ECONOMIC AND FINANCIAL IMPACTS OF WAR IN UKRAINE

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Department of Finance
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SUMMARY

˃ The Russian invasion of Ukraine, and the associated imposition of economic and financial sanctions, will have short-, medium- and longer-term consequences for the Irish economy (figure 1).

˃ The purpose of this document is to highlight the main transmission channels through which the conflict is impacting on economic and financial developments in the short-term. Beyond the short-term, much of the fall-out will only become evident over time, and so the transmission channels are speculative at this point.

˃ Ireland’s direct trade links with Russia are relatively small (figure 2a), with total exports amounting to €3.7 billion in 2020, or 1 per cent of total exports. The main bilateral exports (figure 2b) relate to computer services (50 per cent of the total), aircraft leasing (25 per cent of the total) and pharmaceutical products (5 per cent of the total).

˃ Imports from Russia amounted to €650 million in 2020, or 0.2 per cent of total imports (figure 3a). The main bilateral imports (figure 3b) relate to business services (42 per cent of the total), petroleum and coal (22 per cent of the total) and fertilisers (13 per cent of the total).

˃ Other countries have somewhat stronger trade links with Russia (figure 4) and this will have an impact on demand in some of Ireland’s export markets.

˃ Ireland’s direct dependency on energy imports from Russia, and wheat imports from Russia and Ukraine are very small relative to other EU Member States (figure 5). Any disruptions to trade on from those countries will, however, put pressure on prices.

˃ The war in Ukraine has caused a large rise in commodity prices across the board and, in particular, oil and gas prices have surged since the invasion on the 24th February (figure 6). Oil prices exceeded $139 per barrel for the first time since 2008 on Monday 7th March.

˃ Prices for various raw materials and inputs to production have also increased sharply (figure 7a) while outflows of capital and financial sanctions have resulted in a depreciation of the Russian Ruble (figure 7b).

˃ With inflation rising in many advanced economies, the cost of sovereign borrowing has risen (figure 8a) as central banks are stepping back from exceptionally loose monetary policy. The pace at which different central banks react has implications for exchange rates (figure 8b), with recent euro depreciation against both sterling and the dollar.

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1 The data and analysis set out in this document are compiled by Department of Finance staff. Every effort is made to ensure accuracy and completeness. When errors are discovered, corrections and revisions are incorporated into the digital edition available on the Department’s website.
Figure 1: framework for understanding the economic fallout

<table>
<thead>
<tr>
<th>shock to economy</th>
<th>time horizon</th>
<th>main transmission channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>War in Ukraine</td>
<td>Short term</td>
<td>Direct trade / investment</td>
</tr>
<tr>
<td></td>
<td>Medium term</td>
<td>Indirect trade / investment</td>
</tr>
<tr>
<td></td>
<td>Longer term</td>
<td>Commodity markets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial markets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Confidence (business &amp; consumer)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Labour supply / migration</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investment / capital stock</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reshoring / deglobalistion</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Recalibration of global economy</td>
</tr>
</tbody>
</table>

Source: Department of Finance illustration
Figure 2: Irish exports to Russia

A: Irish exports to Russia as a share of total exports, per cent

B: Composition of exports (goods and services)

Note: data relate to 2020.
Source: Central Statistics Office.

Note: service data not yet available for 2021.
Source: Central Statistics Office.
Figure 3: Irish imports from Russia

A: Irish imports from Russia as a share of total imports, per cent

- Share of goods imports
- Share of services imports

Note: service data not yet available for 2021.
Source: Central Statistics Office.

B: composition of imports (goods and services)

- Other goods 9%
- Petroleum and coal 22%
- Business services 42%
- Fertilisers 13%
- Other services 14%

Note: data relate to 2020.
Source: Central Statistics Office.
Figure 4: Indirect trade effects – trade exposure of European Union Member States

A: Exports (goods) to Russia from Member States as a share of total exports
B: Imports (goods) from Russia of Member States as a share of total imports

Note: data refer to 2021. Source: Eurostat.
Figure 5: share of key commodities sourced from Russia

A: energy products sourced from Russia as a share of total energy imports

B: wheat sourced from Russian and Ukraine as a share of total wheat imports

Note: data refer to 2021.
Source: Eurostat.
Figure 6: energy price developments

A: oil prices, Brent crude, US$ per barrel (spot price)

B: gas prices, UK natural gas, stg£ per therm

Note: data refer to price on March 11th.
Source: Macrobond.
Figure 7: selected commodity price developments

A: price changes for various commodities, per cent

- Palladium
- Wheat
- Heating oil
- Corn
- Lumber
- Soybean
- Aluminium
- Silver
- Natural gas
- Platinum
- Sugar
- Copper

Note: change in price between March 11th (latest observation) and the average for January 2022.
Source: Yahoo finance.

B: capital outflows resulting in a depreciation of the Rouble, Rouble per EUR

Note: data refer to March 11th.
Source: Macrobond.
Figure 8: selected financial indicators for the Irish economy

A: cost of Irish sovereign borrowing (10-year bond), per cent

Note: data refer to March 11th.
Source: Macrobond.

B: bilateral exchange rates

Note: data refer to March 11th.
Source: Central Bank of Ireland.