Polish Economic Institute

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The restriction of commodity imports by the West would be a devastating blow to the Russian economy

Key numbers:

10% of Russian GDP – size of value added from final demand in the EU

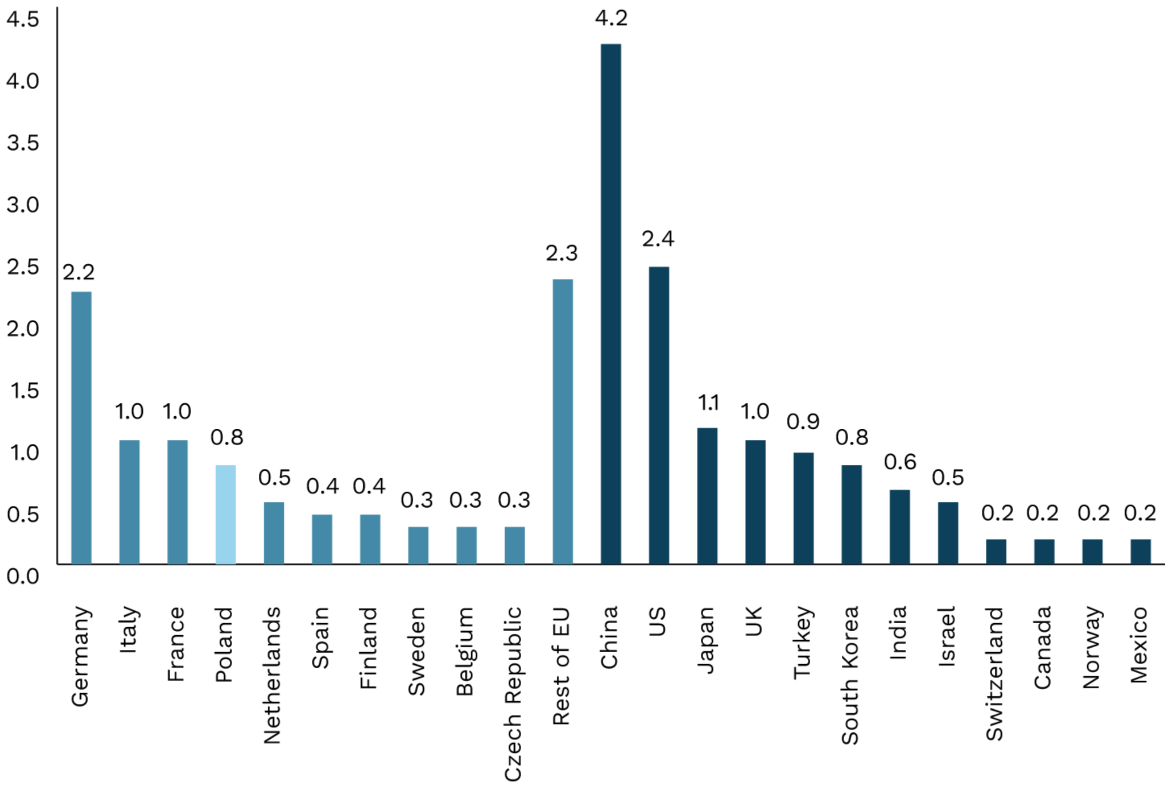
19% of the entire export of value added from Russia is generated by final demand in the EU for goods and services containing value added created in Russia

0.7% of EU GDP is created by final demand in Russia for goods and services containing EU value added

36% of Russia's revenue comes from oil and gas exports

- **Final demand in the EU, US, Japan and UK for goods and services containing Russian value added accounts for around 14% of Russia's GDP. If Turkey, South Korea and Canada are included, this rises to 16%.** This means that this percentage of Russian GDP reaches Western countries directly or indirectly. EU countries' demand for goods and services containing value added created in Russia amounts to around 10%. Germany accounts for the largest share (2.2%), followed by Italy and France (1% each). Poland accounts for 0.8% of Russia GDP. China's big share in generating Russian GDP results from the high oil exports from Russia and the fact that, in China, goods containing Russian value added created in different countries, not only China, are consumed; for example, German cars or American machines. In terms of value added, products and services linked to energy commodities exported from Russia, with the EU as their final destination, account for 58% of Russian value added delivered from Russia to the EU. This makes up as much as one-fifth of the total value added exported by Russia.

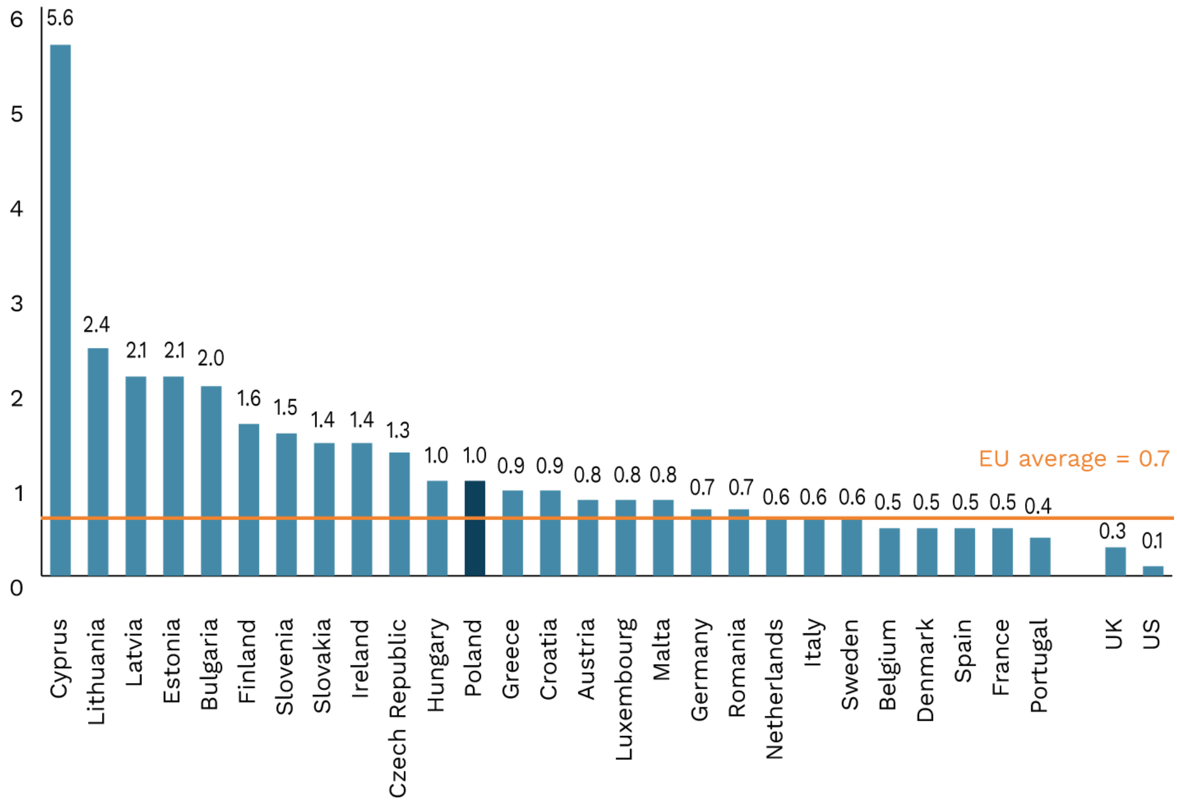
Chart 1. Percentage of Russian GDP generated by final demand in selected countries for goods and services containing Russian value added in 2018 (%)



Source: prepared by PEI based on OECD TiVA 2021 data.

- **For the EU, the final percentage of GDP generated by final demand in Russia for goods and services containing EU value added amounts to around 0.7% on average.** This means that sensitivity to retaliation and obstacles to exporting to Russia will have a limited impact on the EU economy. Cyprus is the most dependent on the Russian economy: 5.6% of its GDP is generated by final demand in Russia for goods and services containing value added from Cyprus. This mainly results from investments and financial services; for years, Cyprus has been the gateway to the EU for Russian capital. 80% of value added from Cyprus that reaches Russia is in the service sectors. This means that Cyprus has already largely borne the costs of the sanctions imposed on the Russian banking sector, which is why it feared those steps. To a lesser extent, a ban on exports and imports of goods should be a source of concern. The Baltic States and Bulgaria also have a noticeable dependence of over 2%. In contrast, Russia the importance of Russia for the British and US economies is negligible.

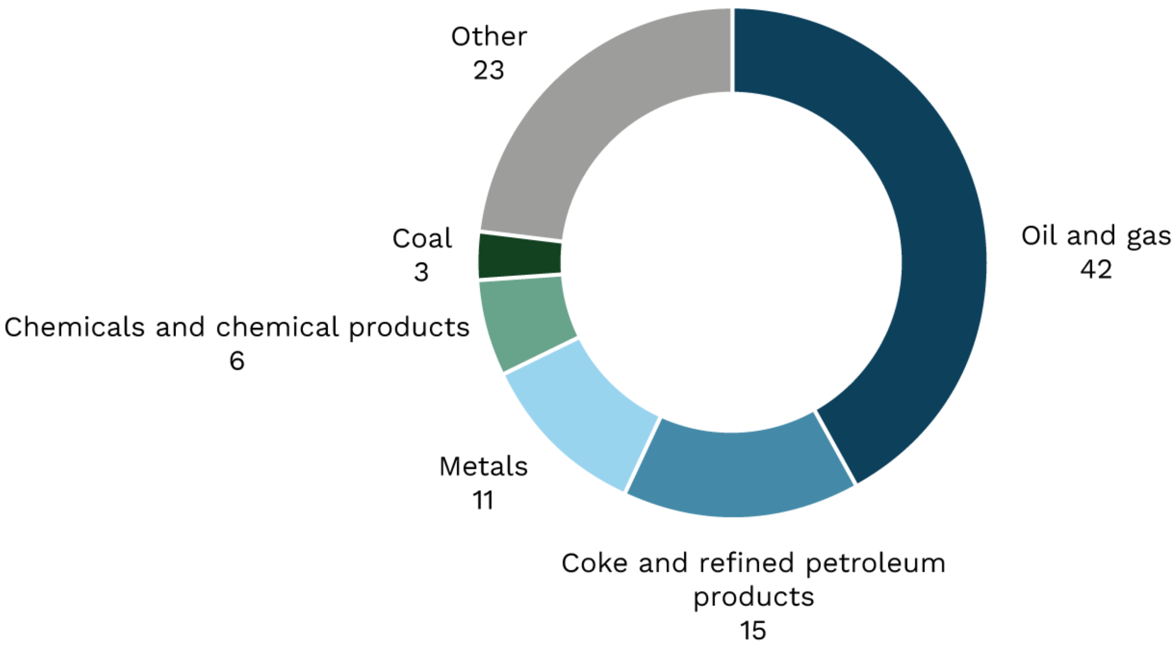
Chart 2. Percentage of selected countries' GDP generated by final demand in Russia for goods and services containing value added from these countries in 2018 (%)



Source: prepared by PEI based on OECD TiVA 2021 data.

- **The EU is the largest recipient of Russian goods.** In 2020, 33.8% of Russian exports went to the EU – twice as much as to China (15%). Another 6.9% of Russian production is exported to the UK and 3.3% to the US.
- **Russia has not diversified the structure of its exports enough.** In 2021, five groups of products accounted for over 75% of Russian exports: oil and gas, coke and refined petroleum products, metals, chemicals and chemical products, and coal. If the EU were to impose an import embargo on these products, it would reduce Russian exports of goods by EUR 135 billion.

Chart 3. Structure of EU imports of goods from Russia



Source: prepared by PEI based on Eurostat data.

- **Sanctions reducing oil and gas exports would do the most damage to the Russian budget.** In 2021, profits from oil and gas exports generated 36% of Russia's budgetary revenue; in previous years, this percentage was often higher. As the Polish Economic Institute points out (in the next article), it would be possible to disconnect the EU from energy supplies from Russia. The sanctions should also target other profitable export goods, such as precious and semi-precious metals, iron and steel, and fertilizers. Studies on the mutual dependence of the Russian and EU economies show that the Russian economy would suffer from these sanctions much more than Europe, in the event of potential retaliation.