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The Global Impact of The Russia-Ukraine War

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ABSTRACT

Along with the staggering humanitarian crisis, Russia's 'military operation' in Ukraine has now provoked a downgrade in global economic growth forecasts. Analysts and experts have largely downgraded forecasts primarily owing to the volatile commodity prices, supply chain disruptions, and risks of the Russia-Ukraine war worsening.

Introduction

Ratings agency Moody's Investors Service in its report has said that the crisis has not derailed global economic expansion but has rather dented it. It has now lowered its 2022 growth forecasts for India by 0.4 percentage points. Moody's expects the Indian economy to grow by 9.1% this year (Vs the 9.5% forecast earlier), followed by a 5.4% growth in 2023.

Foreign brokerage JP Morgan on Thursday downgraded India to 'underweight' from 'neutral', saying GDP growth may disappoint, adding to the downside risks to EPS estimates.

IMPACT ON INDIA

India and oil

India is vulnerable to high oil prices given that it is a large importer of crude oil. India being a surplus producer of grain, means that agricultural exports stand to benefit in the short term from high prevailing prices.

However, the high fuel and potentially higher fertiliser costs would weigh on government finances down the road, potentially limiting planned capital spending.
JPMorgan's rating cut followed a similar rating cut by brokerage Credit Suisse (CS) earlier this month, as the latter felt India is the most vulnerable to oil price hikes in Asia. CS had said it will look for opportunities to re-enter the Indian market but would tactically cut its India position to 'underweight' from 'overweight.

THE GLOBAL SCENARIO

Overall, it expects the G-20 economies to expand 3.6% collectively in 2022, compared with the 4.3% growth forecast earlier in February. It further expects growth to slow to 3.0% in 2023. Among the advanced economies in G20, it expects an expansion of 3.2% in 2022 and the G-20 emerging market countries to grow 4.2% in 2022, down from its forecasts of 3.9% and 4.9%, respectively, before the invasion of Ukraine.

Investment bank Goldman Sachs has downgraded Goldman Sachs has downgraded its global growth forecast following the invasion and surges in commodity prices. It now sees the global economy growing 3.4% in 2022, as compared to a forecast of 4.3% pre-invasion. It has also increased its year-end global headline inflation forecast for 2022 to 7.0% year-on-year (from 5.5% pre-invasion).

Additional supply chain disruptions pose further downside risk to growth and upside risk to inflation," it said.

Moody's has said that Russia is the only G-20 economy that may contract this year. "We forecast that its economy will shrink 7% this year and 3% in 2023, down from projected growth of 2.0% and 1.5%, respectively, before the invasion of Ukraine, "it said

Inflation Worries

The higher oil prices stand to impact households' cost of living directly directly or indirectly whether or not a country is a net importer. Directly, the higher energy prices will impact the cost of living and indirectly through increases in the costs of transportation and production of other goods and services. And as such, the rise in oil prices will build broad inflationary pressures across the board. Apart from the impact of oil prices, the ongoing war has also disrupted the already wounded supply chains. Just as the crisis had started to heal, the Russian invasion of Ukraine and the sanctions thereafter, worsened the supply chain issues.

“The breadth and the intensity of this supply shock could have more severe consequences than previous commodity price spikes, by broadening inflationary pressure. Due to the compounding effect of several shocks, food and fertiliser inflation, for instance, could reach levels not seen in a decade,” Barclays wrote in a research report last week. “The impact will be extremely asymmetrical and most emerging market countries will be disproportionately by food and fertilizer risks,” it said.

On the inflation front, it has opined that among the G-20 emerging market countries, inflation will rise 3.5% on average above its February expectations.

CONCLUSION

It may be noted that the G20 emerging market countries include Argentina, Brazil, China, India, Indonesia, Mexico, Russia, South Africa, and Turkey. The key three channels that could be affected by the ongoing geopolitical conflict are commodity and food price shocks, financial repercussions from the sanctions, and security challenges in a scenario of an escalating or wider military conflict. “As of now, the risk of a worsening conflict appears far higher than does a thaw. The economic impact will build the longer the conflict drags on, and especially if it expands beyond Ukraine,” it said.