



PRESS RELEASE

War in Ukraine: Many (big) losers, few (real) winners

Paris, May 3, 2022 – More than two months after the start of the war in Ukraine, of Russia's invasion of Ukraine on 24 February, prospects for a rapid resolution of the war seem increasingly unlikely. As sanctions against Russia continue to pile up, a return to the pre-war situation seems illusory, even in the event of an early end to the conflict. Coface has revised upwards its estimate of the cost to the world economy to approximately one percentage point in 2022. However, the consequences of the conflict will be felt mainly from the second half of the year onwards, and will further materialize in 2023 and beyond.

Political risk, which had increased significantly at the global level with the pandemic, is exacerbated by soaring food and energy prices.

No region will be truly spared from the economic fallout of this war, and after the successive shocks of the 2020s, our perception remains the same: the world has shifted, and nothing will ever be the same.

Europe in turmoil

Russia and Ukraine's significant roles in the production of many commodities, coupled with fears of supply disruptions, have led to a surge in prices, resulting in a decline in household disposable income and therefore in consumption. Volatility and uncertainty will also weigh heavily on businesses' investment decisions, as their financial situation is likely to deteriorate significantly as production costs either remain high or continue to rise.

In addition to the economies of Central and Eastern Europe, which have important economic ties with Russia, the countries of Western Europe are the most exposed because of their heavy dependence on Russian fossil fuels. Germany and Italy, whose economies are the most dependent on Russian gas, are likely to be strongly impacted (a negative impact of 1.6 pp on GDP growth). The impact will likely be weaker but still significant in the rest of Europe.

Inflationary effects push the Fed to act sooner than expected

Across the Atlantic, the impact on growth is set to be more modest due to limited trade with and financial exposure to Russia and Ukraine. Nevertheless, in the United States, the overall inflation rate has reached its highest level in 41 years, driven by food and energy prices. Excluding these items, monthly price growth has moderated, but remains well above the US Federal Reserve's 2% target, prompting the Fed to act sooner than expected.

After a first Fed funds rate hike in March, most members of the Monetary Policy Committee have expressed support for a "neutral" rate by the end of 2022, estimated to be between 2 and 3%. This would be one of the most aggressive tightening cycles since the 1990s, and would help moderate US growth, hence our downward revision of the US GDP growth forecast for 2022 to 2.7%.

No region will be spared from imported inflation and supply chain disruptions

Africa, where an overall net negative effect of 0.5 percentage points is estimated, is a perfect example of how the current situation is affecting emerging economies, with the intensification of inflationary pressures, and the beginning of the Fed's policy tightening, with its effect on capital flows.

Asia will also not be spared from the consequences of the war, in addition to the slowdown in China linked to the Omicron variant. A prolonged conflict in Europe or a new escalation will have an estimated net negative impact of 0.5 points on GDP growth in 2022.

Latin America is another region vulnerable to Fed policy tightening, but should benefit from rising commodity prices. The net effect of the war in the region – which we estimate at -0.1 percentage point – is still uncertain and may not be fully felt in the near future.

[The full report is available here.](#)

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