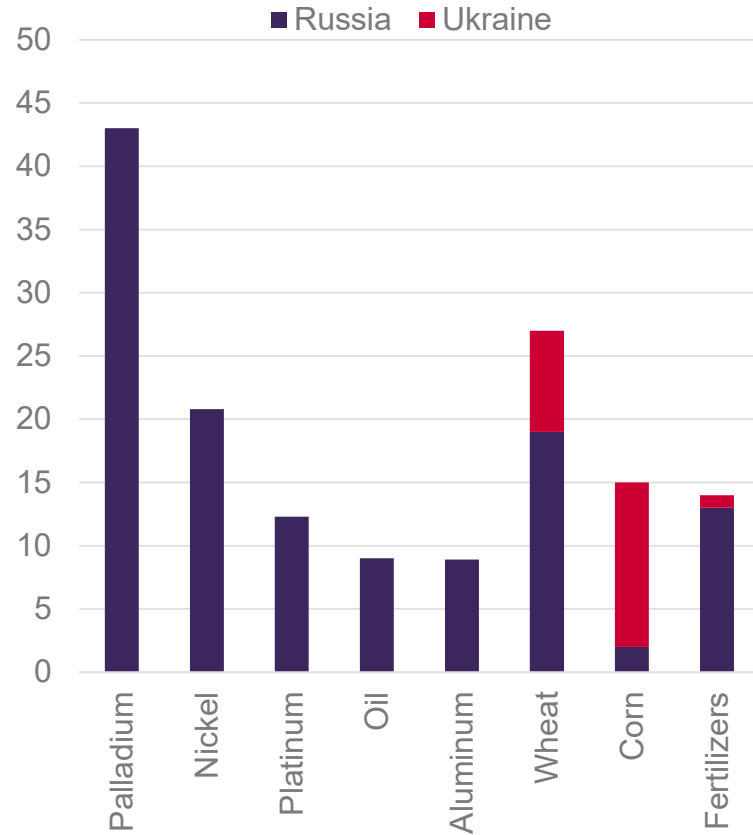


Source: Bloomberg, Goldman Sachs, Fitch Solutions

# Supply Risks Will Exacerbate Inflation

## Russian Exports Are Important

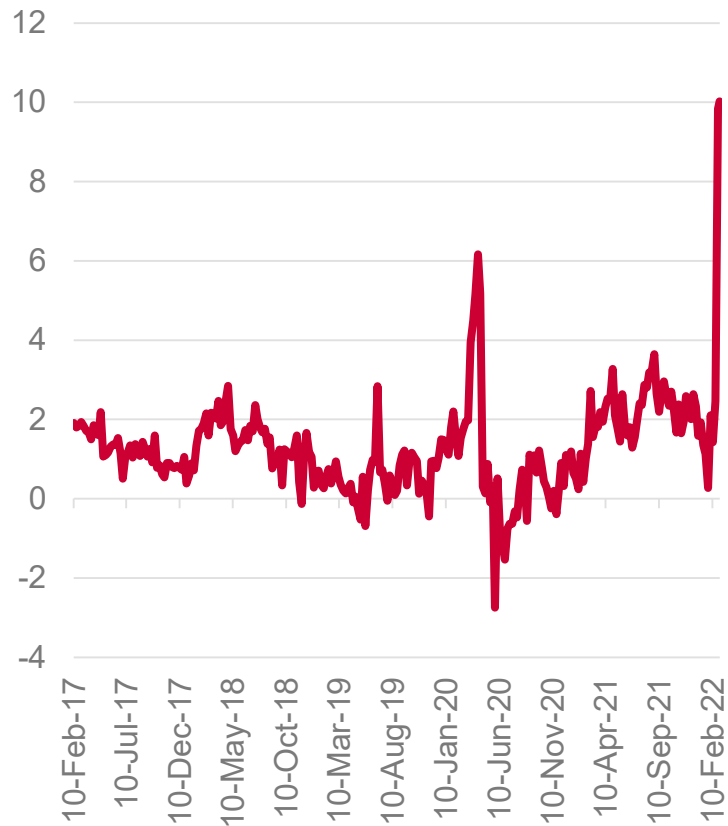
Exports As Share Of Global Total, %\*



\*Platinum/Palladium = % of Global Production. Source: Bloomberg, Fitch Solutions

## Sanctions Could Distort Exports

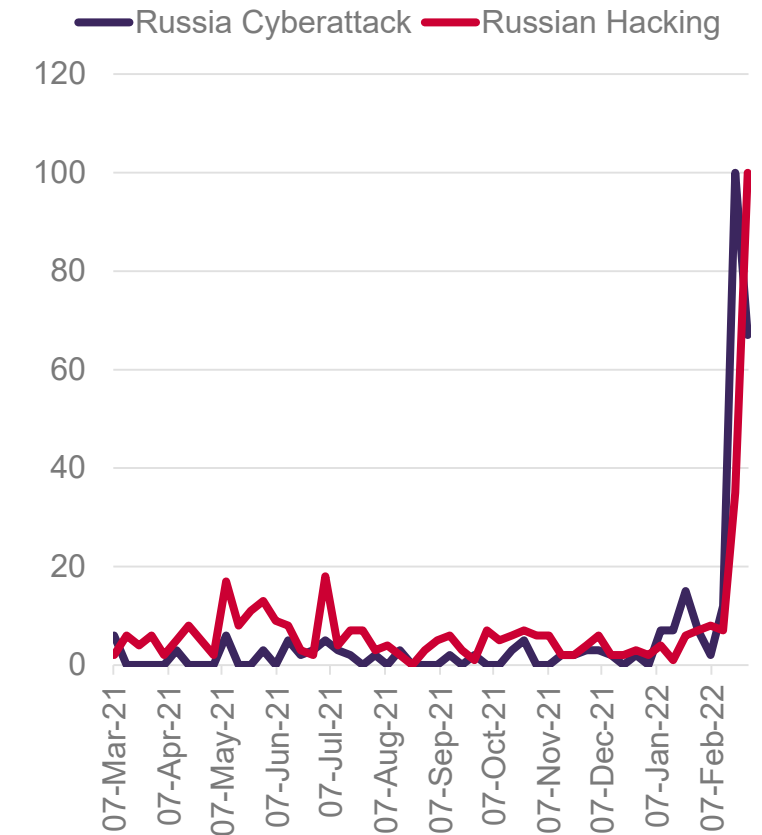
Spread Of Brent Crude vs Russian Urals, USD/bbl



Source: Bloomberg, Fitch Solutions

## Could Cyberattacks Impact Supply?

Google Search Trends For Certain Terms

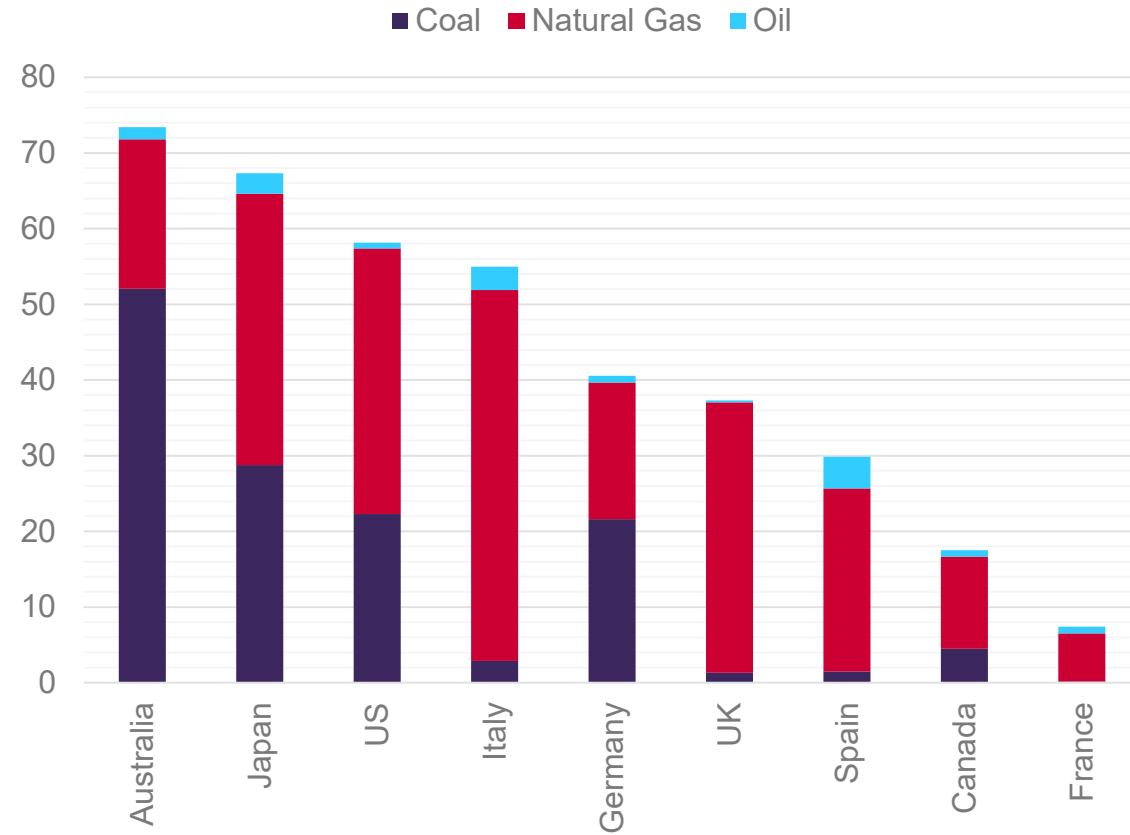


Source: Google, Fitch Solutions

# Energy Costs Will Hit Markets With Higher Fossil Fuel Dependency

## Many Economies Still Dependent On Fossil Fuels

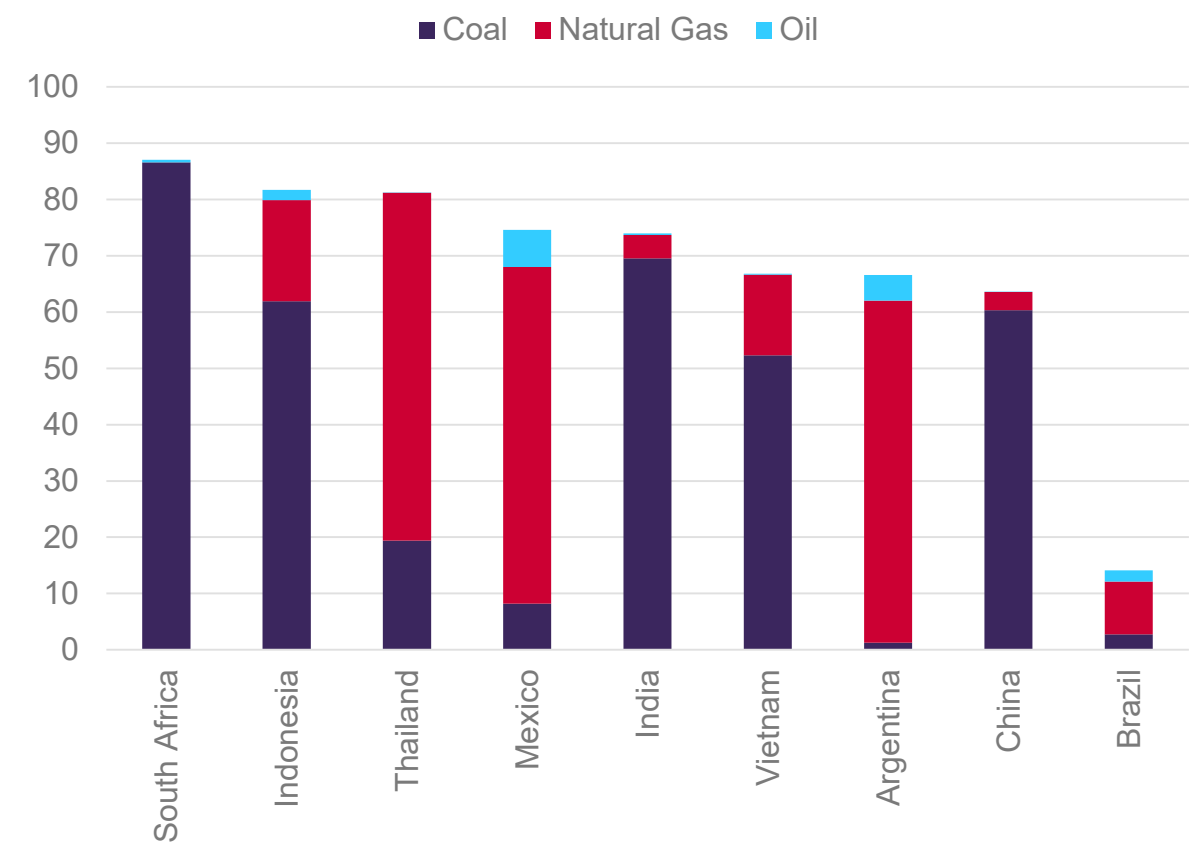
Power Generation By Source, %



Source: Fitch Solutions

## EMs Have Low Dependency On Renewables

Power Generation By Source, %

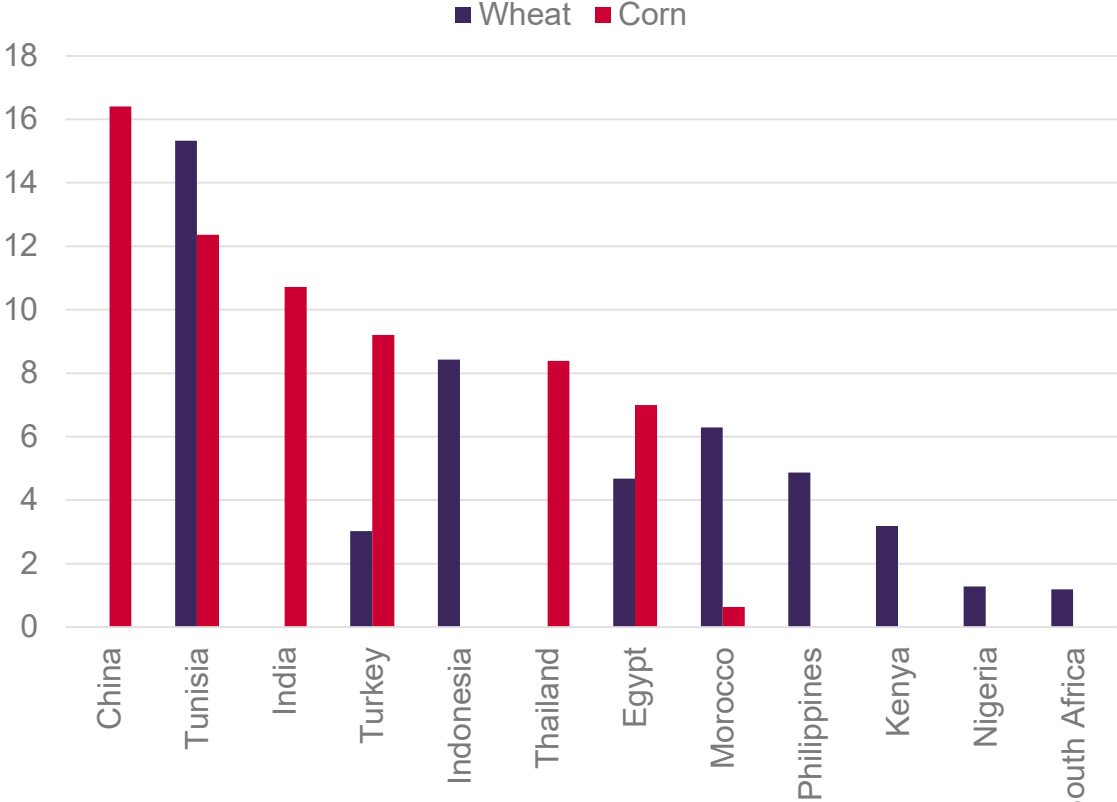


Source: Fitch Solutions

# Rising Grain Prices Could Also Cause Problems For Certain EMs

## EMs Are Reliant On Ukrainian Grain

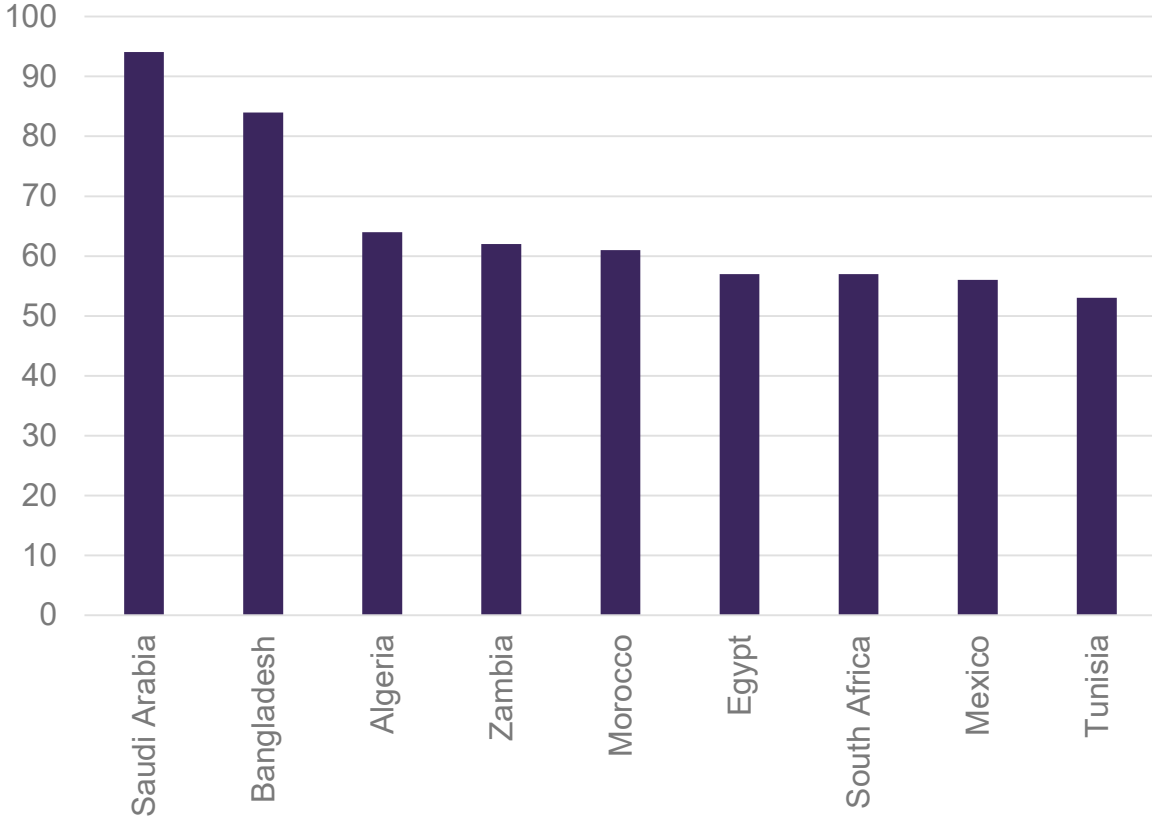
Imports From Ukraine, % of total imports



\*Figures cover 2019 or latest available data. Export figures only include direct shipments; other EMs may receive Ukrainian grain that is re-exported by the Netherlands. Source: Intracen, Fitch Solutions

## Some EMs Are Heavily Reliant On Wheat Imports

Wheat Imports, % of total consumption

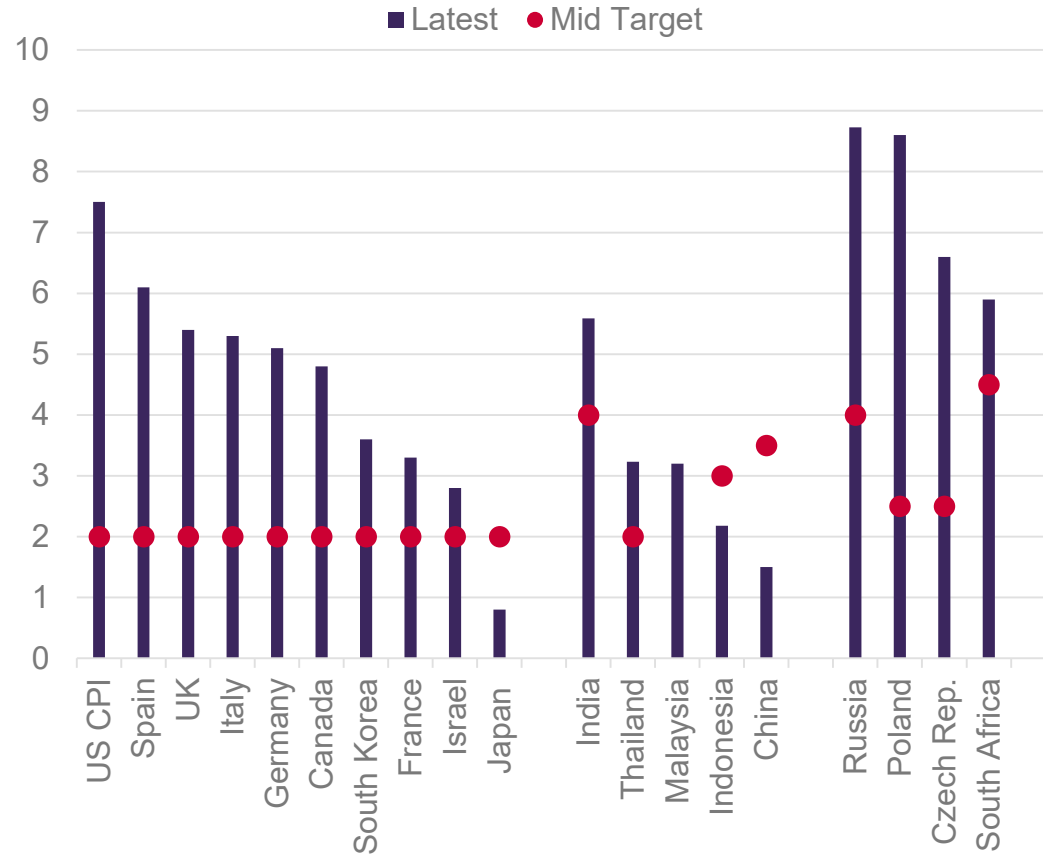


Source: Fitch Solutions

# Hawkish Central Banks Could Result In A Policy Misstep

## Inflation Overshooting Across The Board...

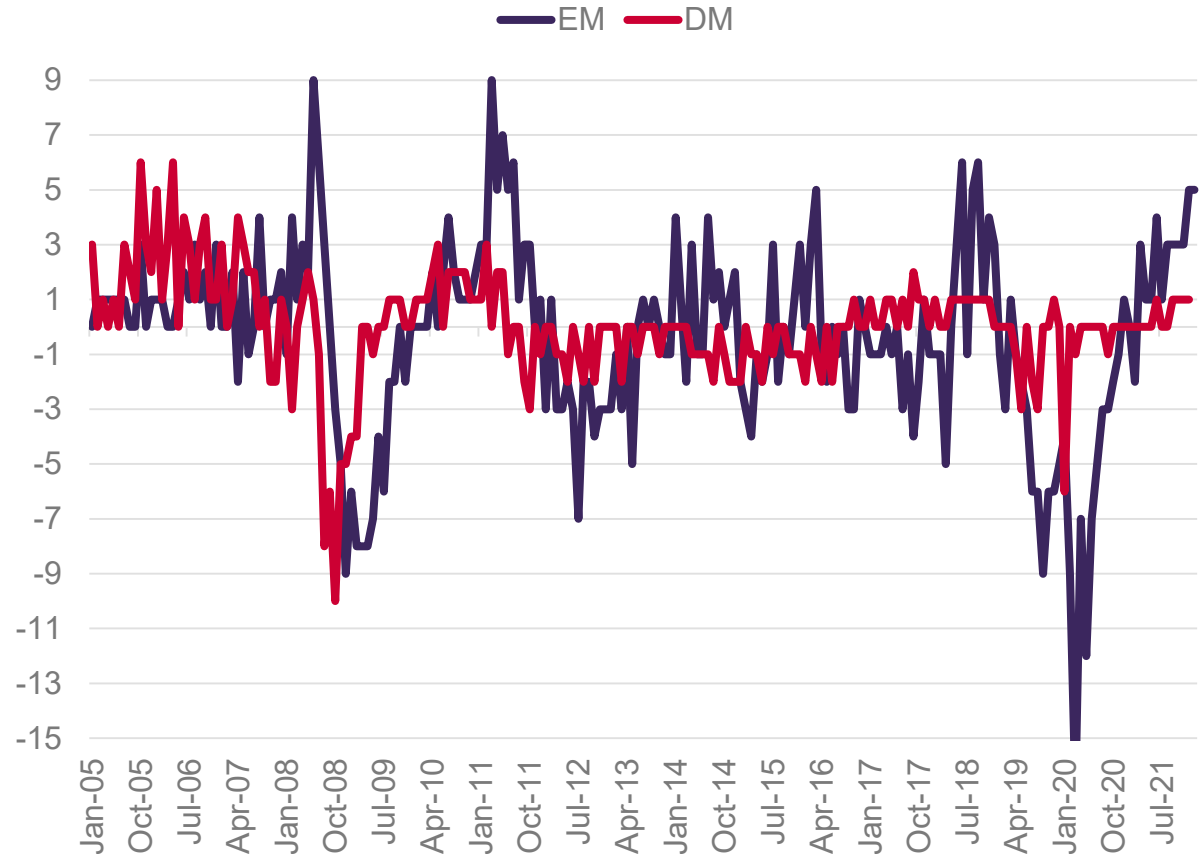
Inflation vs Target, %



Source: Bloomberg, Fitch Solutions

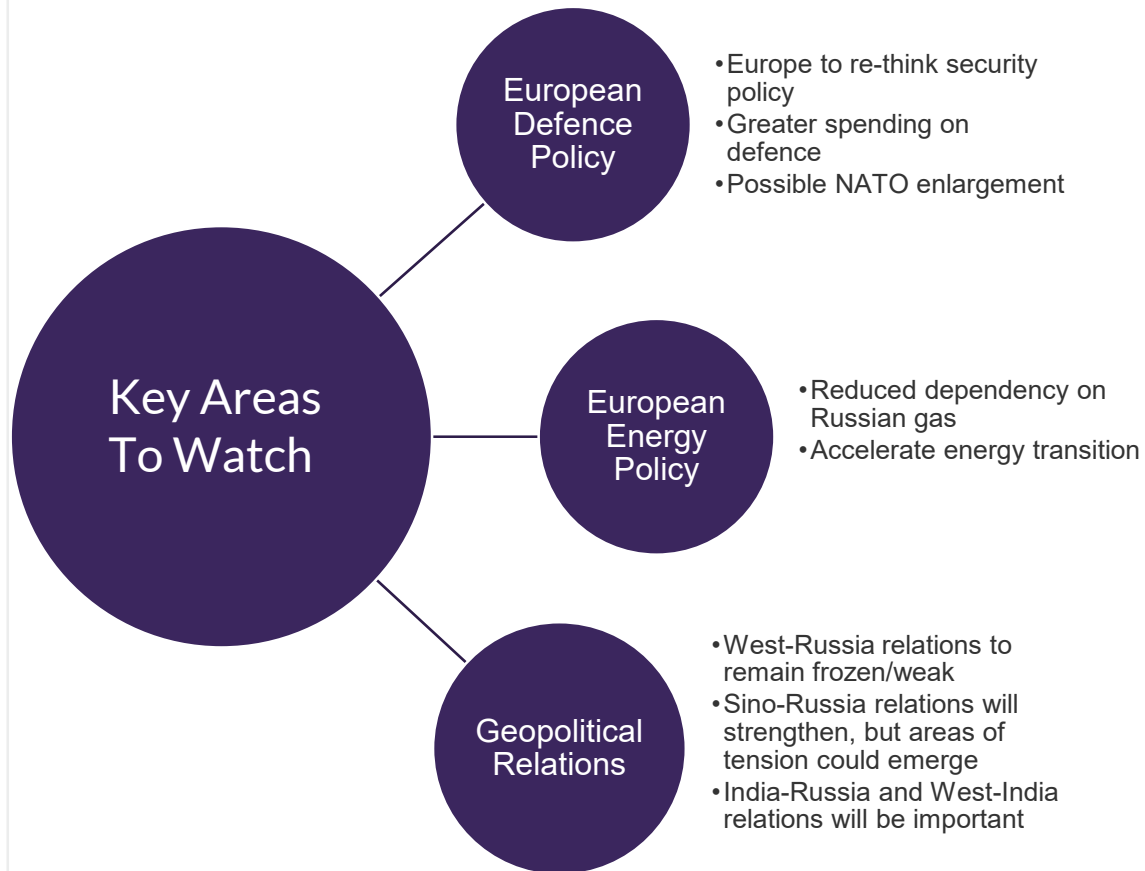
## ...Central Banks Are Still Going To Hike

Monetary Policy Diffusion Indices



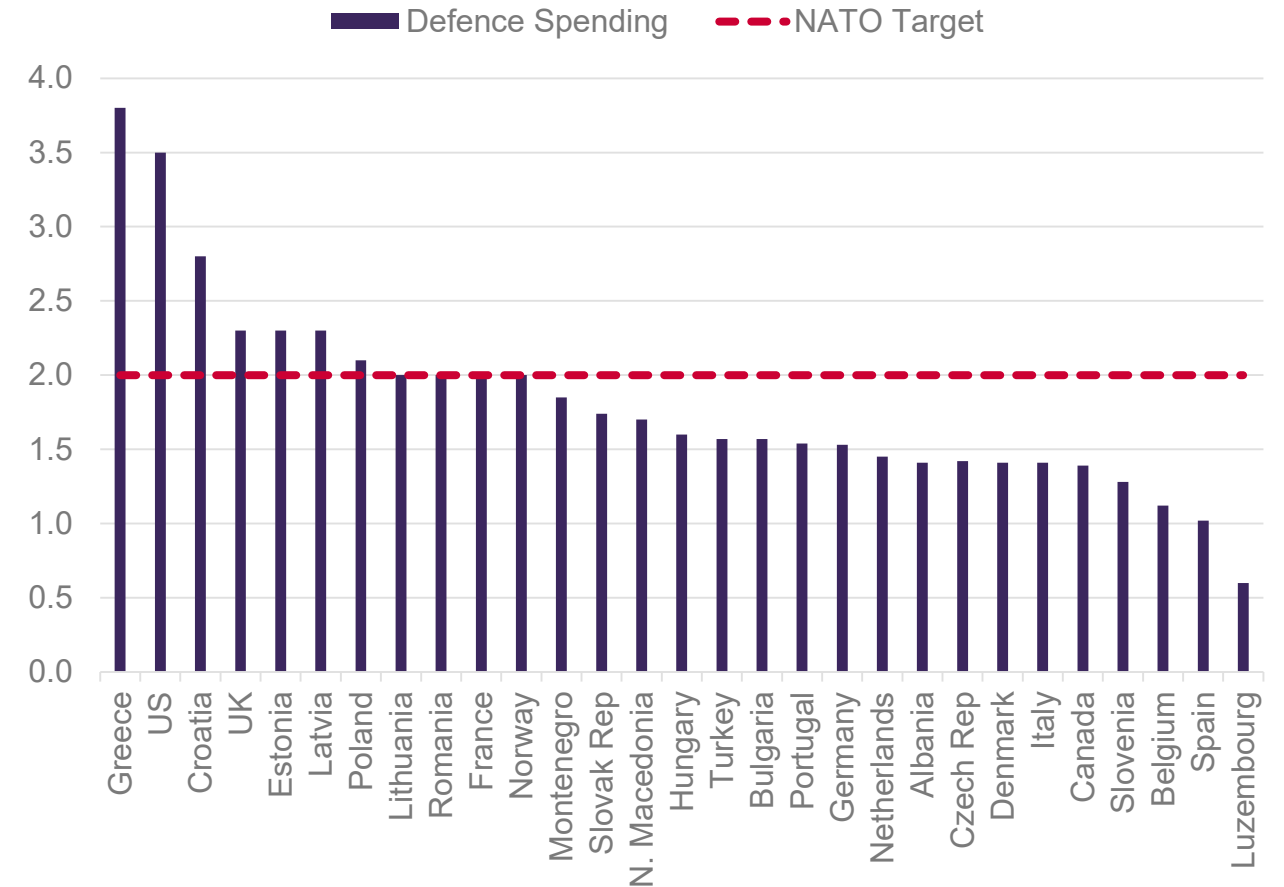
Source: Bloomberg, Fitch Solutions

# Three Geostrategic Shifts To Watch



## Room For NATO Members To Increase Spending

Spending By Member On Defence, % of GDP



Source: Fitch Solutions

Source: NATO, Fitch Solutions

# Learn More

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