



Centre for  
Economic  
Recovery

CIVITTA

easyBUSINESS INDIA

# Finding Ways to Support Ukraine & End War in Europe

Analytical materials

28 February 2022 06:00 EET

# Agenda

- 1 General background
- 2 War costs for Russia and ways to increase them
- 3 Impact of the war on Ukraine and ways to support the country

1

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# General background

- About us
- Russia – Ukraine relations at a glance
- Scenarios Russia – Ukraine war
- Summary costs





# About us: we are Ukrainian citizens united to end the war in Ukraine

## WHO WE ARE

- **We are Ukrainian citizens, who were born to live in the independent Ukraine.**
- **We work in the top international firms located in Ukraine and decided to unite our analytical capacities to stop the war** started by Russia on the 24<sup>th</sup> of February.
- **We act on the platform of the Center for Economic Recovery**, independent think-tank, which was established in 2020 and aims at providing the Ukrainian government with cutting-edge public policy advice on strategic development and ways to tackle economic challenges. CER's management act as voluntary-basis Advisors to the Prime Minister of Ukraine.
- **We would like to (1) raise world awareness of what is currently happening in Ukraine; (2) deliver to the world the real effect and cost of war both for Russia and Ukraine; and (3) present possible recommendations to the international community.**





# Russia – Ukraine relations at a glance: Ukraine fight a 30-year battle against a post-Soviet order

## MAP OF UKRAINE AND KEY EVENTS AFTER OBTAINING THE INDEPENDENCE



Source: News agencies, Mapbox

**(1991) Independence of Ukraine:** The Verkhovna Rada adopted an act of proclamation of independence of Ukraine.

**(1994) Renunciation of nuclear weapons:** The memorandum between Ukraine, Russia, Great Britain and the United States on guarantees to Ukraine in connection with its acquisition of non-nuclear status was signed.

**(2004) The Orange Revolution and Constitutional Reform:** Ukrainians started the Orange Revolution after the Central Election Commission announced preliminary results, according to which pro-Russian candidate (Viktor Yanukovich) won.

**(2009) "Gas war" with Russia:** Russia cut off gas to Ukraine, and then ordered a halt to all gas supplies to the border with Ukraine.

**(2013) Euromaidan:** Ukrainians start the Revolution of Dignity (Euromaidan) because pro-Russian government suspended preparations to entering the EU.

**(2014) Annexation of Crimea and war in Donbas:** One month after the victory of the Revolution of Dignity, Russia brought its troops to Crimea and then to Donbass.

**(2022) Full-scale war started by Russia:**

- In December 2021, an estimated 100,000 Russian soldiers are concentrated along the Ukrainian border.
- In January 2022, Russia, NATO, and OSCE hold talks. The US and Russia meet to de-escalate tensions in Ukraine, but differences remain unresolved. NATO puts troops on standby.
- In February 2022, Belarus and Russia conduct military drills, Putin recognizes the independence of temporarily occupied regions of Ukraine and orders Russian forces to them. Then Russia launches full-scale invasion of Ukraine.



# Scenarios Russia – Ukraine war: The war carries huge risks for a world economy that's yet to fully recover from the pandemic shock

## POSSIBLE SCENARIOS OF RUSSIA – UKRAINE WAR

Scenario	BLITZKRIEG	THIRD WORLD WAR	SYRIA	RIOT	DIPLOMATIC	VICTORY OF UKRAINE
Description	<p><b>Quick displacement of Ukraine government</b> with Russian representatives and legitimization of new People Republic.</p> <p>Blitzkrieg was guaranteed to Putin by his generals. Blitzkrieg turned into Blitzfail.</p>	<p>Subcases:</p> <p>(1) <b>Use of nuclear weapon</b> or missile attack on Baltic countries.</p> <p>(2) <b>Missile attack</b> on Ukrainian nuclear power plants.</p> <p>(3) <b>NATO shuts down Ukrainian sky or destroys the Russian Navy</b> due to Russian attack on civilian ships in Black sea.</p>	<p><b>Endless military and terrorist actions</b>, destruction of infrastructure, exhaustion of resources, substantial outflow of citizens, economic collapse.</p>	<p>Accumulation of dissatisfied Russian citizens, rebellion among generals, soldiers, oligarchs, local leaders, <b>removal of Putin from power</b>, government change in Russia.</p>	<p>Subcases:</p> <p>(1) <b>Amending UN charter</b> (cancellation of Russia's veto power in the UN Security Council)</p> <p>(2) <b>Diplomatic pressure</b> from the West</p> <p>(3) <b>Direct negotiations</b> between President of Ukraine Volodymyr Zelenskyy and Putin</p> <p>(4) <b>Inclusion of China</b> in negotiations</p>	<p><b>Ukraine defeats Russia.</b></p> <p>The most preferred scenario for Ukraine and the world</p>
Probability	<p><b>Approaching zero</b> due to effective full-scale resistance of Ukraine.</p>	<p><b>Medium</b> for nuclear attack and <b>low</b> for NATO interference.</p>	<p><b>High</b>, but Russian economy cannot sustain long-lasting sanctions.</p>	<p><b>Medium</b>, likelihood increases with the beginning of unrest in the Russian army</p>	<p><b>Medium-low</b></p>	<p><b>The highest currently</b></p>

Requires an active involvement of international community



# Summary costs: Russia-Ukraine war is the most significant European war in almost 80 years

After months of tensions, on February 24th, **Russian forces launched a full-scale military invasion of Ukraine**. Kyiv has declared martial law. This report explores war implications for Russia and ways to increase them, as well as evaluates the impact of the war on Ukraine and ways to support the country.

## War costs for Russia and ways to increase them



**Military costs** | The **85 hours of invasion** cost at least **~USD 7 bn** for the economy of the Russian Federation (a conservative assessment of direct costs only).



**Financial pressure** | The Russian economy is already experiencing financial pressure; however, the pressure can become much stronger with due action.



**Limiting trade** | Trade restrictions could heavily impact the Russian economy, which relies on energy exports, imports of high-tech and B2C products/services.



**Societal costs** | The Russian-led war will bring huge costs for society, leading to falling well-being of ordinary Russians and making them a pariah nation.



**International community should increase financial pressure and trade restrictions on Russia.**

## Impact of the war on Ukraine & ways to support the country



**Humanitarian crisis** | Nearly **2,500 Ukrainians wounded or killed** in first four days of war with Russia, millions suffer humanitarian crisis.



**Economic destabilization** | Ukrainian economy was expected to be recovering from the COVID-19 pandemic, but full-scale Russian military invasion puts a high pressure on country's stability. Ukraine requires additional assistance to ensure the macroeconomic stability and minimize the damage of the Russian full-scale invasion.



**International community should help Ukraine in dealing with both military/humanitarian and economic challenges.**



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# War costs for Russia and ways to increase them

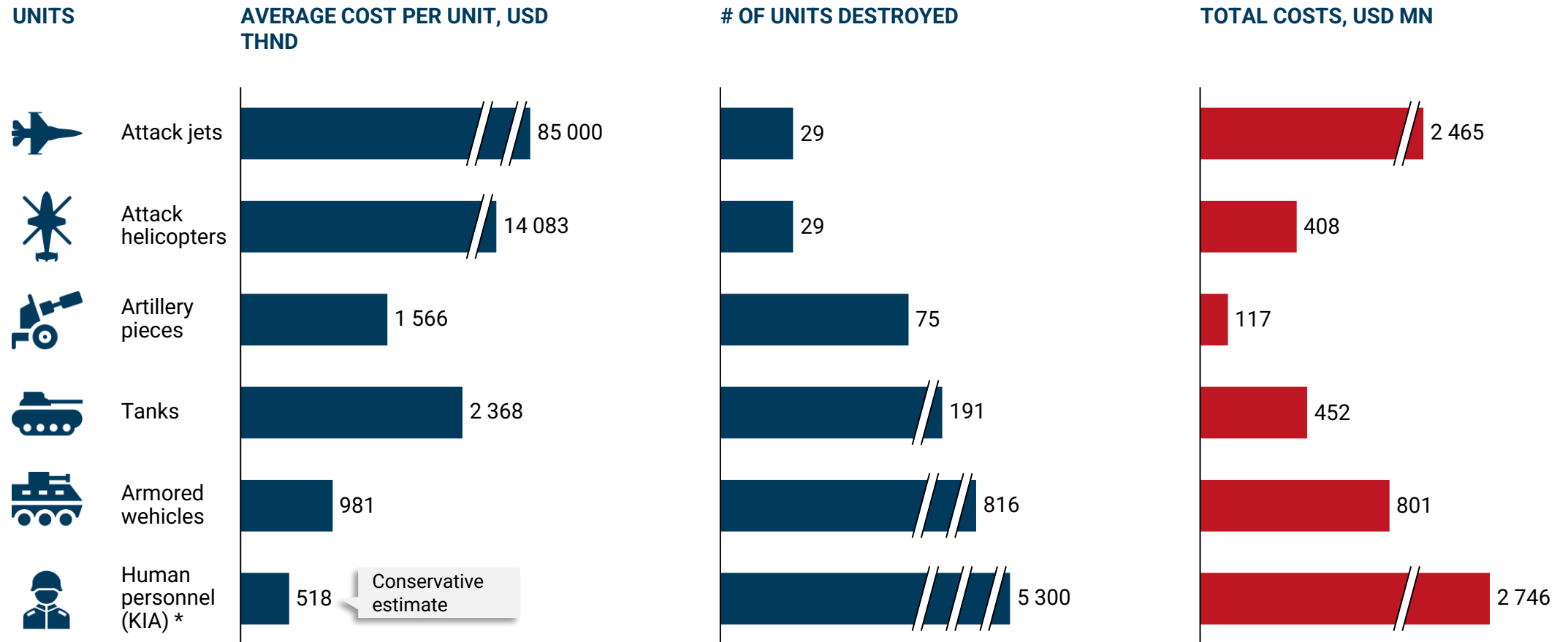
- Military costs
- Financial pressure
- Limiting trade
- Societal costs



## 2.1. Military costs



## Direct losses from military action: Almost 100 hours of full-scale invasion costed ~USD 7 bn for the economy of the Russian Federation



As a result of the first 4 days of the full-scale invasion, the direct losses from military actions costed Russian Federation at least **USD 7 bn**, including ~ USD 4,2 bn costs of lost machinery, and another ~ USD 2,7 bn of potential GDP in next ~40 years (based on losses of human personnel)

Source: Ministry of Defence of Ukraine, World Bank, Deagel, other sources, own calculations

\* Costs of human personnel are estimated as average gross value added generated by worker (individuals 15-64 years old) per years, multiplied by the remaining productive life expectancy of the personnel



**Additional costs to be considered:** the abovementioned estimation is conservative, while real cost must be higher due to numerous factors



**Lost machinery**  
estimations do not yet  
include: MLRS\*, drones,  
unarmored vehicles,  
battleships and boats lost  
during the war



Additional human  
**personnel costs** invoke  
expenditures on  
evacuation and treatment  
of wounded soldiers  
(~5,300 as of 06:00  
February 28), as well as  
their lost productivity



**Other costs** include lost,  
defunct and destroyed  
firearms, ammunition, fuel,  
spare parts, and  
machinery of auxiliary  
military units

## 2.2. Financial pressure





# The Russian economy is already experiencing **financial pressure**; however, the pressure can become much stronger with due action

Russia has **good exposure to international financial system**



**Central Bank of Russia assets are held across multiple countries** – China, Japan, Germany, France, the US, etc.



**Russian companies are listed on the foreign stock exchanges** (e.g., 30% of Russian companies' market capitalization is attributed to London Stock Exchange)



**Russian companies actively use international debt securities** (IDS) to fund their operations and growth (e.g., IDS account for ~20% of total debt securities for corporates)



**300+ Russian banks are connected to SWIFT** while 80% of payments in the market are processed through SWIFT-connected banks

By starting a war, Russia could face **significant financial pressure through several levers**

Some already enacted, some partially, some not done yet; details on the next slides

1

**Limiting Russia's ability to service sovereign debt and support macro stability through:**

- Sanctions for government bonds' trading
- Limitations on central bank reserves



2

**Creating challenges for Russian companies through their exclusion from international capital markets**

3

**Excluding Russia from international financial system through disconnecting it from SWIFT**



1

# Sovereign debt and macro stability: Issues with servicing sovereign debt and inability to use foreign reserves is likely to ruin the economy stability

Limitations on government bonds' trading and state funding will increase debt servicing costs for Russia...

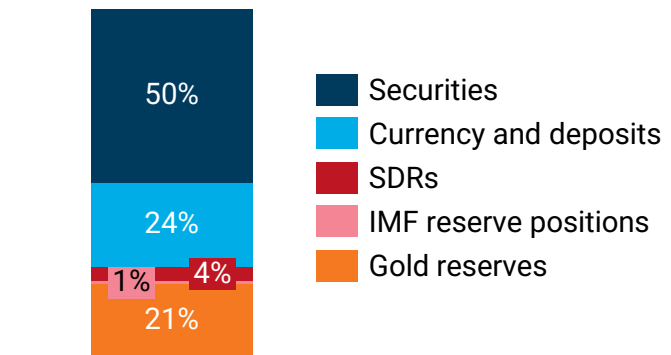
RUSSIA 10-YEAR BOND YIELD, 2010-2022, %



- Russian national debt amounts to USD 280 bn (19% of GDP)
- Since 2014 a sequence of sanctions was imposed by U.S.:
  - U.S. investors were **banned from buying new dollar-denominated Russian debt**
  - U.S. banks were **banned from taking part in the primary market for non-ruble sovereign bonds**
  - U.S. financial institutions were **banned from taking part in the primary market for ruble-denominated Russian sovereign bonds**
- With a new wave of aggression against Ukraine, new sanctions were added:
  - U.S. Treasury **prohibited participation in the secondary market for bonds issued after March 1**
  - EU introduced a **sectoral prohibition to finance the Russian Federation, its government or Central Bank**
- However, **the direct cost is not expected to be immediate** as such costs are only born while refinancing the debt

... while Russia also gets deprived from the effective use of its reserves due to central bank asset freezes

INTERNATIONAL RESERVES OF RUSSIA STRUCTURE, 2022, USD B



- Russia's international reserves amount to USD 630 bn
- Euro, US dollar, pound sterling constitute around 60% of reserves
- On February 28 U.S., EU, UK are to introduce a new list of sanctions, including **freezing the transactions of Russia's Central Bank**, preventing it from deploying its international reserves in ways that would undermine other sanctions, **crippling its ability to use foreign currency to support the ruble**
- Sanctioning Russia's central bank will have a dramatic effect on the Russian economy and its banking system
  - This will likely lead to massive bank runs and dollarization, with a sharp sell-off, drain on reserves
- The consequence might be a full-on collapse of Russia's financial system



2

# Exclusion from markets: The start of the open Russian war against Ukraine has already reduced market capitalization of Russian companies

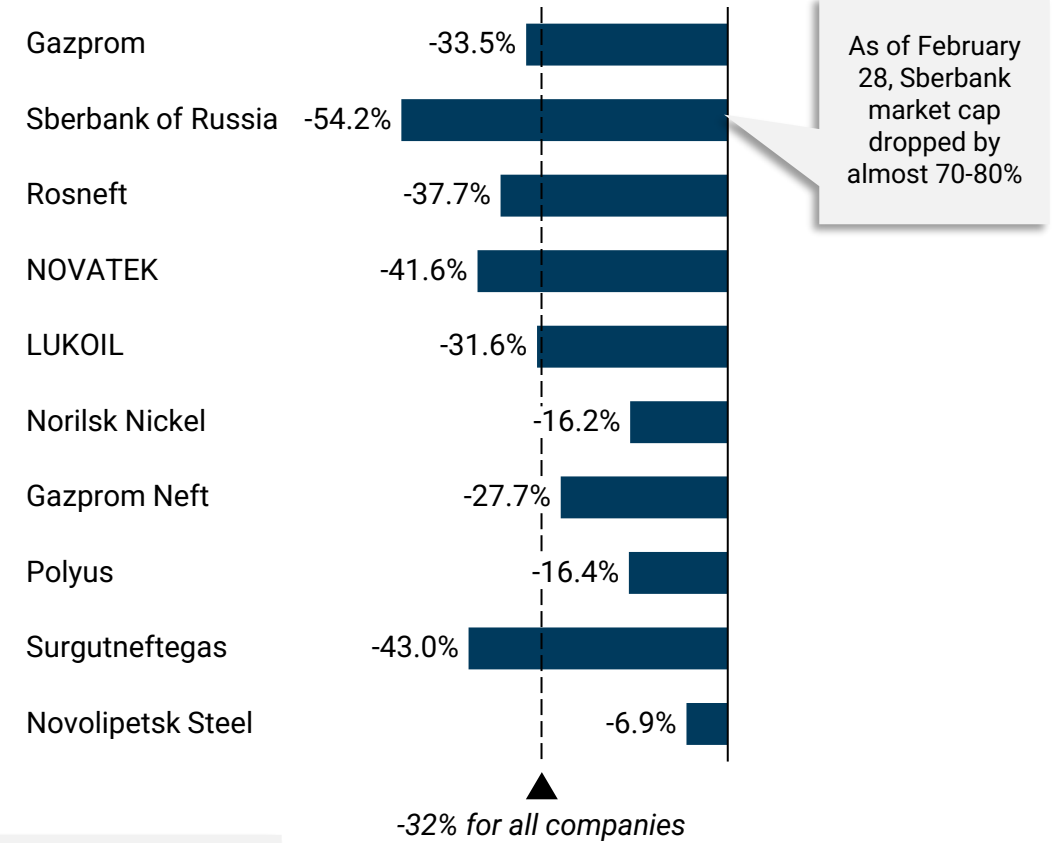
MARKET CAP OF RUSSIAN PUBLICLY LISTED COMPANIES, FEBRUARY 2022, USD BN



Note: 209 companies included in the assessment, based on S&P Capital IQ data

Source: S&P Capital IQ

MARKET CAP CHANGE FOR TOP-10 RUSSIAN PUBLICLY-LISTED COMPANIES, 25 FEB VS 2 FEB, %



The market cap of the largest Russian publicly-traded companies will continue to fall rapidly

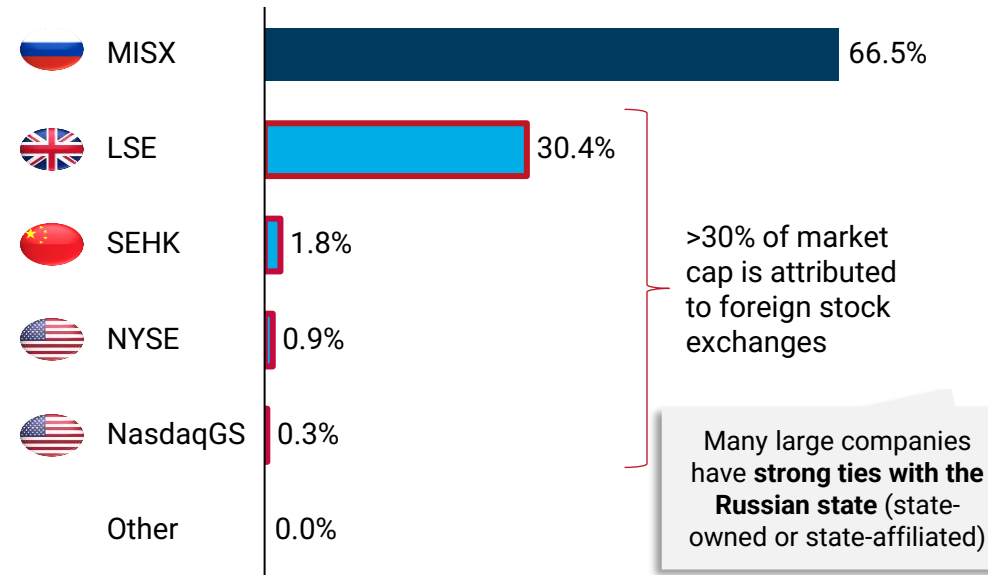


2

# Exclusion from markets: Russian companies are broadly exposed to foreign capital markets – a significant lever to derail Russian economy

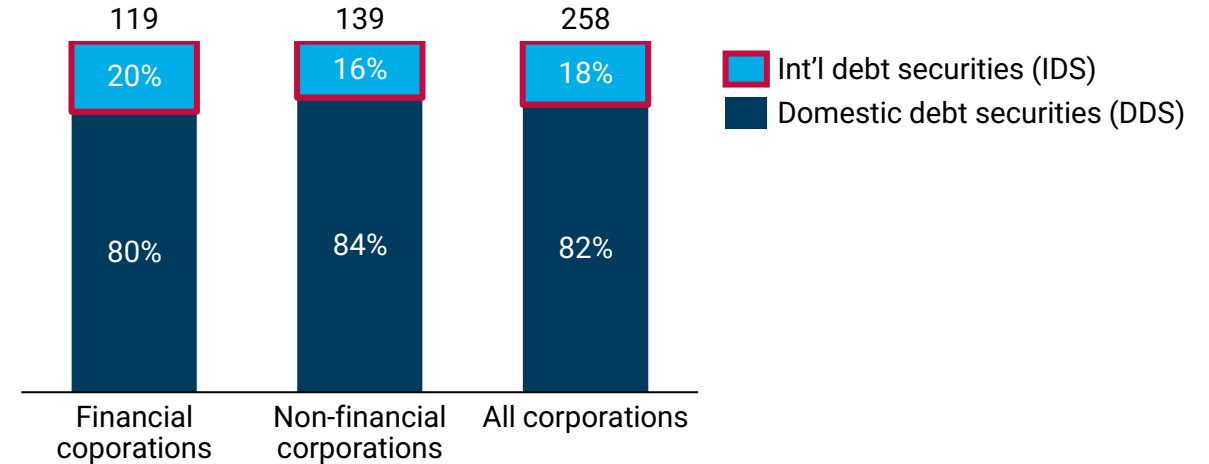
Russian companies have large exposure to int'l **stock markets** – 30% of Russian market cap is attributed to LSE only...

MARKET CAPITALIZATION OF RUSSIAN COMPANIES BY STOCK EXCHANGE, AS OF FEB 1 2022, %



... while they also actively use int'l **debt securities** to finance their activities (~20% of total debt securities)

OUTSTANDING AMOUNTS OF DEBT SECURITIES FOR RUSSIAN RESIDENT ISSUERS<sup>1</sup>, Q2 2021, USD BN



<sup>1</sup> Total debt securities (TDS) and domestic debt securities (DDS) are reported by national authorities, while international debt securities (IDS) are defined and compiled by the BIS from commercial data sources. Due to differences in definitions and valuation, the amounts for TDS may differ from the sum of DDS and IDS.

Exclusion of Russian companies from capital markets can destroy market cap of many Russian entities and complicate their further funding and debt servicing, potentially leading to their bankruptcy





3

# SWIFT sanctions: Banning Russia from SWIFT can be a highly effective tool, but needs to be applied at full to realize its potential

## SWIFT APPLICATION IN RUSSIA

**300+**

Russian banks and financial institutions connected to SWIFT

**80%**

Share of SWIFT-connected banks in total number of payments in Russia

### Russian alternatives in case sanctions are imposed remain extremely limited:

- Russian SPFS system for local payments, which will take few years to adapt
- Chinese CIPS system, but will only cover international payments made in yuan
- Other solutions include cash, cryptocurrency, or gold, which are not as widespread

## POTENTIAL IMPACT IF FULL-SCALE BAN IS ENFORCED

- **Limiting** the country's access to global financial markets
- **Complicating payment procedures**, thus effectively hindering export & import activity of Russian companies
- **Deterring foreign companies from doing business with Russian** companies and individuals due to reputational risks

**Overall → destroying fundamentals for the Russian economy's stability and growth**

However, currently, only partial ban for selected banks is expected to be enforced; thus, though still creating hurdles for Russian economy, banning Russia from SWIFT still has untapped potential to realize

## POTENTIAL IMPLICATIONS FOR RUSSIA / CASE STUDY<sup>1</sup>

Similar SWIFT sanctions were imposed to Iran in 2012, leading to an economic recession. If the same sanctions are applied to Russian financial institutions, the potential impact could be:

**USD 100 bn**

drop in Russian export; the biggest Russian exports – oil and gas – will be hit the hardest due to sanctions

**+4-5pp**

increase in inflation rate

**+3-4pp**

Rise in unemployment rate in the country

Rapid  
**devaluation**  
of Russian ruble

<sup>1</sup> Estimates modelled based on the Iranian implications



## Overall, the international community can increase **financial pressure** on Russia through the following actions



Ensuring due and effective execution of Central Bank of Russia foreign reserves' freeze



Excluding Russia from foreign capital markets (stock and debt markets)



Implementing full-scale disconnect of Russian financial system from SWIFT (instead of a partial one)

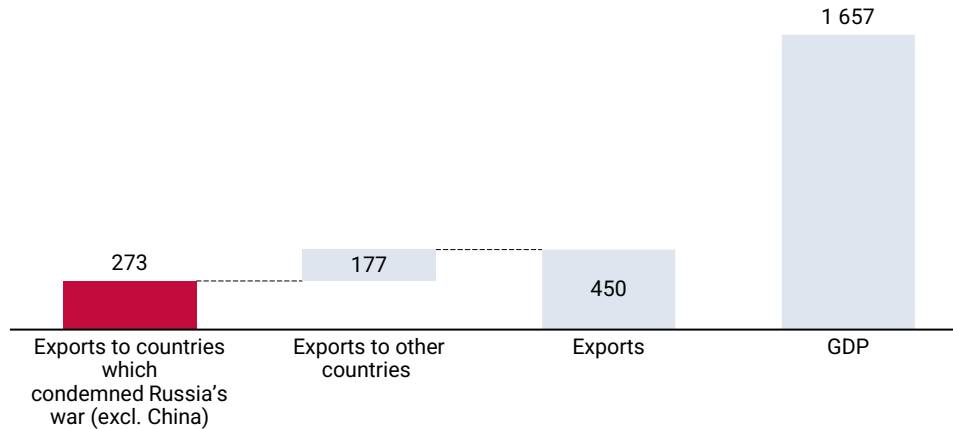
Could be at least for the duration of Russian military actions against Ukraine

## 2.3. Limiting trade



# Trade restrictions could heavily impact the Russian economy, which relies on energy exports, imports of high-tech and B2C products/services

Russia's exports vs GDP, USD bn, 2018



- Russia's economy is deeply interconnected with the world – exports account for a third of GDP without counting indirect effects
- Exports to countries which have officially condemned Russia's war account for over one sixth of GDP, not counting China. A decline of exports to those countries by 10% would mean a loss of 3m+ Russian jobs

## Key impact levers

1

**Destruction of mineral fuel revenues** through Nord Stream 2 cancellation, oil and gas embargo

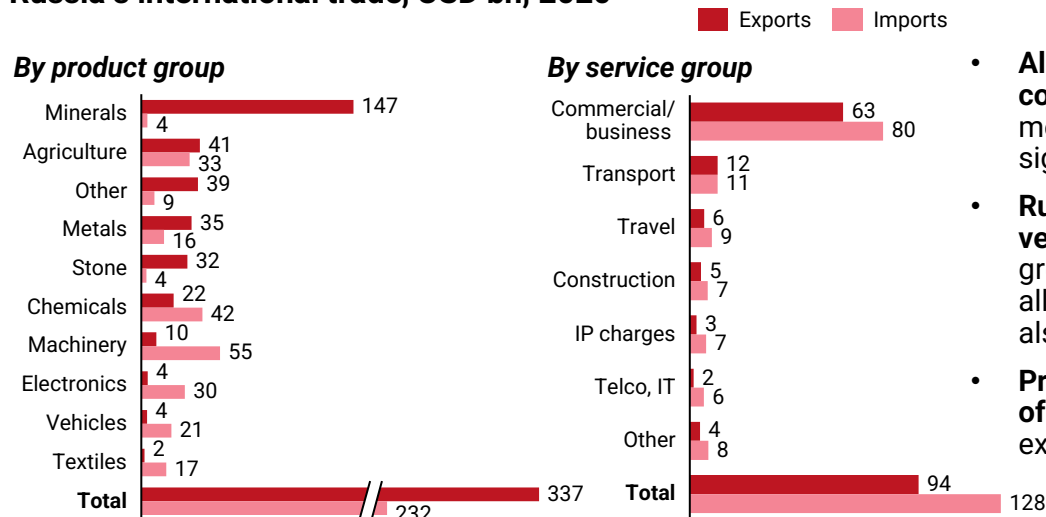
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**Disruption of value chains** through a ban on high-tech exports to Russia, blocking access to logistics

3

**Voluntary break of ties with Russia.** Private companies across sectors massively refusing to do business with Russian counterparts, even if not mandated by home country sanctions

Russia's international trade, USD bn, 2020



- Almost half of Russia's exports revenue comes from oil and gas. Agriculture, metals, and other basic materials are also significant
- Russia's relies on imports of machinery, vehicles, and electronics – these product group together account for about a half of all imports. Chemicals and agriculture are also significant
- Products turnover is 2.5x larger than that of services. Russia is a net product exporter, service importer

Source: Rosstat, UN Comtrade ITC, UNCTAD, WTO





1

# Targeting mineral fuel revenues: Imposed sanctions related to Nord Stream 2 would result in a 0.7-1.8% slump in Russian GDP

## CONTEXT

- **Nord Stream 2 (NS2) project would have significantly increased European dependency on Russian energy** while undermining the security of Ukraine with transit through Ukraine decreasing from 80% in 2011 to 45% in 2019
- Once operational, NS2 would **double natural gas carrying capacity from Russia to Germany** at capacity of 55 billion cubic meters (bcm)
- The pipeline is **owned by Russian state-owned energy company Gazprom** with half the cost reportedly carried by 5 European companies

## MAP OF NORD STREAM ROUTES



**1 200 KM**

Length of NS2

**55 BCM**

NS2 Gas transition capacity

**11 USD BN**

Reported cost of NS2

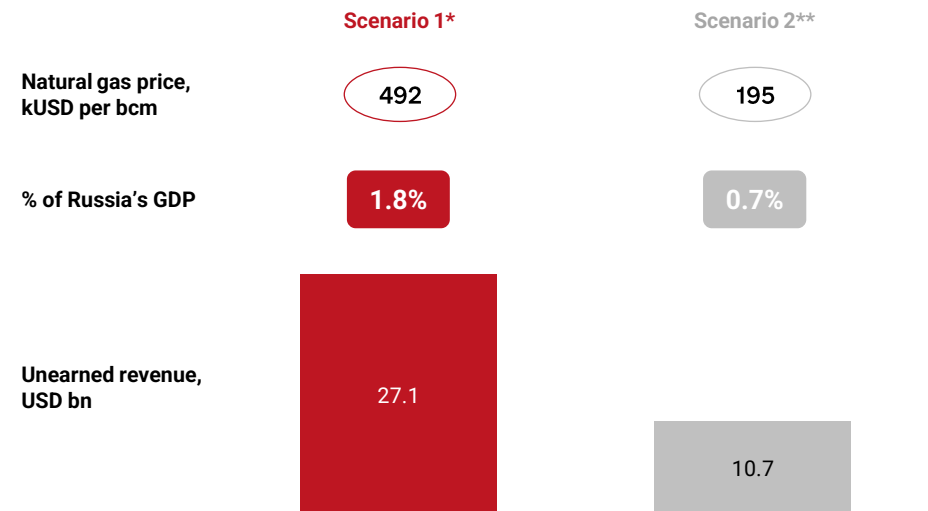
**75%**

Share of EU in Russia exports in 2020

## MEASURES & IMPACT

- **Nord Stream 2 was halted** on February 22, 2022, after Russia formally recognized independence of 2 breakaway regions in Ukraine. The US imposed sanctions on the pipeline's operator and its corporate officers
- **USD 11-27 bn of unearned revenue** is expected, depending on gas price scenario, which would amount to 0.7-1.8% of Russian GDP, or USD 30-75 m daily
- This is on top of **USD 11 bn spent by Russia in construction costs**

## LOSS OF EXPECTED REVENUES FROM BLOCKING NS2 DEPENDING ON GAS PRICE



Source: GECF, globalenergymonitor, NordStream2, Eurostat, CBR, FRED, Rosstat

\* Average price for 11M 2021Y; \*\* \* Average price for 2020Y



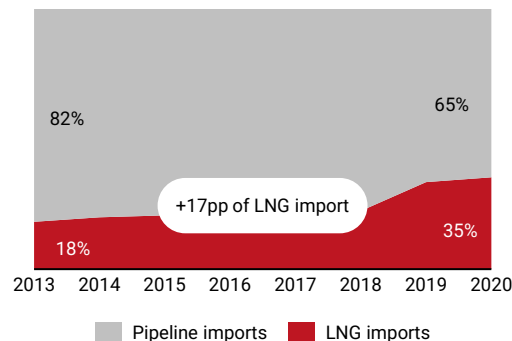
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# Targeting mineral fuel revenues: Gas embargo could lead to a slip of Russia's GDP by 2-5%

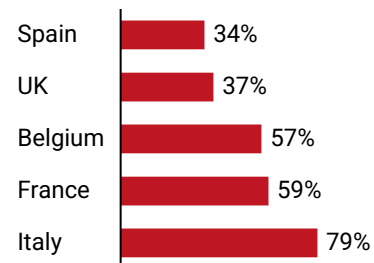
## CONTEXT

- **The EU is the primary consumer of Russian gas.** The share of the EU in Russian gas exports increased from 66% in 2014 to 75% in 2020
- **The EU can substitute Russian gas by liquid natural gas (LNG)** imports from countries such as Qatar and the US. Warm weather in Asia, a major consumer of LNG, has decreased demand in the region, freeing up supplies for the EU
- **The EU already imports large amounts of LNG**, which amount to 115 BCM out of 326 BCM of total natural gas and LNG imports in 2020, share from total natural gas import rapidly growing since 2013 (+17pp. in y-o-y terms since 2013). There is no issue with infrastructure capacity – Europe's terminals ran at 45% capacity last year

## PIPELINE GAS & LNG IMPORTS IN EU, %



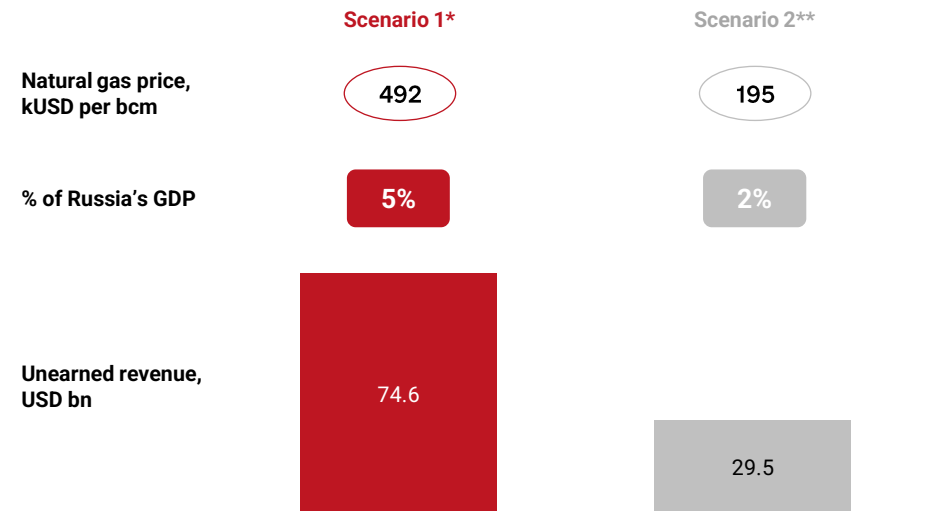
## LNG UTILIZATION RATE, %



## MEASURES & IMPACT

- **Gas exports play an important role** in the Russian economy, accounting for 2-3% of its GDP. Targeting the Russian energy sector will have an **immediate and significant impact** on its economy
- Introducing a gas embargo would result in **unearned revenue of USD 30-75 bn**, which is equivalent to 2-5% of Russia's GDP, or USD 82-205 m daily – depending on price scenario
- Cutting of Russian supply is **not likely to result in shortages in the EU at least until autumn**, given the gas in storages and LNG imports

## LOSS OF EXPECTED REVENUES FROM GAS EMBARGO DEPENDING ON GAS PRICE



Source: BP, Eurostat, CBR, FRED, S&P Global Platts

\* Average price for 11M 2021Y; \*\* \* Average price for 2020Y



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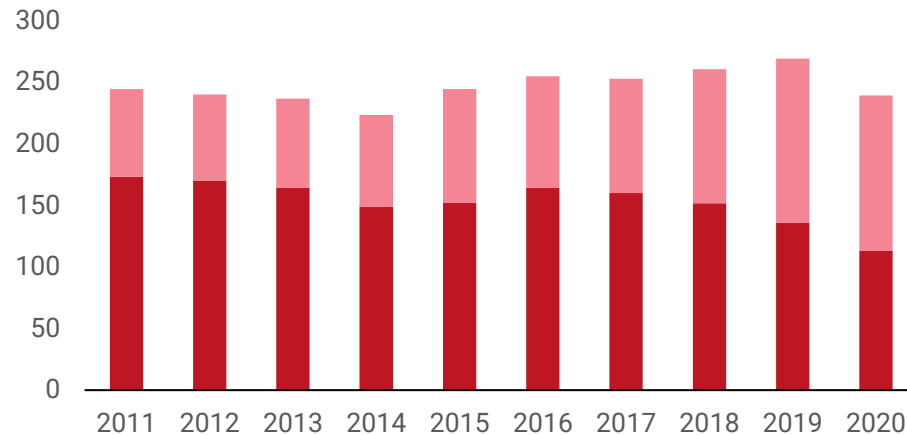
# Targeting mineral fuel revenues: Oil embargo could result in Russia's GDP decrease by 4-5%

## CONTEXT

- **Oil is one of the key income sources** for Russian budget: crude oil exports accounted for **5-8% of GDP** in 2015-2020
- Even though the share of the EU in Russian exports has been decreasing over the last decade, **the EU still accounts for around half of Russian exports**
- **EU has already announced its intention to reduce dependence on Russian energy** as quickly as possible with a strategy expected to be unveiled on March 2. However, it is likely to fall short from translating into tangible and immediate impact

## RUSSIAN CRUDE OIL EXPORTS, MLN TONNES

■ Export to EU countries ■ Export to non-EU countries



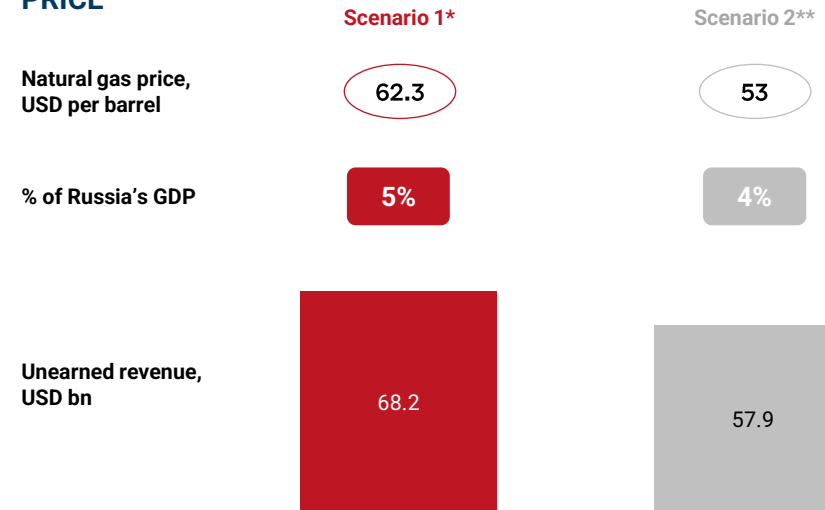
Source: BP, Eurostat, CBR, FRED, Reuters

## MEASURES & IMPACT

- **Full embargo on Russian crude oil** export to Europe would lead to the unearned revenue in the amount of **USD 58-68 bln (4-5% of Russian GDP)**, depending on the price scenario
- It is equivalent to daily losses of **USD 160-185 mln**
- **Upward price pressure** caused to the drop in supplies may be **eased by returning Iranian crude to the market**, if US-Iran deal is reached



## LOSS OF EXPECTED REVENUES FROM OIL EMBARGO DEPENDING ON OIL PRICE



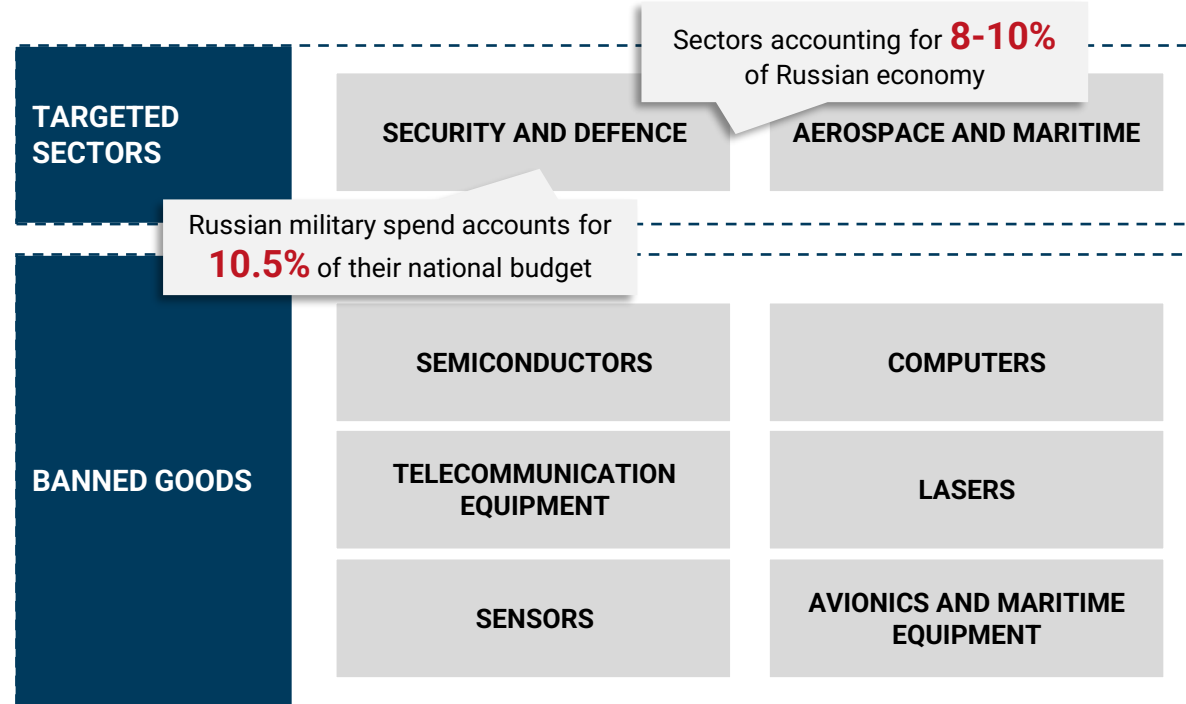
\* Average price for 2020; \*\* Average price for 2015-2020



2

# Value chain disruption: Restrictions on sales of high-tech products to Russia will hinder its military potential and general competitiveness

## CONTEXT



- As of 27 February 2022, the **USA, European Union, United Kingdom, Japan and Taiwan** supported the imposed restrictions
- **The list includes high-technological products**, mainly targeting defence sector of Russia
- **Russia is vulnerable to the export ban** because it does not produce consumer electronics or chips in large quantities. In particular, it does not make the highest-end semiconductors needed for advanced computing, an area dominated by Taiwan, South Korea, the United States, Europe and Japan

## IMPACT

- **Restricted supply of technology could help restrain Russia's military ambitions.** Lack of high-tech parts will lead to Russia's inability to sustain the current production and maintenance of military equipment and supplies. Substitution will take significant time. Faced with scarce resources, Russia will have to scale down its military and could become less aggressive
- **Limited capacity for innovation and modernization will lead to loss of competitiveness across sectors.** Development of many high value-added non-military sectors, e.g. industrial machinery and electronics will be undermined along with potential for economic and welfare growth





# Voluntary break of ties: Private companies can inflict damage on Russian economy by introducing restrictions beyond government sanctions

3

## MEASURES UNDERTAKEN BY SOME PRIVATE COMPANIES

### Retail

**MAXIMA**

Latvia  
Estonia  
Lithuania

Major supermarket chains – started labelling and banning Russian origin products [1]

**Rimi**

**coop**

Denmark

Stopped selling Russian goods at the retail chain [2]

### Transport

**DELTA**

U.S.

Refused to continue codesharing program with Aeroflot [3]

### Automotive



U.S.  
Germany

Decision to stop delivering cars to the Russia [4]



Car shortages and possible bottlenecks in future supply and delivery processes for Russia

### Tech

**intel** **AMD**

U.S.

Decided to suspend chip sales to Russia in advance of official sanctions [5]

**Lenovo**

China

Decision to cease shipping its products to Russia [6].

**tsmc**

Taiwan

Major Apple supplier – vocal support for Taiwan government in suspending chip sales to Russia [7]

## IMPACT ON RUSSIA

Decrease in sales of Russian food suppliers and a potential loss of 3% export share

Decrease in sales of Russian food suppliers

Loss of routes by Aeroflot

Deficit of chips for automotive and military industries of Russia

Deficit of high-tech equipment, gadgets, and devices, resulting into a lower Russian citizens' welfare

Increased shortage of chips to damage vulnerable Russian manufacturing and nano-tech industries

## POTENTIAL MEASURES

- **Ban/label Russian products on the shelves** and encourage buyers to switch to other products
- **Suspend the exports of products to Russian-based subcontractors** unless it violates the shipment contracts
- **Discontinue existing collaboration programs with Russian-based companies**, including R&D and experience-sharing events
- **Temporality shut down operations in Russia** or move them to another country if possible



## The international community can pressure Russia through a combination of **trade restrictions**



Ensuring **cancellation of Nord Stream 2** (vs freezing)



Introduce **oil & gas embargo**



Ensure proper execution of the **ban on high-tech exports** to Russia



Keep and expand **blocking access to air, maritime logistics**



Support **private sector** effort to **diversify away from Russian** counterparts

## 2.4. Societal costs



# The Russian-led war will bring huge **costs for society**, leading to falling well-being of ordinary Russians and making them a pariah nation

Russian government before February 24<sup>th</sup> could give its citizens **conventional stability** and **moderate growth prospects**

## ECONOMIC WELL-BEING

- Average income per capita was the highest among non-EU neighbors – **>500 USD/month** (for comparison, Belarus – 350 USD, Kazakhstan – 300 USD, Ukraine – 230 USD), and showing steady growth
- Prices used to rise slower, than cash wages, which ensured **decent consumption levels**

## SOCIAL WELL-BEING

- Russia was one of the countries with a **very high level of human development** (HDI value – 0.824, higher than that of any non-EU neighbour)
- At least **every 5<sup>th</sup> Russian went abroad** in the last 5 years, average citizen could afford to spend 450 USD on a week of vacation
- In 2022, Russia was about to **host several highly anticipated public events** (sports, business forums, etc.)

By starting a war, Russia has condemned its citizens to a **constant uncertainty, rising poverty, and isolation**

## Drastically falling well-being:

1

- **Imposed sanctions, wasting vital for the economic development resource on waging a war** will lead to the general decay of the economic system
- **Decline in real disposable income of the population and its purchasing power** will mean the standard of living for the general Russian citizens falling lower day by day



## Becoming pariah state and outcast citizens:

2

- **Russia's reputation as an aggressor** will inevitably have a toll on each and every one of its citizens
- **Isolation from the civilized world** will come in many forms, from ban on travel to a lack of access to global culture and non-inclusion in the most important sport events, which Russians traditionally value highly



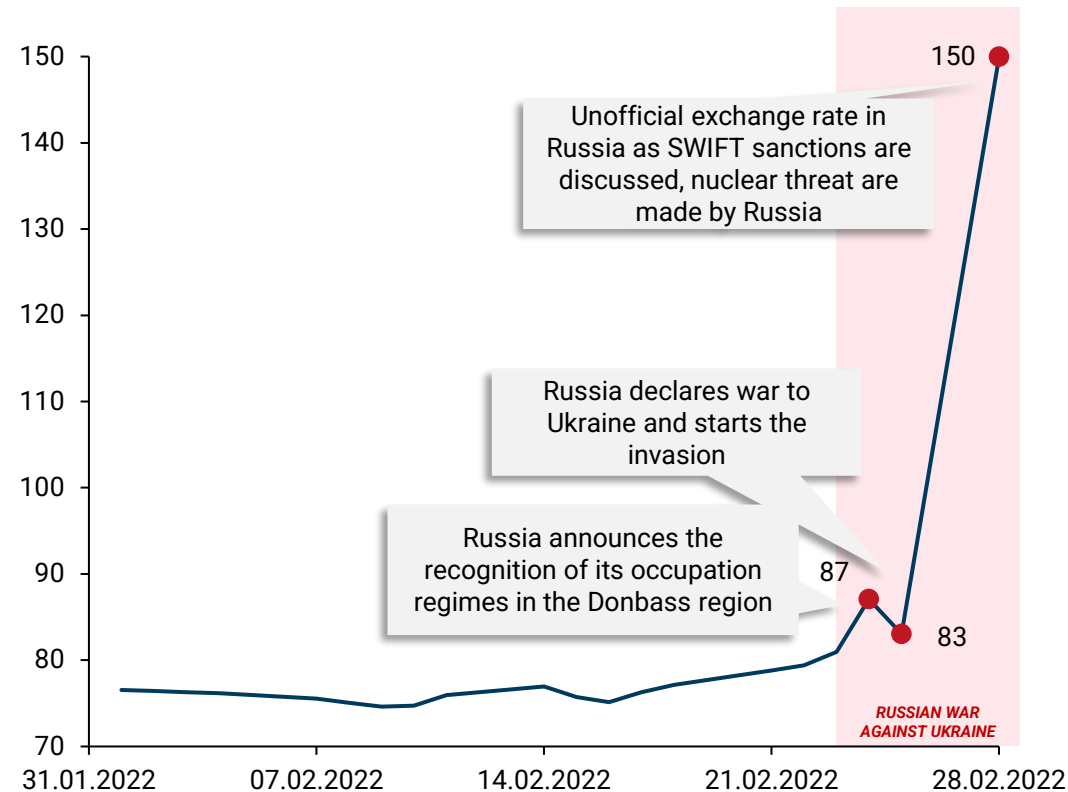
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# Falling well-being: The Russian war against Ukraine significantly impacts ex rates, leading to dramatic decline in incomes

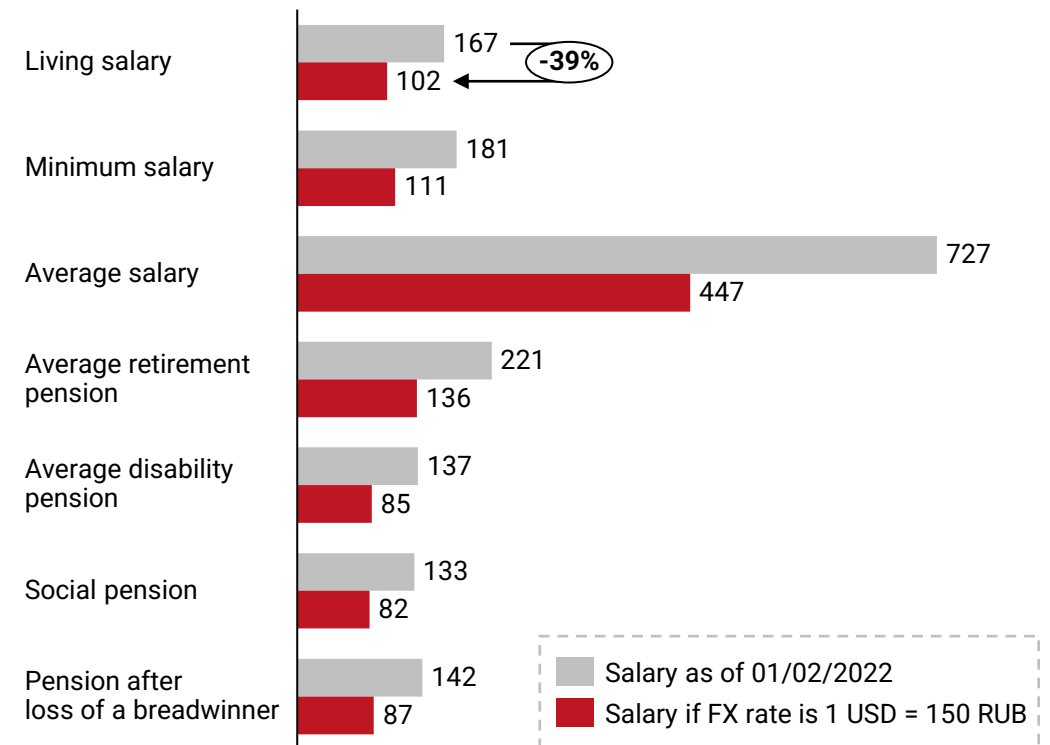
Russian invasion has already caused a **devaluation of Russian ruble**; an **unprecedented fall is expected soon**

Currently, **Russian population is losing around 40% of its incomes in USD equivalent**, and the situation can go even worse

CURRENCY EXCHANGE RATE, FEBRUARY 2022, USD TO RUB



DECLINE IN RUSSIAN'S POPULATION INCOMES, 2/1/2022 vs 2/25/2022, USD EQUIVALENT






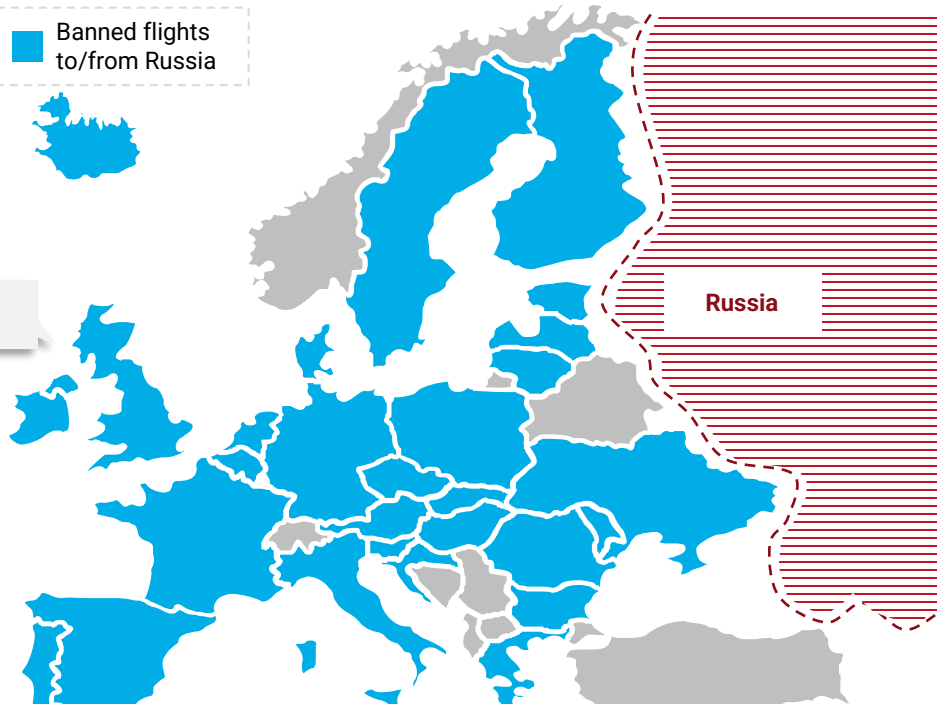
2

## Pariah state: Russia has effectively become a pariah state, with its citizens being outcasts thrown away from global civilization

Russian citizens will not be able to fly abroad to most countries

### COUNTRIES THAT HAVE ALREADY CLOSED THEIR AIRSPACE FOR RUSSIAN FLIGHTS

 Banned flights to/from Russia



+ Canada and USA as well

Sanctions have already been placed as a result of Russia's aggression:

- Closure of airspace for Russian airlines by EU members
- Cancellation of the simplified procedure for obtaining a visa

Russia effectively becomes a pariah state

- **Cancellation of** international events placed in Russia, such as **UEFA Champions League Final** in St. Petersburg and **Formula 1 Grand Prix of Russia** brought **500 mln USD losses** to the country
- FedEx and UPS **halted delivery service to Russia**
- YouTube and Meta (Facebook) **prohibited Russian state media from running ads** or monetizing on our platform anywhere in the world
- Iberia, British Airways, Wizz Air, Lufthansa, and KLM had suspended all flights to and from Russia. Delta Air Lines cut ties with Aeroflot
- The European Broadcasting Union **excluded Russia from Eurovision Song Contest**
- The International Olympic Committee (IOC) Executive Board **urged all international sports federations to move or cancel their events planned in Russia or Belarus**
- **Manchester United withdrew the sponsorship rights of Russian airline Aeroflot**, a deal worth around £40 million (2017-2023). United's nine-year association with them was worth almost £100 million in total
- **Gadget maker Dell Technologies Inc suspended sales** in Russia. Dell **accounted for about 6%** of computer shipments to Russia last quarter, according to researcher IDC
- Intel and AMD **suspended industrial chip and processor sales to Russia**
- VW Group, Renault, BMW, Citroen, Mercedes Benz, and General Motors **stopped sales in Russia**
- The **British Petroleum offloaded 19.75% voting stake** (valued \$14bn) in Russian state oil firm Rosneft





# Combination of falling well-being and becoming a pariah nation will likely lead to **rising internal tensions in Russia**



Ходорковский Михаил  
@mich261213

An aggressive war with Ukraine is a crime under Russian law. Anyone who helps in this junta of their own free will is a war criminal. I urge you to do everything possible, each in his place, to stop the war!

**\*Mikhail Khodorkovsky**, an exiled Russian businessman

"I am convinced however that war can never be the answer. This crisis will cost lives and damage two nations who have been brothers for hundreds of years."

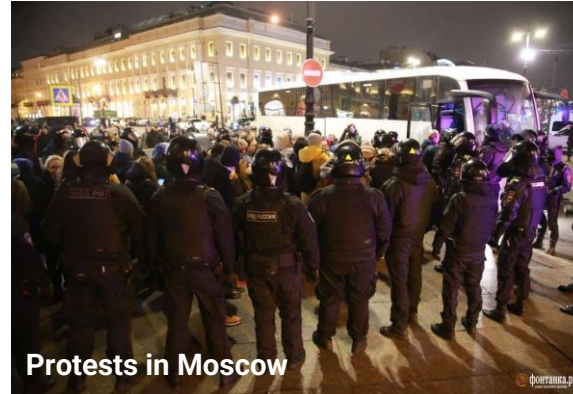
- **Mikhail Fridman**, one of Russia's richest men, owner of Alfa-Bank.



Oleg Deripaska  
@DeripaskaOleg

Peace is the priority. Negotiations must start ASAP.

15:42 · 27 Feb 22 · [Twitter Web App](#)

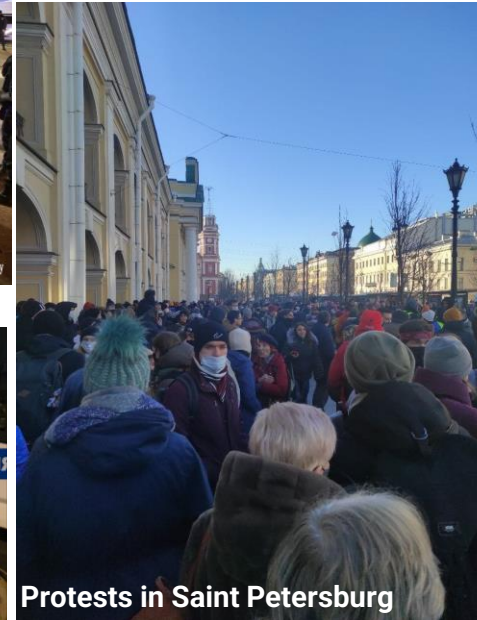


Protests in Moscow



Protests in Moscow

Events unfolding in Russia  
in recent days



Protests in Saint Petersburg



Lines for ATMs



Lines for ATMs

**Combination of falling well-being and becoming a pariah nation will likely lead to rising internal tensions in Russia which could trigger transition to the democratic regime in the country**





## Overall, the international community can increase **societal costs** for Russia through the following actions



Maintaining or introducing restriction for flight and other transportation modes from/to Russia



Cancelling visa provision or complicating the process of visa provision



Limiting the sale of citizenship via "golden passports", which allows wealthy Russians to become citizens of other countries



Cancelling all joint economic events with Russia



Prohibiting cultural events/activities of artists supporting Russian invasion into Ukraine



Banning Russia from all sporting events: both in terms of hosting and participating

1

2

3

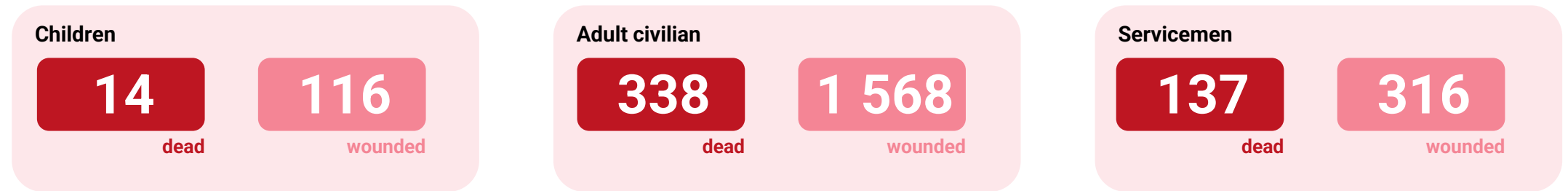
# Impact of the war on Ukraine and ways to support the country

- Humanitarian crisis
- Effect on Ukrainian economy
- Actions to support Ukraine



# Humanitarian crisis: Nearly 2 500 Ukrainians wounded or killed in first four days of war with Russia, millions suffer humanitarian crisis

## CASUALTIES DURING THE 4 DAYS OF WAR



## HUMANITARIAN DAMAGE DONE BY RUSSIA



### War crimes and violations

- Confirmed bombing of Okhmatdyt hospital, orphanage and kindergarten
- Use of ambulances, playgrounds and residential areas to cover military groups
- Bombing of civilian houses in Kyiv, Kharkiv, Kherson, Sumy, Chernihiv and other cities



### Hidden victims

- Limiting the capacity of hospitals and, as a result, deteriorating conditions for people with severe chronic diseases
- Deprivation of people from home and the opportunity to work and, as a result, starvation of part of the population
- Psychological traumas from hostilities, especially for children



### Humanitarian disasters

- The cities of Shastya and the Stanitsya Luhanska are on the edge of a humanitarian catastrophe, the difficult humanitarian situation of dozens of cities
- Hundreds of thousands of internally displaced persons fleeing the horrors of war



### Harm for environment

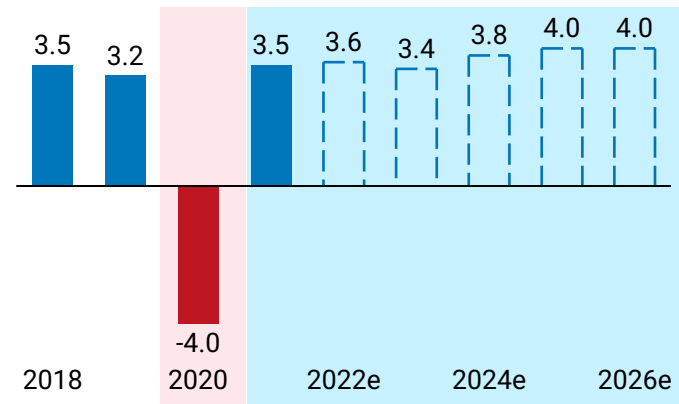
- Significant damage to the environment from the destruction of the oil depot in the village of Kryachky
- Rising radioactive dust due to the movement of heavy military equipment in the Chernobyl Exclusion Zone



# Effect on Ukrainian economy: Ukraine requires additional resources to minimize macroeconomic consequences of the war

Ukrainian economy was expected to be recovering from the COVID-19 epidemic...

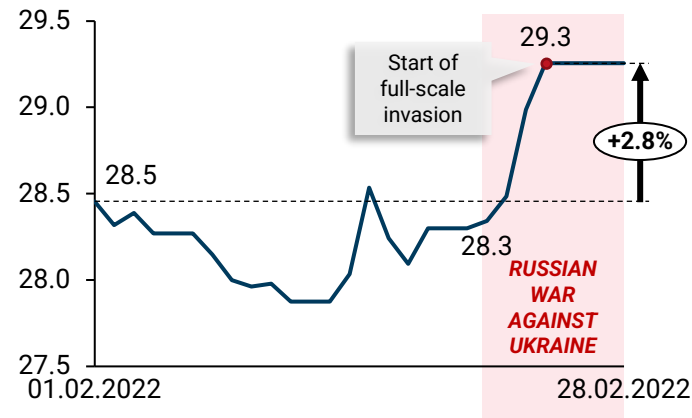
UKRAINE'S REAL GDP GROWTH RATE, ANNUAL PERCENT CHANGE, IMF FORECAST



- After a dramatic decline as a result of COVID-19 pandemic in 2020, Ukrainian economy was expected to recover gradually with an annual growth of 3.5-4%

...but full-scale Russian military invasion puts a high pressure on country's stability...

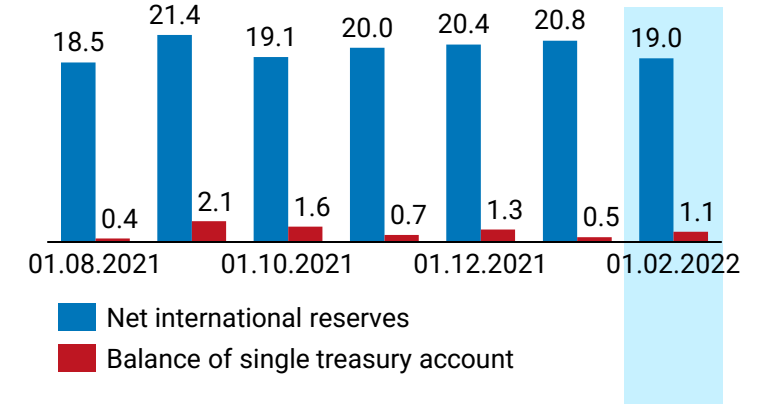
CURRENCY EXCHANGE RATE, FEBRUARY 2022, UAH TO USD



- The first negative impact on the Ukraine's economy can be tracked through the hryvnia exchange rate, which dropped by 2.8% in few days and is expected to decline further

...with Ukraine having limited resources to finance economic recovery...

UKRAINE'S INTERNATIONAL RESERVES AND SINGLE TREASURY ACCOUNT, USD BN









- Additional spendings for stabilization of economy are required, while current resources are not sufficient
- Ukraine is also limited in its ability to attract market debt financing as a result of war

Ukraine requires additional assistance to ensure the macroeconomic stability and minimize the damage of the Russian full-scale invasion



## International support: Many of Ukraine's partners have already supplied or committed to additional assistance since the renewal of Russian invasion

Countries	 USA	 United Kingdom	 Western Europe	 CEE	 Baltic states	 C-A-NZ
Military aid	<ul style="list-style-type: none"><li>Two packages of \$60m, \$200m already in place</li><li>Additional \$350m allocated</li></ul>	<ul style="list-style-type: none"><li>Anti-tank missile systems NLAW – 2200 units</li><li>Additional defensive weaponry</li></ul>	<ul style="list-style-type: none"><li>€450m in lethal weaponry (incl. anti-tank weapons), €50m in defensive eqpt</li><li>Support from FR, DE, NL, SE, BE, PT</li></ul>	<ul style="list-style-type: none"><li>Supply of lethal weaponry (incl. drones, air defense, artillery shells) and defensive eqpt</li></ul>	<ul style="list-style-type: none"><li>Supply of lethal weaponry (incl. air defense systems, artillery shells), defensive eqpt</li></ul>	<ul style="list-style-type: none"><li>C\$7m, A\$1m in lethal weaponry + C\$25m, A\$4m in non-lethal weaponry</li></ul>
Humanitarian aid	<ul style="list-style-type: none"><li>Additional \$54m in humanitarian aid</li></ul>	<ul style="list-style-type: none"><li>Additional £40m in humanitarian aid</li></ul>	<ul style="list-style-type: none"><li>43 tons supplied already, more arriving soon</li><li>Support from AT, DE, CH, IE, SE, FI, NL</li></ul>	<ul style="list-style-type: none"><li>Continuous local aid supply</li><li>Support from CZ, PL, RO, BG, SI, SK, HR</li></ul>	<ul style="list-style-type: none"><li>Refugees' settlement, expected donations</li></ul>	<ul style="list-style-type: none"><li>Additional C\$10m + provincial donations</li><li>AU, NZ expected to join</li></ul>
Financial aid	<ul style="list-style-type: none"><li>\$1b of loan guarantees</li><li>G7, IMF support expected</li></ul>	<ul style="list-style-type: none"><li>\$500m of loan guarantees</li></ul>	<ul style="list-style-type: none"><li>EU: €1.2b of macro-financial assistance</li><li>Italy providing urgent €110m assistance loan</li></ul>	<ul style="list-style-type: none"><li>Poland: \$1b of support through currency swap</li></ul>		<ul style="list-style-type: none"><li>Canada providing a \$500m loan</li></ul>



# Possible actions: International community can help Ukraine in dealing with both military/humanitarian and economic challenges

## MILITARY AND HUMANITARIAN AID



**Provide massive defense assistance to Ukraine** and military equipment in the field of anti-air defense, as well as secure communication means for the Ukrainian army



**Initiate the establishment of a no-flight zone** over the territory of Ukraine, either by NATO or the UN



**Provide weaponry for territorial defense forces** and volunteers willing to resist Russian aggression and occupation



**Provide humanitarian assistance**, including medical aid assistance for wounded civilians and servicemen



**Open your country's borders for Ukrainian refugees;** no entry restrictions or complicated clearance procedures

## ECONOMIC AID



**Expansion of emergency macro-financial assistance**, considering intensification of the war



**Provision of the Rapid Financing Instrument (RFI)** by IMF to finance the deficit of the Balance of Payments



**Providing guaranties for Ukrainian government bonds** to strengthen trust of private investors



**Imposing temporary payments freeze** for existing Ukrainian debts



Providing irreversible targeted support (e.g., for infrastructure rehabilitation)

**If you have any questions, please contact us directly:**

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**[recovery.org.ua](https://recovery.org.ua)**