

## Early indications of the strong economic consequences of the war in Ukraine (27 April 2022)

### 1/ Fill the gaps with these words (answers below): *tightening, channels, emerging, forecasts, outlook, weaknesses, estimate*

The war in Ukraine is aggravating the world's economic \_\_\_\_\_ that have resulted from the Covid pandemic, so far. The pandemic has caused widespread supply disruptions that have led to a significant inflationary shock, which in turn is leading to a \_\_\_\_\_ of monetary policy.

According to *The Financial Times'* Martin Wolf, the war is having an economic impact through "five main \_\_\_\_\_: higher commodity prices; disruption of trade; financial instability; the humanitarian impact, above all millions of refugees; and the policy response, notably sanctions. All these things also raise uncertainty".<sup>1</sup>

The IMF has lowered its growth \_\_\_\_\_ accordingly, while also raising its inflation expectations: the global growth \_\_\_\_\_ since October 2021 is down by 1.3 percentage points (pps). For high-income countries this translates into less growth of 1.2 pps, and of 1.3 pps for \_\_\_\_\_ and developing countries. IMF forecasts for inflation are 5.7 per cent and 8.7 per cent for these country groups respectively.

Moreover, the \_\_\_\_\_ assumes that the war remains limited to Ukraine, that sanctions on Russia do not tighten further, that new and dangerous variants of Covid do not emerge, and that tighter monetary policy remains modest and big financial crises are avoided.

### 2/ Fill the gaps with these words: *commodities, promotes, welfare, grain, chains, deliveries, container, protectionism*

In terms of human \_\_\_\_\_, the financial distress of developing countries is worrying, as a quarter of countries issuing debt in hard currency have liabilities that are trading in markets at distressed levels. These countries especially, and developing nations in general, could face serious difficulties importing goods like food.

Paul Krugman points out that not only are food exports from Ukraine being massively affected by the war, but that Russia (normally a big exporter) has also stopped its \_\_\_\_\_ exports to try to hold down prices.<sup>2</sup>

Krugman goes on to note that the same is true for fertiliser. Before the war, Russia was the world's largest exporter, but has now suspended \_\_\_\_\_. The same is true for China, which has reduced its own fertiliser exports to hold down domestic prices. "[T]his is causing big problems for agriculture around the world, especially in emerging markets, like Brazil".

Krugman (a Nobel laureate and trade expert) recalls that the first wave of globalisation was ended by war, totalitarianism and \_\_\_\_\_ during the first half of the 20<sup>th</sup> century. It then took 40 years of peace after 1945 (*Pax Americana*, led by the USA) for trade to return 1913 levels (relative to world GDP).

Interestingly, he notes that (so far), the war in Ukraine is doing more damage to trade in basic \_\_\_\_\_ (food and fertiliser, but also oil and gas) or what could be called "globalisation 1.0", than to complex manufactured goods. Despite problems with \_\_\_\_\_ shipment, it is still possible to buy electronic gadgets with complex supply \_\_\_\_\_.

He concludes by observing that trade may or may not lead to peace: but that "peace \_\_\_\_\_ trade", and that large-scale trade in food can no longer be taken for granted.

### 3/ Match words in the left column with definitions on the right (answers below)

1) inflationary shock	a) measures to penalise/hurt an economy or specific individuals
2) channel	b) a situation in which a creditor has problems earning income to service debts
3) sanctions	c) currencies of nations seen as politically stable and economically strong
4) expectations	d) a rise in prices with general macroeconomic consequences
5) financial distress	e) raw materials, basic products
6) protectionism	f) the broad peace established by the USA in the "West", after World War II
7) commodities	g) views held about the future behaviour of the economy and especially about prices
8) supply chains	h) in economics, the path by which a cause leads to an impact
9) hard currency	i) a network between a company and its suppliers to make and distribute products
10) <i>Pax Americana</i>	j) a policy or policies to restrict trade (usually to stop imports coming into a country)

<sup>1</sup> Martin Wolf, "War in Ukraine is causing a many-sided economic shock", *The Financial Times*, April 26, 2022.

<sup>2</sup> Paul Krugman, "Food, Fertilizer and the Future", Op-Ed, *The New York Times*, April 26, 2022.

1/ weaknesses, tightening, channels, forecasts, estimate, emerging, outlook.

2/ welfare, grain, deliveries, protectionism, commodities, container, chains, promotes.

3/ 1d; 2h; 3a; 4g; 5b; 6j; 7e; 8i; 9c; 10f.