Europe Reaction Assessment to the Russian-Ukrainian Invasion: Economic Perspective

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This paper examines how the decision-makers manage and deal with the Russian invasion from an economic perspective. The consequences of the made decisions in the long and short terms. Meantime, how were the European-American people influenced by these decisions, and to what extent did these decisions affect the economy of other nations? Consequently, to what extent could the current global financial system be exposed? Regardless of the damage and paralysis that this administration has caused to the Russian economy. We also discuss the beginning of the Russian threat and the precautions that should have been taken to avoid today's economic crisis. We also address the concept of the current applied siege model and mechanisms that can directly affect and weakening-off the regimes. Finally, we discuss the invasion of the Russian Federation and how this humanitarian catastrophe can be ended. Finally, we propose a scenario for ending the humanitarian and economic catastrophe caused by the Russian-Ukraine invasion.

Key Words: Economy, Russia-Ukraine War, Sanction, Russia Invasion, Inflation

1 Introduction

In this paper, we discuss the performance and evaluation of decision-makers in their administrations and handling of the Russian-Ukrainian invasion crisis from a purely economic point of view, away from the political dimensions and dependencies.

In section 2, we briefly review the global and Russian economic situation with short-term prospects. We address the global economic situation and the consequences of the invasion by showing the current and future economic situation, as well as the European region economy and the consequences of the catastrophe as a result of the war and the anxious fears and crises that await the global economy, particularly the European region. We did not delve into the problems and bottlenecks in the Russian economy because there are many articles on this subject.

In sections 3 & 4, we review the real beginning of the Russian danger and propose a scenario about how it was possible to deal with this danger since 2014 and how it was possible to avoid the current economic crisis and to envisage the humanitarian disaster in Ukraine and the

economic disasters that increased food security and global poverty. We also review the reaction of the decision-makers and how to neglect the problem since 2014 and acted without a clear economic strategies plan to avoid the current economic disaster facing the peoples of the world in particular the European people.

In section 5, we also discuss the idea of the current economic embargo terms imposed to weaken a political regime and the consequences and repercussions on those countries' peoples, making us demand the creation of a new ban model that uses the burdens on people and weakens the regimes more effectively.

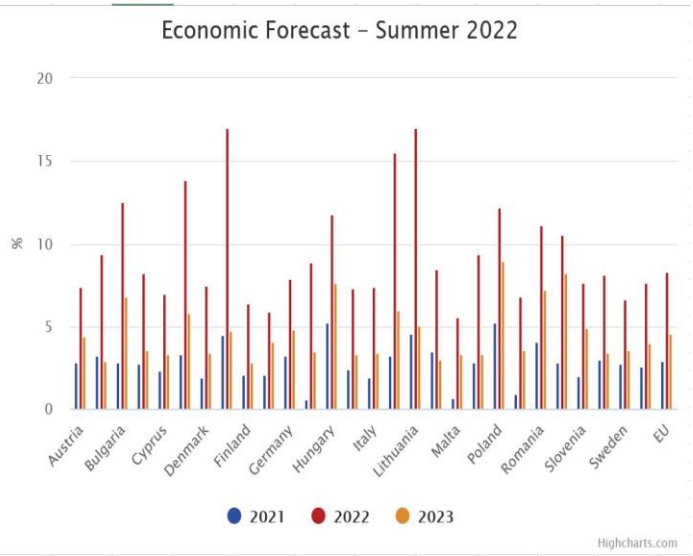
In section 6, we also propose a solution to end the humanitarian catastrophe in Ukraine and end the depletion of the European and global economies, to find a way out of the current economic situation and prevent an expected crisis in the coming years. We also review how the world could face the birth of a new eastern global financial system parallel to the current western financial system, which could lead to an economic catastrophe that may cause the global economy to collapse.

1.1 The Embargo Consequences on Russia Federation

The shocks caused by the Russia-Ukrainian war are hitting the EU economy, directly and indirectly, putting it on a path of low growth and high inflation. Rapid increases in energy and food prices are fuelling global inflationary pressures, eroding household purchasing power and leading to a faster monetary policy response than previously assumed. Moreover, slowing growth in the United States adds to the negative economic impact of China's strict non-proliferation policy.

Figure 1: Summer 2022 Economic Forecast: Russia's war worsens the outlook

Category	2021	2022	2023
Austria	2.8	7.4	4.4
Belgium	3.2	9.4	2.9
Bulgaria	2.8	12.5	6.8
Croatia	2.7	8.2	3.6
Cyprus	2.3	7	3.3
Czechia	3.3	13.9	5.8
Denmark	1.9	7.5	3.4
Estonia	4.5	17	4.7
Finland	2.1	6.4	2.8
France	2.1	5.9	4.1
Germany	3.2	7.9	4.8
Greece	0.6	8.9	3.5
Hungary	5.2	11.8	7.6
Ireland	2.4	7.3	3.3
Italy	1.9	7.4	3.4
Latvia	3.2	15.5	6
Lithuania	4.6	17	5.1
Luxembourg	3.5	8.5	3
Malta	0.7	5.6	3.3
Netherlands	2.8	9.4	3.3
Poland	5.2	12.2	9
Portugal	0.9	6.8	3.6
Romania	4.1	11.1	7.2
Slovakia	2.8	10.5	8.2
Slovenia	2	7.6	4.9
Spain	3	8.1	3.4
Sweden	2.7	6.6	3.6
Euro area	2.6	7.6	4
EU	2.9	8.3	4.6



Source European commission Economy and Finance

However, we note that there is a temporary improvement towards the vision of the Russian performance and the weakness of these expectations for the Russian performance and its fragility due to the reasons:

Firstly, it is a significantly underperforming oil and gas exporter at a time of record prices. Despite higher oil and gas prices — which underpinned a strong current account surplus that helped stabilize the Russian ruble, control inflation and allow the Russian Central Bank to cut interest rates — Russia continued to contract in the second quarter of 22, down 4.9% year-on-year. This poor performance is compared to strong growth among other oil and gas exporters, such as the 11.8% year-on-year expansion that Saudi Arabia recorded in Q222. We believe that the staggering gap between Russian and Saudi performance - about 15 points - is largely explained by the impact of Penalties.

The second issue, profits from oil and gas exports - Russia's main defence against sanctions - are poised to decline from here. The main sanctions affect oil and gas: for example, the Central Bank of Russia reported that the average selling price of Russian oil in the second quarter was just under $80 a barrel, when the average price was $113 a barrel, confirming the discount. Russian crude at around $35 a barrel previously estimated. This means a loss in the second quarter of about $20 billion in oil revenue as a result of the sanctions. More importantly, oil and gas sanctions will become much deeper because the European oil embargo - starting from December 5 on seaborne Russian crude, and from February 5 on oil products - has reduced oil revenues. Meanwhile, the volume of Russian gas sales to Europe is at a third of last year's levels and seems poised to decline from here, effectively stopping no later than 2024, when Germany expects to be fully independent of Russia Gas. Notably, Putin's Russia is dependent on oil and gas, which finance the budget and imports of other goods and services, and suffered economic crises in 2008, 2014-15 and 2020 when oil and gas revenues fell sharply. Next year, with the EU oil embargo in place, the expectation, based on volume assumptions with standard pricing, is a 40% decline in Russian oil and gas revenues. Once oil and gas revenues fall below a critical level - less than $200 billion a year. Russia is struggling to maintain an external balance, which is likely to require either massive use of international reserves and/or a significant adjustment in the Russian currency exchange rate. In practice, the Russian authorities will then face a difficult choice between letting the Russian currency weaken and accepting accelerating inflation, which will put pressure on real income, or implementing a sharp policy tightening, as we saw this spring, to weaken outflows and support the RUB, which will slow economy. In either scenario, the Russian economy would be seriously damaged—with an effect similar to that seen in the 2008-09, 2014-15, and 2020 crises—impairing Putin's ability to continue his war of imperial aggression against Ukraine.

The third issue, sanctions are hurting the domestic Russian economy. Industrial production fell 1.8% y/y in June - including a 62% y/y decline in auto production - second-quarter GDP fell

4.9% y/y, and real income fell 6.1% y/y in May. We expect further impact over the summer, as business exits begin to emerge and the impact of sanctions builds, with unemployment expected to rise sharply. We also see Russia's move to reduce the level of public disclosure of economic performance - with an already detailed classification of trade and banking data and a recent decree proposing a classification of reserves data - as further evidence that sanctions have proven effective. Before the last, Russia experienced a sharp contraction in trade, led by imports contracting by 22% in the second quarter of 2022. This may score a positive point in terms of accounting for GDP by net exports boosting, it is a fragility sign. Russia often relies on these imports and the technology embedded in them and will struggle without them, — as seen in the dismantling of aircraft for parts, and the military's reliance on components from Ukraine's allies for its military hardware. Russia's attempts to change its trade and investment relations to developing economies instead of advanced economies have a high cost, as a result, which will create a large gap between it and the advanced economies. The rate of skills and technology transfer is declining, in addition to the rise in logistics, infrastructure costs and income. In particular, it will lead to a permanent loss of about $80 billion in annual exports, since at present the gas and oil products exported to Europe do not count.

Finally, Russia began to reduce its social spending, as war and sanctioned companies received their first call for financial resources. So far, cuts appear relatively modest at about $26 billion for 2023-25 (about 2.5% of planned budget spending) on investment programmes and social, to fund the Russian government's priorities for support and military and for Russia's sanctions-hit companies and banks. . But the bill is already much higher, including the waivers of profits from state-owned companies affected by the sanctions, and transfers from the Fund of National Wealth, which allocated about a third of its resources since the war started to support companies and face sanctions. Moreover, we believe this is just the beginning. The impact of sanctions and a decline in oil and gas profits, will lead to a decrease in the public sector budget and this means the consumption of oil money and this means a great loss for the Russian Central Bank, which supports the banking system and puts pressure on resources. Available for Russian public services and pensions for years to come.

This overview of the impact of sanctions highlights that they already have a significant impact on Russia's domestic economy, trade, and budget, and that impact is expected to grow. Moreover, they highlight that implementing currently planned sanctions - in particular, the European oil embargo - will severely weaken Russia's ability to wage war. However, under the current sanctions, this tipping point - when oil and gas revenues fall to a critical level - will not be reached until the second half of year 23. This means at least another year of more war and destruction inflicted by Putin's army on Ukraine. We, therefore, urge Ukraine's allies to urgently impose more sanctions-notably a European gas embargo and more sanctions on Russian oil to broaden Russia's opponent-in accelerating the moment when Russian export earnings, particularly from oil and gas, fall to a critical level, supporting early end of the war.

2 The International Effects of the Russo-Ukrainian War

The global environment is fragile with storms looming. Inflation is now at its highest level in several decades and is spreading widely across countries. Economic prospects continue to deteriorate in many countries. At the same time, geopolitical risks remain. With these developments, prospects for global financial stability have deteriorated since April 2022. With the spectre of high inflation, central banks in advanced economies and many emerging markets were forced to move to an accelerated path of monetary policy normalization to prevent inflationary pressures from shifting take root. Global financial markets have shown pressure. Asset prices sold off on the back of ongoing energy market pressures, emerging pressures in multi-currency finance, and pressure in some sectors of non-bank financial institutions. At the same time, market liquidity has deteriorated across major asset classes. There is an increased risk of rapid and uncontrolled repricing which could interact with - and amplify through - pre-existing weaknesses and poor market liquidity.

In addition, the heightened uncertainty contributed to the tightening of financial conditions. Financial stability risks have increased, and the balance of risks is tilting to the downside. Financial vulnerabilities are increasing in the sovereign and non-bank financial institutions sectors, as higher interest rates have added to the pressure. The bright light comes from our stress tests on global banks which show the relative resilience of advanced economy banks.

The challenging macroeconomic and policy environment is also putting pressure on the global corporate price sector. Large companies reported shrinkage in profit margins due to higher costs. Among small businesses, bankruptcies began to increase due to rising borrowing costs and declining financial support. Many advanced economies and emerging markets may face housing market risks as mortgage rates rise and lending standards tighten, driving potential borrowers out of the market.

Emerging markets face multiple risks from a strong US dollar, high external borrowing costs, stubbornly high inflation, volatile commodity markets, increased uncertainty about the global economic outlook, and pressures from policy tightening in advanced economies. However, investors continue to differentiate across emerging market economies, and many of the largest emerging markets appear to be more resilient to external vulnerabilities. Having said that, our updated global bank stress test shows, in a very negative scenario, that up to 29% of emerging market banks may breach their capital requirements. And pressures are particularly severe in frontier markets in general in smaller developing economies - where challenges are driven by a combination of tightening financial conditions, deteriorating fundamentals, and high exposure to commodity price volatility. Central banks act decisively to bring inflation back to target and avoid decoding inflation expectations. Clear communication about their policy decisions, and their commitment to price stability goals. Policymakers face an extraordinarily challenging financial stability environment. If more adverse shocks are realized, tighter

financial conditions could lead to market illiquidity, erratic selling, or distress.

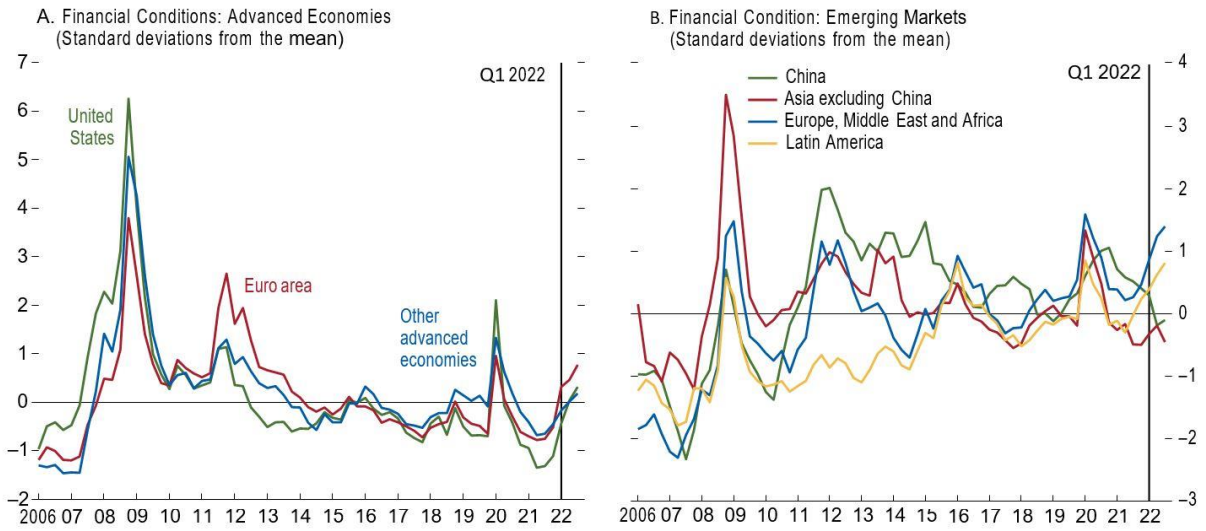
2.1 General Overview

The recent outlook for the Russian economy contraction forecasts 2022 to – 6 to 10%, and inflation to 12-15%, which is much lower than expected -15-30% and -18-20% straight. PMIs have moved into expansion territory. This improvement according to high oil and gas revenues, shielded the Russian economy's Impact and stabilised their currency. While the interest rate of Russia's central bank was reduced to 7.5%.

- Global financial stability risks have increased since the beginning of 2022 and the balance of risks tends to the downside. Amid the highest inflation in decades and extraordinary uncertainty about the outlook, markets have been extremely volatile. Despite some mid-year gains, prices for risky assets such as stocks and corporate bonds fell sharply, overall, with investors aggressively pulling back from risk in September. It appears that the deteriorating liquidity in the market has amplified the price movements.
- Financial conditions have continued to tighten globally since April. In many advanced economies, financial conditions are tight by historical standards. In some emerging markets, they have reached levels last seen during the height of the COVID-19 crisis. In turn, conditions in China eased, as policymakers provided additional support.
- As conditions have deteriorated in recent weeks, key measures of systemic risk have risen, such as the costs of providing funds in dollars and counterparty credit spreads. There is a risk of unregulated tightening in financial conditions that may interact with pre-existing weaknesses. Investors may reassess expectations if inflationary pressures do not abate as quickly as currently expected or if the economic slowdown intensifies.
- In emerging markets, rising prices, deteriorating fundamentals and large inflows have significantly increased borrowing costs. The impact has been particularly severe for the most vulnerable economies, with 20 countries either in default or trading at distressed levels. Unless market conditions improve, there is a risk of further sovereign defaults in frontier markets. Large emerging market issuers with stronger fundamentals, in turn, have proven resilient thus far.
- In China, the real estate downturn deepened as sharp declines in home sales during lockdowns exacerbated pressures on developers, with growing risks of spillovers to banking sectors, businesses and local governments. In many other countries, the housing market continues to show signs of overheating and there is a risk of a sharp drop in house prices as mortgage rates rise, affordability declines, and lending tightens.

- Global stress tests for banks show that under a severe deflation scenario, up to 29% of emerging market banks' assets could breach minimum capital requirements. In advanced economies, most banks will remain resilient. Corporate credit also faces an increased risk of default, as sub-investment-grade companies are more vulnerable to a shift in the credit cycle and deterioration in investors' appetite for risk.

Figure 2. Financial conditions in advanced economies and emerging market economies have tightened further on the net.



Sources: Bloomberg Finance L.P.; Havre Analytics; national data sources; and IMF staff calculations.

The tightening of global financial conditions has increased, in equilibrium, since Q1 2022, partly as an intended result of tighter monetary policy and partly due to increased uncertainty about the external outlook (Figure 2 A). In advanced economies, financial conditions have tightened rapidly and are now above historical averages in most countries, with rising interest rates and declining corporate valuations, the main drivers behind the tightening.

Financial conditions are tighter in some emerging markets. In Central, Eastern and Southern Europe, as well as in the Middle East and Africa, financial conditions are at levels last seen during the height of the COVID-19 crisis (Fig. 2 B). Weaker currencies and a wide spread of dollar financing have resulted in higher external borrowing costs. In contrast, conditions eased somewhat in China, as policymakers provided additional support to offset higher corporate credit borrowing costs caused by pressures among property developers and a deteriorating economic outlook.

2.2 Global financial stability

The global economy is suffering from high rates of inflation, a challenge it has not faced in

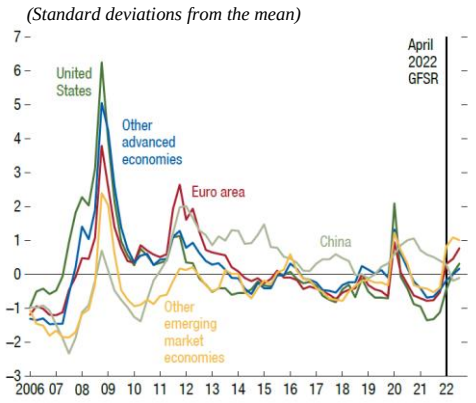
decades. In the wake of the global financial crisis, with inflation pressures subsiding, interest rates have been very low for years and investors have become accustomed to low volatility. The resulting easing in financial conditions has supported economic growth but has also contributed to increased financial vulnerability capabilities. Now, with inflation at its highest levels in decades, monetary authorities in advanced economies are accelerating the pace of policy normalization. Emerging market policymakers continued to tighten policy on the back of rising inflation and currency pressures, albeit with marked differences across regions. Global financial conditions have tightened significantly this year, resulting in capital outflows from many emerging and frontier market economies with weaker macroeconomic fundamentals. Amid mounting economic and geopolitical uncertainty, investors aggressively retreated from risk in September. As conditions deteriorated in recent weeks, key measures of systemic risk, such as higher dollar financing costs and counterparty credit spreads, have risen. There is a risk of a disorderly tightening of financial conditions that may be exacerbated by the weaknesses that have arisen over the years. The report will focus on risks to global financial stability in the current macro-financial environment - a new environment for many policymakers and market participants.

The global economic outlook has deteriorated materially since Q1 2022. A number of downside risks have crystallized, including risks of higher-than-expected inflationary pressures, a worse-than-expected slowdown in China on the back of the COVID-19 outbreak and lockdowns, and additional fallout from the Russian invasion of Ukraine. As a result, the global economic slowdown intensified.

Amidst unusual uncertainty about expectations and inherently high inflation heels, central banks continued to normalize policy to restore price stability. Global financial conditions have tightened in most regions since Q1 2022 (Figure 3) - partly as an intended result of tighter monetary policy and partly due to heightened uncertainty over the outlook since April. By contrast, conditions in China eased some things up, as policymakers provided additional support to offset the deterioration in the economic outlook and pressures in fact in the real estate sector.

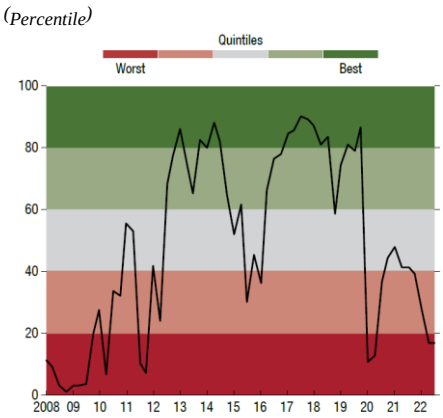
Global financial stability risks have increased since Q1 2022, and the balance of risks is largely tilted to the downside. The range of adverse GDP growth outcomes based on the probability distribution of future GDP growth is in the worst 20th percentile of the past four decades (Figure 4). Financial vulnerabilities are rising in the sovereign and non-bank financial institutions sectors, while market liquidity is rated across some major asset classes.

Figure 3: Global financial Conditions in Selected Regions



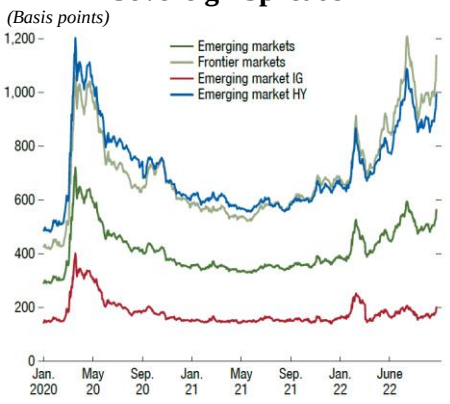
Source: IMF staff calculations.
Note: GFSR = *Global Financial Stability Report.*

Figure 4: Near-Term Growth-at-Risk Forecast



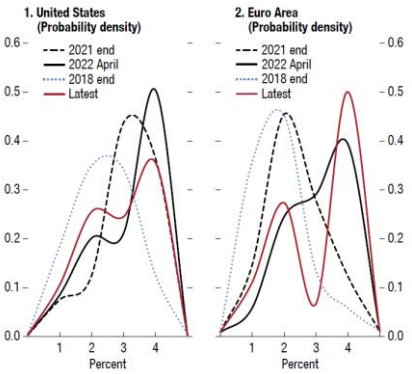
Sources: Bloomberg Finance L.P.; and IMF staff calculations.
Note: The black line traces the evolution of the 5th percentile threshold (the growth-at-risk metric) of near-term growth forecast densities.

Figure 5: Emerging Market Hard Currency Sovereign Spreads



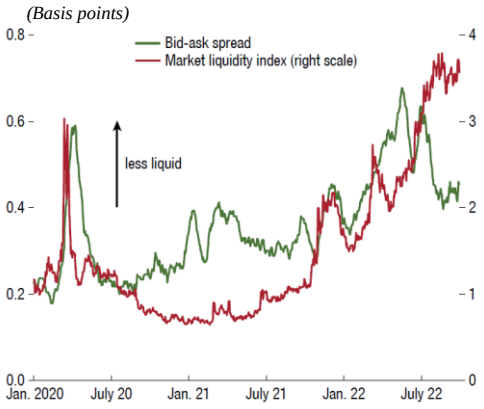
Sources: Bloomberg L.P.; and IMF staff calculations.
Note: HY = high yield; IG = investment grade.

Figure 6: Market-Implied Probability Distributions of Inflation Outcomes



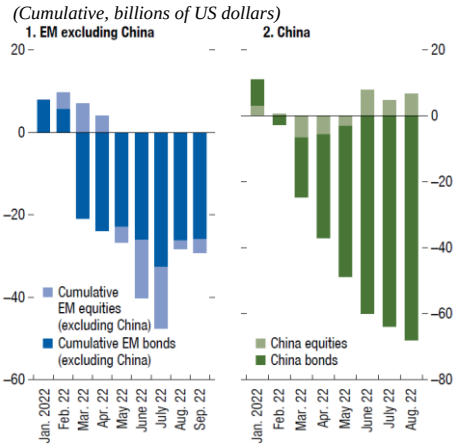
Sources: Bloomberg L.P.; and IMF staff calculations.

Figure 7: US Treasury Bid-Ask Spread and Market Liquidity Index



Sources: Bloomberg Finance L.P.; JPMorgan Chase & Co.; and IMF calculations.
Note: The market liquidity index is the average of Bloomberg US Government Securities Liquidity index and the JP Morgan US Treasury total root mean square error (RMSE) index.

Figure 8: Emerging Market Local Currency Bond and Equity Flows



Sources: Bloomberg Finance L.P.; national sources; and IMF staff calculations.
Note: EM = emerging market.

Interest rates and the prices of risky assets have been highly volatile since April, reflecting increasing uncertainty over the economic and policy outlook. Risky assets were sold off sharply through June on concerns that central banks may have to act and accelerate the pace of policy price increases to combat high inflation. Emerge Market assets suffered significant losses, and the sovereign margins of high-yield emerging markets rose almost to levels last seen in March 2020 (Figure 5). Cryptocurrency markets have also experienced extreme volatility which has led to the collapse of some of the riskiest sectors and the disintegration of some crypto funds.

In the middle of the year, with recession fears growing, risky assets rallied on hopes that the monetary policy normalization cycle would end sooner than previously expected. These moves, however, were resolved and risky assets took further losses, as major central banks forcefully affirmed their intent to fight inflation and fulfil their price stability mandates. Disagreement among investors over the most likely inflation outcome appears to be becoming clearer. In the euro area, there are high potentials for both low and high inflation outcomes, likely reflecting growing concerns about slowing overall growth (Figure 6). However, there is a risk that the risk could be re-priced rapidly and unregulated in the coming months if they react to and amplify pre-existing weaknesses and illiquidity in the market. Measures of market liquidity have worsened across asset classes, including generally highly liquid markets and between standardized and exchange-traded products. Supply and demand margins in the United States widened significantly, market depth decreased sharply, and liquidity premiums increased (Fig. 7).

European financial markets have shown pressure since Q1 2022. Asset prices sold off on rising fears of a recession amid natural gas shortages and the re-emergence of retail risks in the Eurozone. However, spreads between southern European government bond yields narrowed to German yields after the European Central Bank announced a new anti-fragmentation tool in the Eurozone, the transmission protection instrument. In the UK, investor concerns about the financial outlook and inflation after the announcement of large debt-funded tax cuts and fiscal measures to deal with rising energy prices weighed heavily on market sentiment. The British pound suddenly depreciated, and sovereign bond prices fell sharply. To prevent gold market dysfunction from posing a material risk to UK financial stability, the Bank of England, in line with its mandate on financial stability, announced on September 28 temporary and targeted purchases of long-term UK government bonds. Central banks in emerging markets and frontiers also continued to tighten monetary policy. But regional changes remain stark, with some countries raising interest rates faster and more aggressively in response to inflationary pressures. Conditions deteriorated in local currency bond markets. Ally, reflecting concerns about the macroeconomic outlook and rising debt levels. Sovereign bond term premiums increased sharply, especially in Central and Eastern Europe.

Emerging markets face many risks stemming from rising external borrowing costs, stubbornly high inflation, volatile commodity markets, increased uncertainty about the global economic outlook, and pressures from policy tightening in advanced economies. Pressures are particularly acute in frontier markets, where challenges are driven by a combination of tightening financial conditions, deteriorating fundamentals, and heavy exposure to commodity price volatility. Interest expenditures on government debt continued to rise, adding to immediate liquidity pressures.

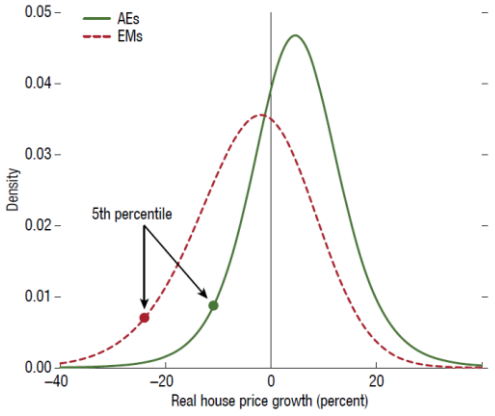
In an environment of weak fundamentals and a lack of risk appetite among investors, defaults may follow. However, investors have continued to differentiate across emerging market economies thus far, and many of the largest emerging markets appear to be more resilient in the face of external vulnerabilities. Non-resident portfolio inflows remain weak despite some signs of stabilization: large outflows in the first half of the year (Figure 8). The issuance of sovereign bonds in hard currency witnessed a sharp decline. Without an improvement in market access, many frontier market issuers will have to seek alternative sources of financing and/or reclassify and restructure debt. The challenging macroeconomic environment also sustains the global corporate sector. Credit spreads have widened significantly across sectors since April. Large companies reported a contraction in profit margins due to higher costs, while lower revisions to global profit growth forecasts appear to be gaining momentum due to concerns about a possible recession. In small firms, bankruptcies are already on the rise in major advanced economies because these firms are more affected by rising borrowing costs and declining financial support. Firms that rely on leveraged financing markets face tighter lending terms and standards against a challenging growth backdrop. The credit quality of these assets can be tested during an economic downturn, with potential implications for broader macroeconomics. With central banks tightening monetary policy aggressively, higher borrowing costs and tighter lending standards, combined with valuations stretching after years of price hikes, could negatively impact housing markets. In a worst-case scenario, declines in real home prices could be significant, driven by affordability pressures and deteriorating economic prospects (Figure 9).

In China, the property sector's downturn deepened as a sharp drop in home sales during the COVI D-19 closures exacerbated liquidity pressures for property developers, raising concerns about broader solvency risks. Real estate developer failures can extend to the banking sector, affecting some vulnerable small banks and important system-wide local banks, due to low capital buffers and high property-related concentration risks (Figure 10). High levels of capital and ample liquidity have enhanced the resilience of the global banking sector. However, the IMF's World Bank stress test shows that in a scenario with a sudden and sharp tightening of financial conditions that would push the global economy into recession in 2023 amid rising inflation, as many as 29% of emerging market banks (according to assets) breach capital requirements, while most advanced economy banks will remain resilient. Rebuild the buffers

and the capital deficit will require more than 200 billion dollars (Fig. 11). Emerging markets and developing economies will need significant climate finance in the coming years to reduce greenhouse gas emissions and adapt to the physical impacts of climate change. Sustainable finance has grown rapidly but emerging markets and developing economies are still at a disadvantage. Crucially increasing climate finance faces significant challenges, including the lack of Supportive climate policies (e.g. efficient carbon pricing) and the still weak climate information architecture (Fig. 12). Open-ended funds are playing an increasingly important role in the financial markets. However, the liquidity mismatch between assets and liabilities raises concerns about financial stability. The open-ended funds that hold illiquid assets while offering daily redemptions can be a major driver of asset price fragility by increasing the likelihood of investor panics and asset sales (Figure 13). Open fund vulnerabilities can also have spillover effects across borders and lead to a tightening of general domestic financial conditions, leading to potential risks to overall financial stability.

Figure 9: House Prices at Risk: Advanced Economies and Emerging Markets Tine Years Ahead

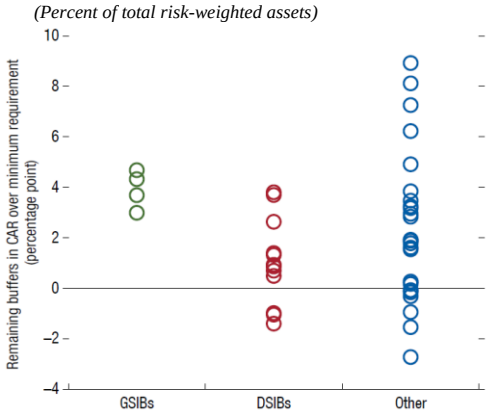
(Density: cumulative in percert)



Sources: Bank for International Settlements; Bloomberg L.P.; Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.
Note: AEs = advanced economies; EMs = emerging markets.

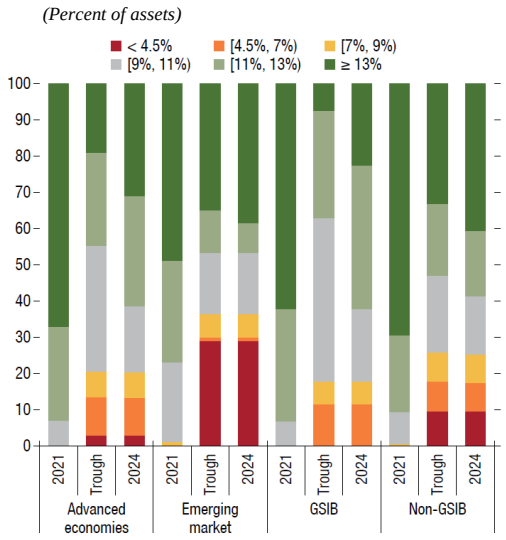
Figure 10: Potential Credit Losses for Chinese Banks Related to Real Estate Exposure

(Percent of total risk-weighted assets)



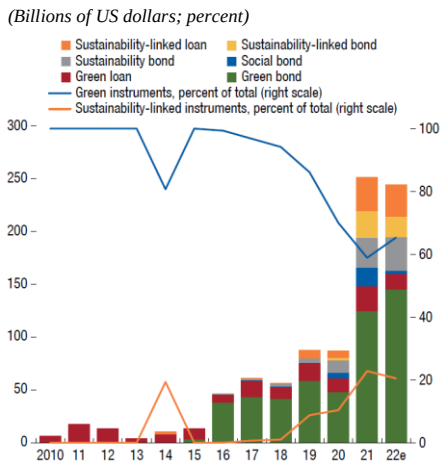
Sources: Bloomberg Finance L.P.; CEIC; S&P Capital IQ; and IMF staff calculations.
Note: CAR = capital adequacy ratio; DSIBs = domestic systemically important banks; GSIBs = global systemically important banks.

Figure 11: Distribution of Banks by Capita l Adequacy I n an Adverse Scenario



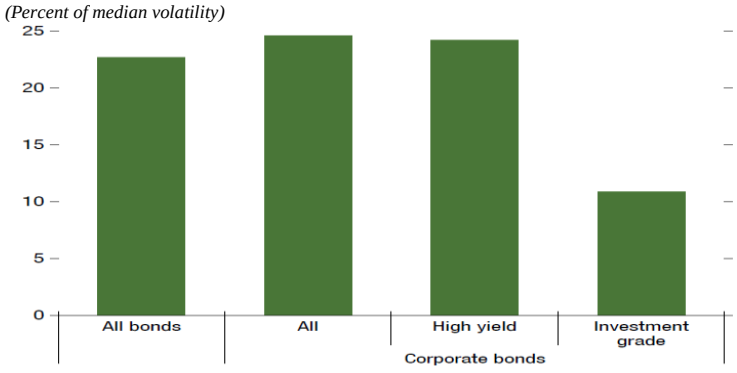
Sources: Fitch Connect; and IMF staff calculations.
Note: The figure shows the composition of common equity Tier 1 (CET1).
GSIB = global systemically important bank.

Figure 12: Sustainable Debt Issuance in EMDEs Grew Strongly in 2021, with a Notable Rise in Sustainability-Linked Instruments



Sources: Bloomberg Finance L.P.; and IMF staff calculations.
Note: Share of green instruments and sustainability linked instruments is shown as a percent of total emerging market sustainable instrument issuance.
22e = annualized estimate for 2022; EMDEs = emerging market and developing economies.

Figure 13: Effect of Open-End Investment Fund Vulnerabilities on Bond Return Volatility



Sources: FactSet; Morningstar; Refinitiv Datastream; and IMF staff calculations.

2.3 Euro Area Outlook

The war had severe economic consequences for Europe, when the recovery from the epidemic was still incomplete before the war, while advanced and emerging European economies recovered a large part of the GDP losses for 2020, private consumption and investment remained well below pre-pandemic trends. The war has led to large increases in commodity prices and exacerbated supply-side turmoil, which will increase inflation and reduce household incomes and corporate profits.

GDP growth in 2022 is now expected to decline to 3% and 3.2% in advanced European and

emerging European economies (excluding Belarus, Russia, Turkey and Ukraine), respectively, down 1 and 1.5 percentage points about the global economic outlook in January 2022 forecast update. Inflation in 2022 is now expected to reach 5.5% and 9.1% in advanced and emerging European economies (excluding Belarus, Russia, Turkey and Ukraine), respectively, 2.2 and 3.4 percentage points higher than the January forecast. Production losses will be much greater in Russia, especially in Ukraine. New dangers emerged from the war. A prolonged war could increase the number of refugees fleeing to Europe, exacerbate supply chain bottlenecks, increase pressures on inflation, and deepen production losses. The most worrying danger is the sudden stop of energy flows from Russia, which could lead to significant production losses for many economies in Central and Eastern Europe in particular. As a shock to the show in economic terms, the war exacerbates the policy challenges created by the pandemic. One task for policymakers is to facilitate the gradual adjustment of these war shocks, including higher commodity prices and new energy sources. Fiscal policy is more appropriate than monetary policy to face new shocks. Automatic fiscal stabilizers should be allowed to operate freely, while additional spending is earmarked for humanitarian support for refugees and remittances

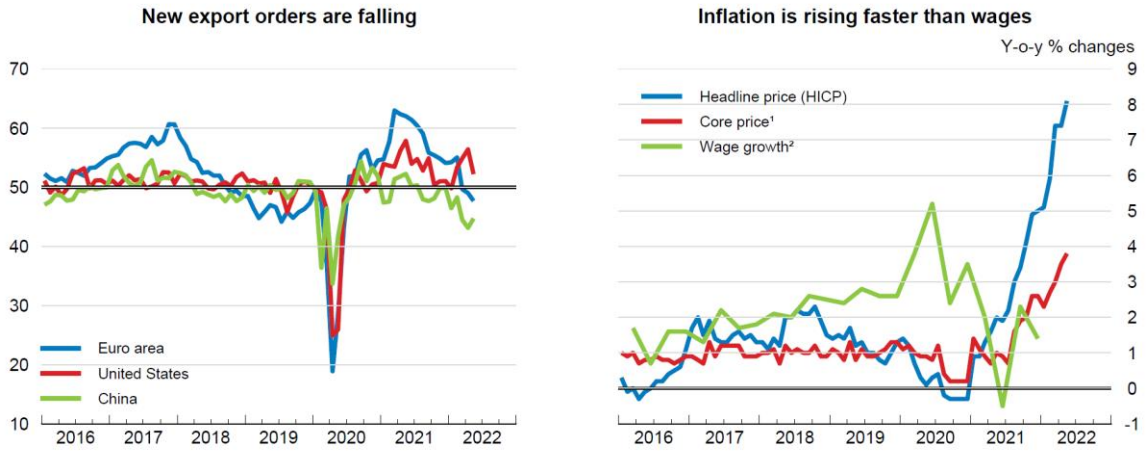
For low-income families and businesses vulnerable, but viable. With inflation far exceeding targets, monetary policy must maintain a path of normalization. The pace of monetary stimulus withdrawal should vary with economic conditions, moving forward faster as inflation expectations risk eroding. Most importantly, policymakers must avoid the emergence of wage-price vortices. The war and its consequences will add to the structural challenges facing post-pandemic Europe. In Ukraine, the war-damaged social and economic infrastructure will need to be rebuilt, which will require large funding inflows from donors. Improving energy security requires policies to enhance resilience and accelerate the transition to greener forms of energy. Fostering new growth drivers and redistributing factors requires active and passive labour market and education policies to improve working conditions, reduce relocation costs, and enhance workforce skills.

After a strong recovery in 2021, real GDP is expected to grow by 2.6% in 2022 and 1.6% in 2023. Growth is set to slow significantly in the first half of 2022 due to the war in Ukraine and the lockdowns in China. These factors are also driving inflation higher, to the 7% expected this year. This burdens household consumption and increases uncertainty. With the Russian oil embargo driving up oil prices, growth is expected to remain subdued in 2023, while inflation only gradually declines. Risks to economic activity remain tilted to the downside: severe disruptions to energy, particularly gas, and supplies will hurt growth in Europe while pushing inflation higher. The great uncertainty about the evolution of the war and its economic repercussions requires careful political action. Recovery and Resilience Facility funds must be used effectively to support growth. Support to reduce the effects of rising energy and food prices on consumers and businesses should be welcomed, well-targeted and avoid distorting price signals. As enacted during the pandemic, some joint borrowing could be considered to

enhance energy security in Europe. While the case for monetary policy de-appropriateness is strong given inflationary developments, it must be done carefully while keeping in view the evolution of the war to reduce the risks of fiscal fragmentation.

Supply-side and energy shocks affect the outlook. The Eurozone economy is showing signs of weakness. GDP growth stagnated at 0.3% (non-annualized) in the first quarter of 2022, with countries wide diverging. High-frequency indicators point to continued weakness in the second quarter of 2022, particularly due to the war in Ukraine. There was a record drop in business sentiment, particularly in Germany, and the Eurozone PMI reached a 15-month low in April. Meanwhile, inflation continued to rise, to 8.1% in May and is also becoming more extensive and pervasive across the Eurozone, albeit to a highly diverse degree. Inflation expectations are also beginning to recover. However, the negotiated wage growth has thus far remained contained. The sharp slowdown in growth has tempered higher levels of household and corporate savings and fiscal policy measures to mitigate the impact of higher energy prices on households. Unemployment continues to fall: In April 2022, the seasonally adjusted unemployment rate in the Eurozone was 6.8%, down from 8.6% at its last peak in September 2020.

Figure 14: Euro area 1



1. Excludes energy, food, alcohol and tobacco.
2. Average hourly wages and salaries of industry, construction and services (except activities of households as employers and extra-territorial organisations and bodies).
Source: S&P Global; Eurostat; and OECD calculations.

Table 1: Euro area - Demand, output and prices

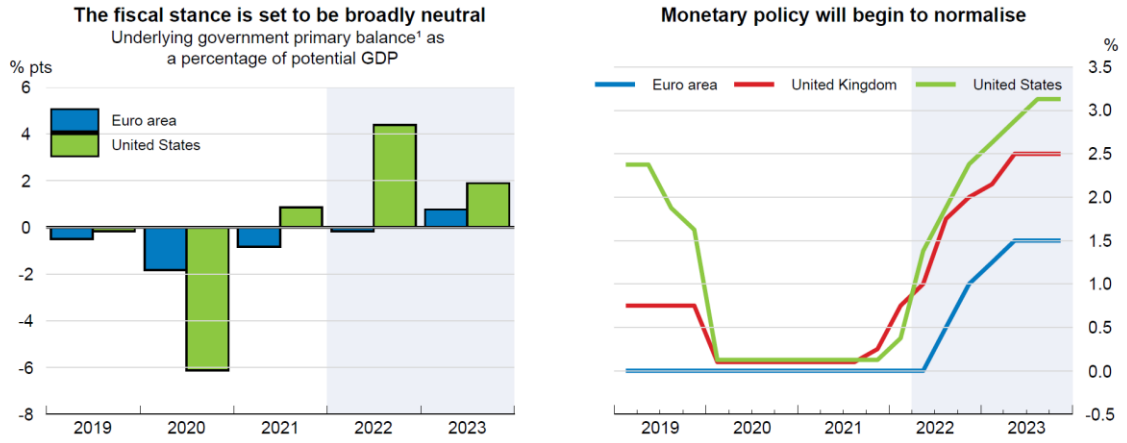
Euro area	2018	2019	2020	2021	2022	2023
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	11 571.0	1.6	-6.5	5.3	2.6	1.6
Private consumption	6 204.7	1.4	-7.9	3.6	2.6	1.5
Government consumption	2 364.8	1.8	0.8	3.9	0.8	0.4
Gross fixed capital formation	2 426.5	6.8	-7.2	4.1	4.8	3.2
Final domestic demand	10 996.0	2.7	-5.9	3.8	2.7	1.7
Stockbuilding[1]	108.4	-0.2	-0.4	0.4	0.4	0.0
Total domestic demand	11 104.4	2.4	-6.2	4.2	3.1	1.6
Net exports[1]	466.7	-0.8	-0.4	1.3	-0.3	0.1
Memorandum items						
GDP deflator	_	1.7	1.7	2.1	4.4	3.8
Harmonised index of consumer prices	_	1.2	0.3	2.6	7.0	4.6
Harmonised index of core inflation[2]	_	1.0	0.7	1.4	3.8	4.0
Unemployment rate (% of labour force)	_	7.6	8.0	7.7	7.1	7.4
Household saving ratio, net (% of disposable income)	_	7.1	13.6	11.5	8.7	7.8
General government financial balance (% of GDP)	_	-0.7	-7.1	-5.1	-4.1	-3.0
General government gross debt (% of GDP)	_	103.1	121.1	115.7	115.0	114.0
General government debt, Maastricht definition[3] (% of GDP)	_	85.7	99.3	97.5	96.9	95.9
Current account balance (% of GDP)	_	3.0	2.8	3.6	2.2	2.0

Note: Aggregation based on euro area countries that are members of the OECD, and on seasonally-adjusted and calendar-days-adjusted basis.

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 111 database.

Figure 15: Euro area 2



1. The underlying government primary balance is cyclically-adjusted government net lending excluding net interest paid and net one-off operations.

Source: OECD Economic Outlook 111 database; and OECD calculations.

The war and especially the Russian embargo have a major impact on the Eurozone economy, and spending to support Ukrainian refugees (more than 5 million within the EU) will increase pressures on public finances in the short term so that refugees will gradually join. The war also affected imports and their world prices, such as basic minerals and important agricultural commodities. Escalating or extending sanctions on Russia for its energy resources (natural gas, coal and oil) will result in a difficult and harsh macroeconomic situation in Europe, especially the country's most dependent on Russian energy.

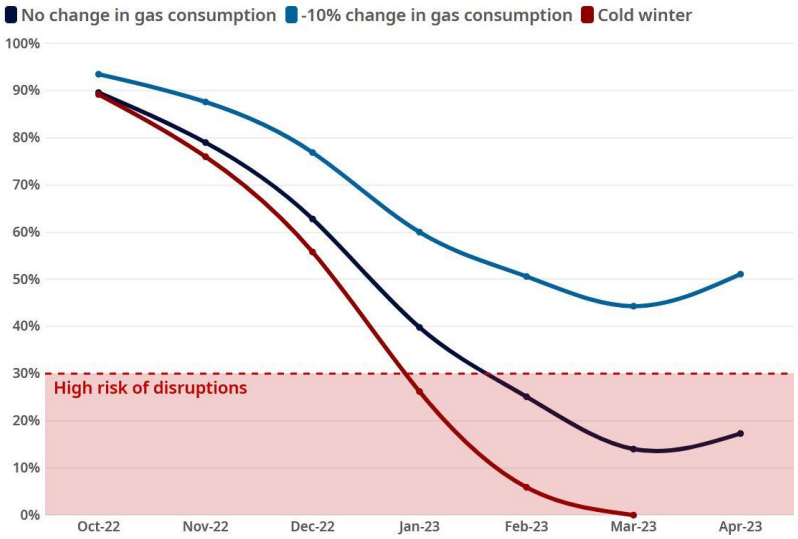
The fiscal situation is starkly different in the Eurozone, which is expected to be neutral in 2022, as well as a moderate integration in 2023. And gradually getting rid of the economic reversals of the epidemic, knowing that the Eurozone countries continue to provide additional financial support to help protect consumers as well as companies at risk from rising the accelerating price, especially energy. However, despite the lack of common guidelines, the measures taken have not been equal in the euro area to reduce their impact and may even create distortions in competition. In addition, the invasion led to an increase in military spending in most countries and investments in the field of energy to enhance the diversification of energy sources. This will require national and European investment and we will have a high cost of energy infrastructure. Finally, the consequences of the Russian invasion and blockade will be clearly and harshly reflected in public finances and European investment.

Although the effects from 2021 imply 2.6% overall annual GDP growth, the massive rise in oil prices caused by the ban on energy products for Russia will dampen the recovery in 2023. Despite strong wage growth, consumer price inflation in 2022 is about 7%. Also, in 2023, about 4.6%, and therefore the impact of this will be a contraction in real income in 2022 with modest and simple growth in 2023. This will affect private consumption but is partially offset by further declines in household saving rates. Inflation is expected to decline very slowly until 2023, with global energy prices gradually falling, supply chain bottlenecks fading, and little domestic growth that may help contain rising prices and costs.

The danger to the "prospects" is that cuts in energy supplies from Russia to the EU are proving more turbulent than had been assumed. EU gas storage levels have been raised to nearly 90% of capacity. But even at this level, there may not be enough gas storage to ensure that normal winter demand is met without depleting storage to dangerously low levels if the EU fails to reduce gas consumption. The shortage could increase dramatically if additional non-Russian supplies from outside the EU fail to materialize as expected, or if gas demand is higher due to the cold winter. Without adequate supply diversification and orderly reducing demand, shortages could raise global energy prices, hurt confidence and financial conditions and require temporary rationing of gas used by companies. Taken together, these shocks could reduce growth in European economies by more than one percentage point in 2023, compared to the baseline, and increase inflation by more than one percentage point. This would push many

European countries into recession in 2023. For the world, inflation rose by more than a percentage point in 2023, with growth falling by just under a percentage point.

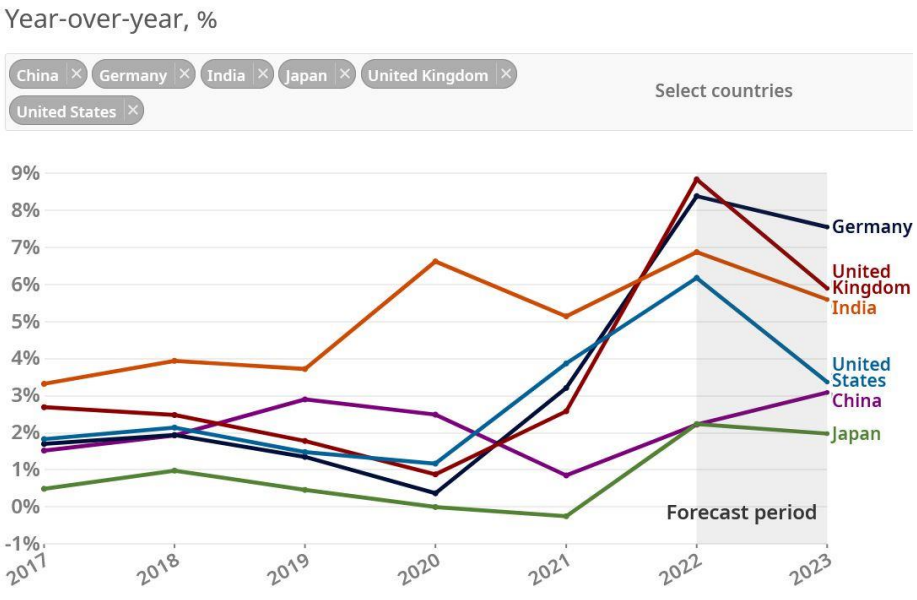
Figure 16: Projected European gas stock scenarios (% of storage capacity)



Projections for EU and United Kingdom, based on 2017-2021 gas consumption: "No change" average consumption; "Cold winter" maximum consumption; "-10% change" 90% of average consumption.
Source: OECD Economic Outlook, Interim Report September 2022

The United States, tightening of monetary policy began earliest than other countries and is expected to bring inflation down to target before the euro countries or the UK. Headline and core are projected inflation to remain high in Europe countries. Inflation across economies of emerging-market varies widely. China's Inflation is low also stable, while in Mexico and Brazil high pressures are prospective to subside to targets as interest rate rises to be an effect. Inflation rates are Very high in Turkey and Argentina and are projected to continue for 2023.

Figure 16: Inflation is hitting the world economy



Source: OECD Economic Outlook, Interim Report September 2022

3 Was the Russian Invasion an Unexpected Surprised?

The annexation of Crimea was one of the most important events that raised the alarm for the Russian threat to Ukraine, without bloodshed, for about three weeks. On February 27, 2014, a group of unidentified "little green" men took over the local parliament building and government buildings. It was the start of a mixed operation that involved covert and overt activities, backed by a disinformation campaign.

Russian President Vladimir Putin claimed that the pro-Western Ukrainian revolution threatened Russians in Crimea. While Ukrainian rule in Crimea was tenuous, it was a little different from many other Ukrainian regions. There was no repressive policy towards Russian speakers. Moreover, in 2014, there was no mobilization for reunification with Russia or regional independence. Moscow has exploited the political turmoil in Kyiv to inflame tensions and spread disinformation. In a hastily organized referendum on March 16, 2014, 96% of voters supported joining Russia with a turnout of 83.1%. While the international community and the European Union declared the vote illegal and invalid, on March 21 the Russian parliament approved the annexation. In doing so, Russia breached several international agreements, including the Charter of the United Nations and the Helsinki Final Act. The Kremlin also rescinded the pledge it made in the 1994 Budapest Memorandum to "respect the independence and sovereignty of Ukraine and its present borders" and "refrain from the threat or use of force." Few in the West expected such a brazen move. One of the lessons that Russia drew from its 2008 war with Georgia was that the West was not enthusiastic about confronting Russian military action next door. The fact that Moscow did not pay for its aggression in Georgia may have boosted its confidence in the invasion of Ukraine.

With Crimea, was the reaction of the European Union / Western appropriate to contain the danger in the future?

While military action was never on the table and it is not the right solution but rather the work of the West, including the European Union, quickly imposing sanctions. On March 17, 2014, the Foreign Affairs Council adopted sanctions against 21 officials, persons and entities associated with them who are involved in acts that threaten the territorial integrity, sovereignty and independence of Ukraine. The sanctions have been renewed and expanded over the years, the latest of which was the ban on gas purchases.

It is clear from what was reported that the Russian threat is clear and the Russian strategy towards Ukraine is well known, especially with the provocations made by the West and the heads of the European Union, which would have been better to develop a long-term economic plan to isolate the Russian Federation and build the European infrastructure to end its dependence on the Russian Federation as well as find solutions for other countries Instead of Russian products, this would have been the concern of the European Union/ Western to protect

its peoples and other peoples from the chaos that the world is witnessing today.

4 Another Scenario Dealing with Russian Federation Threats

The Russian invasion of Ukraine has complex implications not only for great power politics but also for international trade, finance, energy and food security. These repercussions are exacerbated by the resolute determination of Western powers to continue to support Ukrainian forces and a perceived lack of preparedness for Russian forces, prolonging the war indefinitely.

From a purely economic point of view, it would have been better for Western and European decision-makers to come up with an economic plan with a clear strategy after the Russian invasion of Crimea in 2014, in order to save their countries and the world from any economic crises (as today economic chaos), which increased the risk of worsening finance, energy and food security plus increasing global poverty. We are trying to put forward some of these measures, which are part of a large series that should have been taken since 2014:

- Laying down an integrated plan to liberate the European Union countries from Russian energy sources and prepare the necessary infrastructure in this regard before banning the Russian energy products, to insure reducing the burdens in particular on the European nations and the world nations.
- Preparation of long-term arrangements with energy-producing countries to ensure the energy prices stay on average, and therefore determined the Russian Federation's national income from the energy sector (considering the absence of a ban decision). Conclusion of long-term arrangements with America, to ensure energy long-term average prices to neutralize the Russian threat and to independency the EU from Russian energy.
- Finding solutions and alternative resources with long-term arrangements for the rest allied countries, especially countries with weak economies that depend on Russian energy and grain products to ensure their loyalty to support the West and Europe in isolating Russia in the future instead of forcing them (what the US do always).
- Arrange with world producers of energy and grain to develop strategic economic plans based on the common economic interests between these producers and Europe-America to convince them of the long-term price equilibrium, to substitute Russian production (based on the exchange of interests), also to ensure they will not join any union if Russian Federation think to form in future.
- The West should reduce the intensity of tension between them and China to reduce the possibility of any union will arise between one of the major military powers (the Russian Federation) and the second-largest economy in the world (the China Republic), two votes out of five in the UN Security Council. Hostile both of them same time will lead to the

creation of an eastern military-economic power which will lead to building a new economic structure that will change the current structure and change the adoption of the dollar as a basis.

Western and European allies should deal with allied countries with a policy of common economic interests and mutually beneficial to ensure their loyalty to the plan of isolating the Russian Federation economically, instead of coercive policies. (Whoever is not with me is against me), and to be prepared if Russia tries to create a new eastern union.

The Western and European allies must always be cautious about a formation of a new eastern Russian-Chinese union, which the Russian Federation seeks. Such a union may change the future of the financial and economic world, thus will lead to economic chaos and increasing global poverty and will bankrupt some countries especially that with weak economies and creating global financial chaos.

5 Embargo Methodology?

In previous eras, before the Renaissance and the Industrial Revolution, when they wanted to invade a city or castle, they lay a siege to weaken it, then stormed and occupied it, ending with catastrophic human consequences. Today in the twentieth and twenty-first centuries, despite all technological and economic development, using the same weapons in a bit more civilised manner but giving the same catastrophic human results, which does not separate the helpless people from the ruling class.

Currently economic embargos/bans on the contrary increase Humanity's disasters by increasing people's poverty, disease, ignorance and weakness, while the ruling class increases its tyranny and dominance, as a controller of the national income strengthening their future existence. There are many examples of the economic ban's failure to change regimens, such as in Iraq, the embargo paralyzed people and increased ruler tyranny until great nation’s countries intervened to liberate people, Iran is another example

Before besieging any country, we should ask the following questions: are these people satisfied with the ruling class that threatens world peace? Is it right to punish and terminate the part of a nation under the pretext to punish and weakening their regime? Does this give us the right to starve people simply for their inability to punish and change their government? Answering these questions approved the failure of the siege method, and we need to develop a new embargo model that is more effective on regimes rather than people (many ideas to be discussed in another paper) economists must work on this subject.

6 What can be Done Today? Independent Opinion

Today, the Russian-Ukrainian war has taken a different direction and its features became clear. Its continuation increases the humanitarian catastrophe and complicates the economic calamity further. This is an inevitable result because of:

1- Lack of vision and planning for the financial and economic consequences of the decision-makers to confront the Russian threat since its beginning in 2014 when Russia occupied the Crimean Island and even after February 2022.

2- The majority of the European and US people grumbled because of the economic circumstances the policies resulted from the decision-makers. Although these peoples sympathize with the Ukrainian people and denounce the invasion

3- Taking a series of decisions to cripple the Russian economy without considering the consequences on Europe, the US and the world economy

4- In regard to the Russian invasion. The US and Europe decision-makers followed coercive policies with other countries to obey and implement their decisions, without considering the reactions of these decisions to the economic situations and the benefits of these countries.

5- Using provocative policy with China by the Western simultaneously with the Russian-European conflict.

6- Many countries worldwide started to build bridges with the Russian Federation, despite their refusal of the Russian invasion, due to poor management of western leaders to this war, especially on the economic front, and its consequences on the crisis world economy and increasing global poverty.

Today, there is a humanitarian and economic catastrophe not only at the level of Europe and America but worldwide, because of the Russian invasion of Ukrainian, and the result has a clear vision. The European leaders must move seriously to stop the humanitarian catastrophe in Ukraine and save what is left and stop the depletion of the European economy, and America should focus more on restoring confidence In the current financial system and blocking the way to change the global petrodollar system and save the world from the hurricane of economic chaos that may occur as a result of the birth of any new system, therefore the international community, especially the European community, should open the door to negotiation with the Russian (not as war winner but for humanitarian reasons) to end the war and obtain the most privileges that can be obtained, including Re-pumping Russian gas to Europe at adjusted prices and prepared to find better alternatives (as we mentioned previously).

We will conduct a new study to develop several strategic economic solutions on this subject

and how to avoid the birth of a new financial system and if it happens, how to neutralise it.

7 Conclusion

This paper reviews the performance of Western decision-makers towards the Russian invasion from a purely economic point of view. Also examines, whether the decisions made are economically conscious of the consequences, and what could be their actual reaction to the global economy, especially the European region.

It is evident from reviewing the global economy and Eurozone, the performance was poor, despite the impact on the Russian economy, but had clear consequences on the global and European economies, did not meet the required level, and did not consider Europe and global economic consequences.

We discuss the failure of European decision-makers on dealing seriously with the Russian threat since 2014 when Russia occupied the Crimean Island. They failed to develop the necessary plans and mechanisms to reduce their economy’s dependence on the Russian product. An appropriate plan should be placed to liberate Europe's economy and other poor countries from Russia's resources before the boycott, which reduces future economic suffocation. As we were warned, the West should reduce pressures and quarrels with China to ensure their cooperation in the Russian ban. To prevent the threat, the creation of an eastern union with a new western financial system in parallel to the current global financial system.

We also discuss developing a new sanction model (terms and conditions). Effective in weakening the targeted regimes and supporting people to resist and change their regime, more effective than the one applied today. It also proposes in this paper a solution to end the human tragedy in Ukraine and stop the depletion of the European economy through renegotiation with the Russian Federation to reach the best conditions to end the two crises and work in the coming period to find alternatives resources for Europe at the level of energy and reduce its dependence on the Russian product.

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