Russia-Ukraine crisis: CEE, Egypt, Turkey most vulnerable for trade, energy, tourism ties

The Russian invasion of Ukraine has clouded the medium-term global economic outlook and threatens the recovery from the Covid-19 crisis. Trade, energy, tourism and finance are the primary channels through which the impact of the war and sanctions on Russia are spilling over to other countries, amid the broader uncertainty the conflict's duration, possible second-round effects and the consequences for business and consumer confidence. Our heatmap allows us to identify which countries stand to be most affected by the fallout from the crisis.

Specifically, we assess 12 indicators across trade, energy, tourism and finance to identify countries which are most vulnerable to the war and its consequences (see Annex for overview of the country sample and main indicators).

Figure 1. Most exposed countries per transmission channel*

Region	Exports	Grain markets	Supply chains	Energy	Tourism	Finance	Inflation
Euro area	Lithuania Latvia Estonia	Cyprus Malta Netherlands	Luxembourg Malta Slovakia	Austria Germany Italy Slovakia	Cyprus Estonia	Austria Italy France	Slovakia Estonia Spain
Non-EA Europe	Hungary Georgia		Hungary Czechia	Czechia Bulgaria Hungary Croatia	Georgia		Georgia
Other		Israel South Korea			Egypt Turkey		Argentina Turkey Ethiopia Nigeria

*The full list of 55 assessed countries is in Annex I. Source: Scope Ratings

Our analysis highlights the following vulnerabilities:

- **Exports:** Lithuania, Latvia, Georgia, Estonia and Hungary are the most exposed as exports to Russia and Ukraine countries make up more than 2.5% of their annual GDP.
- **Grain markets:** Cyprus, Israel, Malta, Netherlands and South Korea are most dependent on cereal imports, making up more than three quarters of domestic consumption, hence their vulnerability to disruption of Russian and Ukrainian agriculture.
- **Supply chains:** Luxembourg, Malta, Slovakia, Hungary, and Czechia appear most exposed to major disruptions to the global supply chains as their domestic industries are tightly integrated into international production processes.
- **Energy:** Austria, Germany, Italy, Slovakia, Czechia, Bulgaria, Hungary and Croatia are the countries most dependent on oil and imports from Russia.
- **Inflation:** Argentina, Turkey, Ethiopia, Nigeria, and Georgia faced mounting inflationary tensions at the onset of the war, leaving them particularly vulnerable to additional price pressures. The euro area also faces heightened energy-related price pressures.
- **Finance:** Austria, Italy and France's banking systems have closest ties with Russia, leaving them most exposed to financial-system risks from the crisis.
- **Tourism:** Georgia, Cyprus, Egypt, Turkey and Estonia heavily depend on Russians for tourism which makes up a high contribution of their GDP.

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Main exposure channels

1. Trade vulnerabilities

The war in Ukraine and the retaliatory sanctions taken against Russia by major western powers will cause a sharp fall in exports to both countries, due to exports bans as well as to the deep recession both countries are expected to experience. Countries most exposed to a fall in exports to Russia and Ukraine, i.e. whose exports to the two countries represent the largest share of GDP, are Lithuania (9.7%), Latvia (7.1%), Georgia (4.1%), Estonia (3.5%) and Hungary (2.9%).

The conflict will also rattle global grain markets due to Russia and Ukraine's positions as two of the world's top cereals exporters. The war has disrupted Ukrainian production and exports. Russian exports have also been impacted, largely following self-sanctioning by buyers reluctant to purchase Russian produce for fear of additional sanctions or reputational risk. Wide sanctions on the Russian financial system have also impaired usual financing channels for the trade of Russian commodities. The 'cereal import dependency ratio' measures how much of the domestic food supply of cereals has been imported, and how much comes from the country's own production. Within our sample, Cyprus, Israel, Malta, Portugal, Algeria in addition to Netherlands, South Korea and Japan are the most exposed.

The war is set to disrupt global supply chains, in view of Ukraine and Russia's role as exporters of some key inputs, including precious metals and noble gases. The level of import content of exports reflects the degree of a country's degree of integration in global value chains and allows us to identify which would be likely most impacted by these disruptions. Within our rating universe, these are Luxembourg (65.5%), Malta (53.9%), Slovakia (48.2%), Hungary (46.5%), and Czechia (42.4%). Smaller economies tend to have higher shares of imports embodied in their exports, while a wider variety of domestically sourced intermediate goods is available in larger countries or those with large natural resources, such as Norway, Chile and South Africa.

2. Energy-imports dependence

Russia's invasion of Ukraine led to a sharp jump in global energy prices and generated concerns regarding the security of the supply of oil and gas for importers. The conflict added to pre-existing upwards pressures on energy prices, in the context of a rebound in demand following the global recovery from the Covid-19 pandemic. To assess each country's vulnerability to a decline in Russian supply, we have collected data on each country's reliance on oil and gas, as well as the share of oil and gas sourced in Russia. We place a greater weight on countries' reliance on natural gas due to the greater logistical complexity for countries to diversify their sources of supply in the short-term.

We also take into account policy actions taken by governments in the wake of the conflict. While most highly exposed countries have largely maintained their energy ties with Russia to date, some have rolled out policies enabling them to drastically cut their reliance on Russian gas imports. Among the most exposed countries, these include the Baltic region (Lithuania, Latvia, Estonia) which stopped importing Russian oil and gas as of early April 2022, relying instead in the short term on ample gas reserves stored in Latvia. Finland has also signalled its aim to cut its energy ties with Russia in the coming months after having already drastically reduced its imports of Russian oil in recent weeks.

The countries most dependent on Russian energy imports, and thus most exposed to a short-term supply shock, include Austria, Germany, Italy and Slovakia in the euro area, as well as Czechia, Bulgaria, Hungary and Croatia among CEE countries. Each country sources a large share of its total energy consumption from Russia, ranging between 15% and 40%.

High energy prices will also feed into higher inflation, particularly for countries most dependent on imported oil and gas. Countries already faced with strong headline inflationary pressures include Slovakia, Estonia, Lithuania and Spain[1] within the euro area, as well as Hungary, Romania, Poland and Georgia among Eastern European countries.

Price pressures have been especially strong in Argentina, Ethiopia, Nigeria as well as Turkey, where inflation rates have hit decade-highs, putting countries in a vulnerable position should higher energy prices remain structurally elevated over the medium-term, or increase further.

Within price indices, the rise in energy prices has been singularly sharp in fossil fuel imports dependent countries such as Italy, Netherlands, Belgium and Turkey, which experienced energy price increases of close to or more than 50% in February 2022.

3. Tourism flows

The sanctions imposed by western powers on Russia following the Ukraine invasion also include a flight ban on Russian aircraft, which will durably hamper outbound tourism flows from Russia. Within Scope's publicly rated universe, Georgia, Cyprus, Turkey and Estonia are the most vulnerable to a dip in international travel from Russia, due to the high contribution of the tourism sector to their economy as well as to the high share of Russian tourists in international inbound tourists.

While Turkey has not imposed travelling sanctions to Russian citizens, its tourism sector still stands to be impacted by the crisis due to the large loss in buying power Russian households experience because of the crisis. Russian visitors typically account for about 14% of international inbound tourists in Turkey, with the sector contributing more than 10% of annual GDP. Other countries in our sample, however, notably Egypt appear still more affected.

4. Banking system interlinkages

The US, EU and UK, along with other allies, have imposed strict sanctions on Russia's banking sector aimed at excluding the country's economy from the global financial system. Since Russia's 2014 annexation of Crimea, western banking groups had largely retreated from the Russian market and should thus be insulated from these sanctions to a large extent. Still, based on the share of assets in Russia, the banking sectors of France, Italy and Austria are most exposed to the sanctions, though this largely reflects the positions of stable, well-capitalised groups, such as Société Générale, Unicredit and Raiffeisen Bank in each country respectively.

Concluding remarks

Although the final impact of the ongoing war in Ukraine to the global economy remains highly uncertain, we can expect European countries will be among the hardest hit in the short-to-medium term. Most vulnerable countries are Russia's neighbours in central and eastern Europe due to their reliance on Russian energy imports as well as to the density of their trade ties with the country. Still, rising energy costs and supply chain disruptions are likely to affect most euro area countries as well, particularly Germany, Austria and Italy, which are singularly dependent on Russian gas imports among core EU members.

The repercussions of the shock on each country's real economy will also depend on the magnitude of the policy response of each government. The availability of monetary and fiscal buffers should thus prove decisive, to the disadvantage of highly exposed developing countries.

[1] See Scope (2022), Spain's surging inflation sets back economic, fiscal recovery; growth to slow in 2022

Annex: Overview of Scope's main indicators – Western Europe, Anglosphere, Nordics

Country	Trade				Energy		Tourism		Finance	Inflation	
	Exports to Russia	Exports to Ukraine	Cereal import dependency ratio	Import content of exports	Russian gas imports	Russian oil imports	Tourism sector	Russian tourists	Domestic banks, Russia exposure	Inflation, Headline	Inflation, Energy
	% of GDP	% of GDP		% of total exports	% of total energy consumption		% of GDP	% of international tourists	% of total assets	Latest year-on-year	Latest year-on-year
Austria	0.6	0.1	15	31	10-20	1-10	15	1	1.7	6.7	27.6
Belgium	0.9	0.1	68	36	1-10	1-10	6	1	0.0	8.3	61.0
Cyprus	0.2	0.1	99	32	1<	1-10	24	18		7.1	13.3
Estonia	3.0	0.6	-343	36	1-10	1-10	15	7		15.2	36.1
Finland	1.3	0.1	-17	29	1-10	20-30	8	3	0.0	5.8	23.8
France	0.2	0.0	-115	25	1-10	1-10	9	1	0.3	4.5	21.6
Germany	0.7	0.1	-7	24	10-20	10-20	11	1	0.1	7.2	22.5
Greece	0.1	0.1	29	31	10-20	10-20	20	3	0.1	8.8	41.2
Ireland	0.1	0.0	46	40	1<	1-10	6	0	0.0	6.7	29.9
Italy	0.4	0.1	35	23	10-20	1-10	13	1	0.7	6.5	46.4
Latvia	6.3	0.8	-168	24	20-30	10-20	9	11		11.5	20.3
Lithuania	7.9	1.8	-224	30	10-20	40-50	5	6		15.7	44.7
Luxembourg	0.2	0.0	13	66	1-10	1<	4	1		6.1	37.6
Malta	0.0	0.0	87	54	1<	20-30	27	1		3.9	
Netherlands	0.8	0.1	85	33	1-10	10-20	5	1	0.2	9.7	56.5
Portugal	0.1	0.0	74	31	1-10	1-10	18	1	0.0	5.3	15.0
Slovakia	1.3	0.7	-86	48	20-30	10-20	6	1		10.4	16.4
Slovenia	1.8	0.5	30	36	1-10	1-10	12	1		5.4	22.3
Spain	0.2	0.0	37	24	1-10	1-10	15	1	0.0	9.8	44.3
Australia	0.0	0.0	-178	11	1<	1<	11	0	0.0		
Canada	0.2	0.0	-81	25	1<	1<	7		0.0	6.4	24.1
New Zealand	0.0	0.0	43	15	1<	1-10	18	0			
United Kingdom	0.2	0.0	9	18	1-10	1-10	11	0	0.0	7.0	22.7
United States	0.3	0.0	-23	10	1<	1-10	8	0	0.1	8.6	25.6
Denmark	0.3	0.1	-13	32	1<	1-10	8	0	0.0	5.4	30.6
Norway	0.1	0.1	42	16	1-10	1-10	9	1		4.5	16.8
Sweden	0.4	0.1	-24	26	1<	1-10	10	0	0.0	6.0	20.7
Switzerland	0.4	0.1	57	24	1-10	1<	9	1	0.1	2.4	18.8

Some cells were left blank for reasons of data availability. Most data refers to 2021.
Source: IMF, FAO, OECD, Eurostat, Acer, OEC, IEA, Comtrade, WTTC, BIS, National statistical offices

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Annex: Overview of Scope's main indicators – CEE, Africa, Latin America, Asia

Country	Trade				Energy		Tourism		Finance	Inflation	
	Exports to Russia	Exports to Ukraine	Cereal import dependency ratio	Import content of exports	Russian gas imports	Russian oil imports	Tourism sector	Russian tourists	Domestic banks, Russia exposure	Inflation, Headline	Inflation, Energy
	% of GDP	% of GDP		% of total exports	% of total energy consumption		% of GDP	% of international tourists	% of total assets	Latest year-on-year	Latest year-on-year
Bulgaria	0.7	0.4	-194	37	10-20	10-20	11	2		12.4	15.4
Croatia	0.4	0.1	-27	23	20-30	1-10	26	1		7.3	2.7
Czech Republic	1.7	0.5	-71	42	10-20	1-10	8	3		12.7	25.0
Hungary	1.2	1.7	-82	47	10-20	10-20	8	2		8.5	13.2
Poland	1.4	1.0	-15	31	1-10	1<	5	1		11.0	15.6
Romania	0.4	0.3	-44	24	1-10	1<	5	0		10.2	
Serbia	1.7	0.2	-46		10-20	1-10	7	2		9.1	0.6
Georgia	2.8	1.4	63		1-10	1-10	30	19		11.8	42.5
Algeria	0.0	0.0	71		1<	1-10	7	2		9.2	2.1
Egypt	0.1	0.0	48		1<	1-10	11	33		10.5	4.3
Ethiopia	0.0	0.0	8		1<	1<	7	0		34.7	17.8
Kenya	0.1	0.0	44		1<	1<	10			5.6	4.8
Morocco	0.2	0.0	57	32	1<	1-10	18	0		0.0	1.1
Nigeria	0.0	0.0	19		1<	1<	5			15.9	11.8
South Africa	0.1	0.0	15	20	1<	1<	9	0		6.1	23.4
Argentina	0.2	0.0	-166	11	1<	1<	10			55.1	29.1
Brazil	0.1	0.0	-18	13	1<	1<	8	0		11.3	
Chile	0.3	0.0	43	14	1<	1<	11	0		9.4	17.8
Colombia	0.0	0.0	62	12	1<	1<	6	0		8.5	13.0
Mexico	0.0	0.0	33	33	1<	1<	16	0		7.5	5.1
Peru	0.1	0.0	52	13	1<	1<	10	0		7.5	11.9
China	0.3	0.0	3	18	1<	1-10	11	8		0.8	-0.5
India	0.1	0.0	-5	20	1<	1<	9	2	0.0	7.0	
Israel	0.2	0.0	97	20	1<	1-10	6	8		3.5	11.3
Japan	0.1	0.0	70	17	1-10	1-10	7	0		0.9	20.5
South Korea	0.4	0.0	78	32	1<	1-10	5	1	0.1	4.1	12.6
Turkey	0.6	0.3	1	22	1-10	1-10	12	14	0.0	61.1	97.0

Some cells were left blank for reasons of data availability. Most data refers to 2021.
Source: IMF, FAO, OECD, Eurostat, Acer, OEC, IEA, Comtrade, WTTC, BIS, National statistical offices

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