

UKRAINE RUSSIA CONFLICT: IMPACT ON PAKISTAN'S  
ECONOMY

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## War and Economic Growth as per Research

- Careful measurement of war in the context of a large data set indicates that war is not good for business.
- Countries that suffer from war underperform in terms of production and also underperform in terms of consumption.
- GDP per capita falls because of lower labor and total factor productivity, presumably due to the destruction of existing physical and human capital, the lack of investment in new physical and human capital, and because of reduced gains from both internal and external trade.

CATO JOURNAL: By Clifford F. Thies and Christopher F. Baum

# Russia's Economy

Factor	2019	2020	2021
Nominal GDP (USD Bn)	1,690	1,479	1,648
Population (Mn)	146.7	146.1	146.1
GDP Per Capita (USD)	11,517	10,115	11,273
GDP Growth	2%	-3%	4.7%
Fiscal Account Balance/ GDP	1.9%	-4%	-0.6%
Current Account Balance/ GDP	3.9%	2.4%	5.7%
Federal Govt Debt/ GDP	13.8%	19.3%	17.9%

- Russia's GDP is primarily made up of three sectors—agriculture, industrial, and service.
- The agricultural sector makes up less than 4% of GDP, while industrial and services make up 30% and 56.3%, respectively.
- In 2021, Russia saw the best GDP growth since 2008, posting a 4.7% growth rate. For 2022, the expected GDP growth rate is 2.8%.

# Ukraine's Economy

Factor	2019	2020	2021
Nominal GDP (USD Bn)	153.9	155.3	181.0
Population (Mn)	41.7	41.512	41.293
GDP Per Capita (USD)	3,690	3,741	4,384
GDP Growth	3.2%	-4.0%	3.5%
Fiscal Account Balance/ GDP	-2.0%	-6.0%	-4.5%
Current Account Balance/ GDP	-2.7%	4.0%	-0.7%
Federal Govt Debt/ GDP	50.5%	60.8%	54.4%

- With a GDP per capita of less than USD 5000, Ukraine is a developing economy.
- Ukraine has a strong industrial sector operating in around 20 major industries such as mining and production, iron and steel among others.
- Ukraine is one of the world's largest agricultural producers and exporters and is known as the breadbasket of Europe



# Pakistan's Economy

Factor	2019	2020	2021
Nominal GDP (USD Bn)	276.9	261.7	-
Population (Mn)	204.7	208.6	212.5
GDP Per Capita (USD)	1,353	1,255	no data
GDP Growth	2.1%	-0.5%	3.9%
Fiscal Account Balance/ GDP	-9.0%	-8%	-7.1%
Current Account Balance/ GDP	-4.9%	-1.7%	-0.6%
Federal Govt Debt/ GDP	85.3%	87.6%	83.4%

- Services, industrial and agriculture are three major sectors of Pakistan's economy.
- Pakistan's economy is in twin deficits

# Ukraine Russia Conflict - Timelines

- **The 1990s:** Independence from the Soviet Union
- **1992:** Ukraine formally establishes relations with NATO, though it does not join.
- **December 1994:** Budapest Memorandum
- **1994 to 2004:** Leonid Kuchma helps transition Ukraine from a Soviet republic to a capitalist society
- **2004:** The presidential election brought Viktor Yanukovich, supported by Russian President Vladimir Putin
- **2008:** Efforts made to bring Ukraine into NATO
- **January 2009:** Gazprom, the state-owned Russian gas company, suddenly stops pumping natural gas to Ukraine creating issues Tymoshenko negotiates a new deal with Putin, and gas flows resume on Jan. 20. Much of Europe still relies on Russian gas today.
- **2010:** Yanukovich is elected president in February. He says Ukraine should be a "neutral state," cooperating with both Russia and Western alliances like NATO.

# Ukraine Russia Conflict - Timelines

- **2011:** Ukrainian prosecutors open criminal investigations into Tymoshenko, and sentences her to seven years in prison.
- **2014:** The Maidan revolution and Crimea's annexation
- **2015 through 2020: Russia looms:** Eastern Ukraine remained in violence killing more than 14000 people
- **2019:** In April, Volodymyr Zelenskyy is elected president with an aim to support stagnating economy and the resolve conflict with Russia.
- **2021: The crisis escalates:** Russia sends about 100,000 troops to Ukraine's borders, ostensibly for military exercises. Putin asked Biden a number of security guarantees including banning Ukraine to becoming part of NATO.
- **2022: Russia moves in:** Leaders and diplomats from the U.S., Russia and European countries meet repeatedly to avert a crisis In the responses, officials say they cannot bar Ukraine from joining NATO, but they signal a willingness to negotiate over smaller issues like arms control.

## Pakistan and Russia Relations and Trade

- Pakistan never had strong foreign relations with Russia. Contract for importing wheat and gas are in pipeline.
- Exports of Pakistan to Russia in 2020 were worth \$ 144.5 million with major commodities in the export basket being fruits, articles of apparel knitted & non-knitted, articles of leather, cotton, surgical instruments, toys and cutlery.
- With an import value of \$613.1 million, Pakistan's imports from Russia were dominated by "*Cereal*" (Wheat) with imports worth \$287.3 million in 2020 which contributed 47 percent to total Pakistani imports from Russia.
- For Pakistan, there exists an export potential of around \$2.8 billion in Russia mainly driven by the textiles (\$1.6 billion), agricultural products (\$330 million), surgical items (\$356 million), chemical & allied products (\$178 million), footwear (\$82 million) and plastic products (\$62 million).



## Pakistan and Ukraine Relations and Trade

- The total trade between the two stood at US\$ 801.2 million during 2021 including Pakistani exports to Ukraine of US\$61.7 million and imports of US\$ 739.51 million.
- 39% of Pakistan's total imported wheat comes from Ukraine. In 2020-2021, the principal import from Ukraine to Pakistan was Cereal (mainly wheat) amounting to US\$ 477.8 million, followed up by seeds and fruits, and iron and steel.
- Pakistan's exports to Ukraine have been rather conventional with the primarily focus on staple fibers (cotton yarn, jute yarn, wool yarn, silk yarn etc.) – essentially half of the total exports to Ukraine, followed up by Edible fruits, nuts, rice, raw cotton etc.

## Higher Commodity Prices

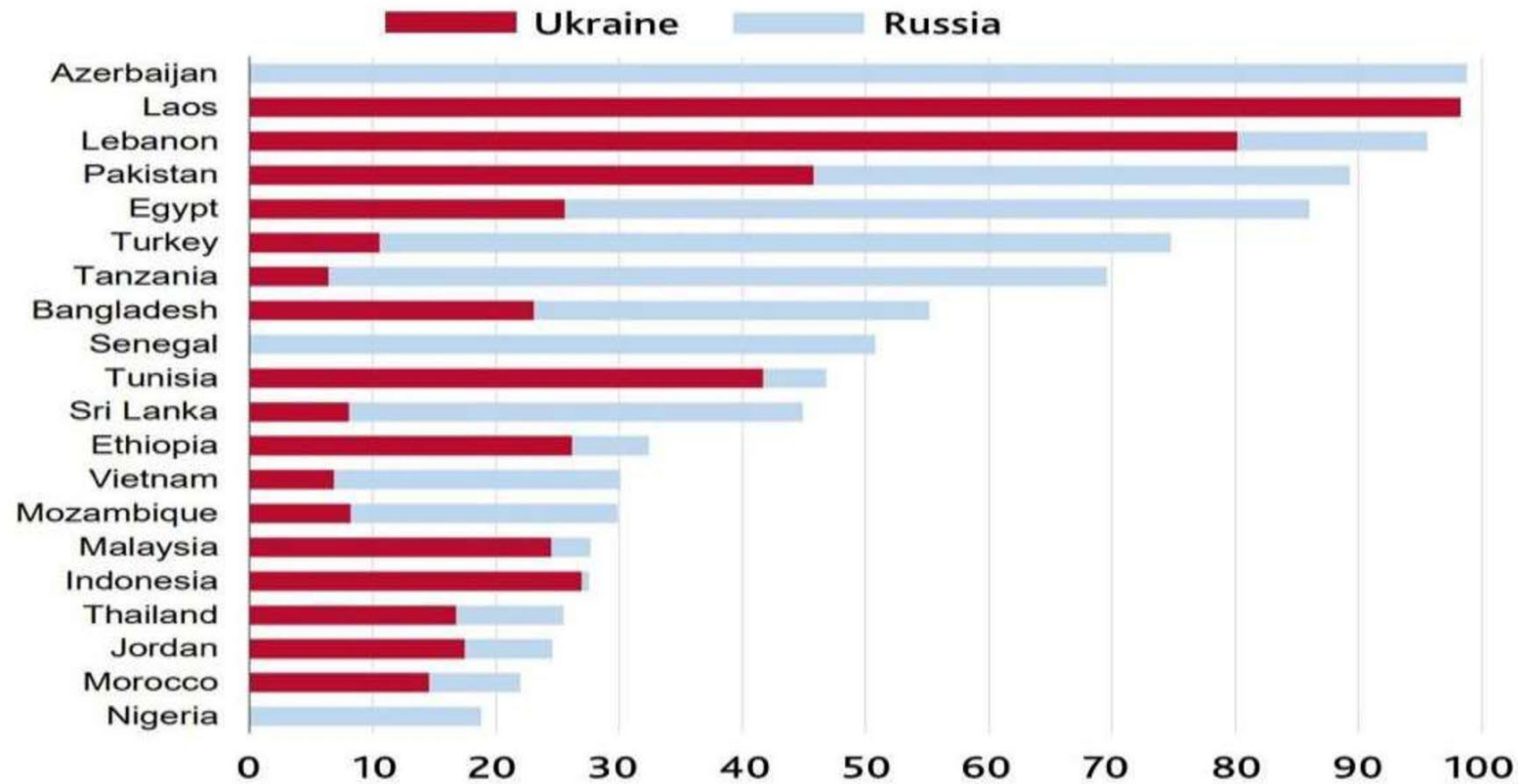
*The recent conflict resulted in higher commodity prices which will impact Pakistan's economy.*



# Wheat Import would be a challenge

*Pakistan imports Wheat from Ukraine and Russia.*

Wheat imports from Ukraine and Russia as % of total



## Oil prices continues to rise

*Pakistan is a net oil importer.*

Daily spot prices for Brent closed at almost \$124/b in the first week of March due to Ukraine-Russia Conflict.

EIA expects the Brent price will average \$117/b in March, \$116/b in 2Q22, and \$102/b in the second half of 2022 (2H22). We expect the average price to fall to \$89/b in 2023.

Global Petroleum and Other Liquids				
	2020	2021	2022	2023
<b>Supply &amp; Consumption</b>	(million barrels per day)			
Non-OPEC Production	63.12	63.89	66.56	68.31
OPEC Production	30.75	31.66	34.44	34.66
OPEC Crude Oil Portion	25.59	26.28	28.95	29.18
Total World Production	93.87	95.55	101.00	102.97
OECD Commercial Inventory (end-of-year)	3,025	2,677	2,781	2,863
Total OPEC surplus crude oil production capacity	5.38	5.44	3.31	3.63
OECD Consumption	42.03	44.60	46.03	46.31
Non-OECD Consumption	49.95	52.88	54.57	56.24
Total World Consumption	91.98	97.48	100.61	102.55
<b>Primary Assumptions</b>	(percent change from prior year)			
World Real Gross Domestic Product	-3.3	5.9	4.3	4.0
Real U.S. Dollar Exchange Rate <sup>a</sup>	1.7	-3.9	2.2	-1.2

<sup>a</sup>Foreign currency per U.S. dollar.

SOURCE: US ENERGY INFORMATION ADMINISTRATION



## High Inflationary Environment

*In the Post COVID era, the world is going through high inflation environment. The increase in commodity prices will further increase*



## Monetary Tightening

*A higher inflationary environment will result in sooner than expected monetary tightening.*





## Slowdown in Economy

*The above three factors will lead to slowdown in the economy impacting GDP Growth.*



## High Unemployment Rate

*The slowdown in economy may have an impact on unemployment levels as well.*





## Increase in Current Account Deficit

*A decline in exports and a higher import bill due to higher commodity prices may put a pressure on current account deficit.*



## Declining reserves and currency depreciation

*A higher current account deficit may impact an already low international external reserves mandating Pakistan to raise money through foreign sources. An already high interest rate may also have an impact on interest payments.*





## Higher Fiscal Deficit

*The government may need higher debt servicing due to increase in interest rates. We may also face decline in revenues due to slowdown in economy. It may result in higher fiscal deficit. Defense spending may increase globally.*



## Slowdown in the Stock Market

*With a high interest rate environment, stock market may expect some slowdown. Portfolio outflows are expected from emerging economies.*



*Disclaimer: The views shared in the presentation are based on author's research and opinion and don't reflect the opinion of the company*

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