



## Invasion of Ukraine: Early Assessment of Economic Impact

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*Rich*

*Our Weekly Briefs go to nearly 200,000 people around the world now, but one of our aspirations for 2022 is to establish a more direct dialogue with the most senior leaders receiving them. Starting today, you will notice this Weekly Brief is addressed directly to you, and if you click on the email in our signatures you'll be responding directly to one of us. We look forward to engaging with you in the year ahead.*

*Rich and Christoph*

To BCG's network around the world,

I'm struck by how quickly governments and corporations have responded to the

immense political and humanitarian crisis caused by Russia's invasion of Ukraine. An estimated 2.8 million refugees have fled Ukraine in under three weeks. We must continue to put people first.

Even as we all struggle to come to grips with the direct effects of the invasion, we have a responsibility to address the economic impact as well. A [new BCG Executive Perspective](#) offers what I think is an important first look at the challenges and implications for leaders.

Western allies moved quickly to issue sanctions against more than 1,000 individuals and hundreds of companies and other entities in Russia that will have second- and third-order impacts. Compared to January, commodity prices for gas and coal more than doubled, while prices for crude oil, wheat, and nickel have increased by over 50%. Meanwhile, [almost 400 companies](#) have limited or shut down operations in Russia.

#### 1.1.1.1 Supply Chain Disruptions

We were already navigating a highly stressed supply chain system before the invasion began, with imbalances caused by the pandemic and existing geopolitical tensions. The countries most directly affected by the invasion—Ukraine, Russia, and Belarus—make up a significant share of trade in Europe, accounting for 7.3% of imports and 5.3% of exports. But the ripple effect will extend well beyond Europe's borders.

Already-high steel prices could go up even more, as Russia is a major producer and supplies a substantial share of some of the critical inputs to steel producers globally. The well-known supply-demand imbalance in the semiconductor sector will only worsen, as gases critical for production become harder to source—further hitting automotive and consumer electronics. And with Russia a major fertilizer exporter and the largest exporter of wheat—together with Ukraine accountable for almost one-quarter of total wheat exports globally—agribusiness and food security will suffer. Other examples abound.

It's hard for business leaders to plan given the rapidly evolving situation. But there are two important perspectives to take now:

- **Actions for the Short Term.** Reconfigure supply chains and respond rapidly to disruption by redesigning networks, resetting inventory buffers, proactively managing suppliers, and engaging in scenario planning.

- **Actions for the Medium to Long Term.** Build supply chain resilience by updating sourcing networks and creating partnerships across industries.

The past two years of supply chain disruption have driven home just how interconnected the world has become—and how fragile the connections we’ve built can be. The invasion is testing that fragility more than ever.

#### 1.1.1.2 A Range of Second-Order Impacts

Thus far, markets and companies have responded mainly to the direct results of the invasion, but the impact on commodities, companies, and industries will evolve over time, and may have more complex second-order effects that leaders will need to navigate. These include:

- The effects of enduring higher energy and raw material costs
- The risk of recession and a resulting softening of demand
- The growing risk of cyberattacks
- A further escalation of sanctions and/or export bans

As the conditions change, so will the risks to many businesses’ operations and the most effective strategies for companies to take. We will continue to study these challenges over the coming weeks and months and share our latest insights and analysis along the way.

Until next time,



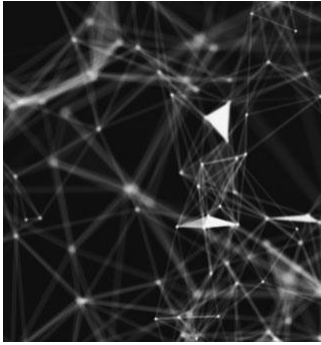
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Chief Executive Officer



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Global Leader,  
Global Advantage Practice

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## Further Reading



## War in Ukraine: Global Update and First View on Supply Chain Impact

The invasion of Ukraine is above all a humanitarian and political crisis, but it is also quickly driving disruption across supply chains.

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