THE ECONOMIC IMPACT OF CRISIS IN UKRAINE

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The shockwaves from the tragic events in Ukraine continue to reverberate around the global economy. Russia's aggression has triggered the most dramatic swings in global commodity markets since the 1970s. Two weeks on from the invasion, markets have retreated from their recent highs, but uncertainty remains elevated. What is clear is that rising costs for energy and other commodities will add to inflationary pressure in the UK and elsewhere in the months ahead, squeezing household incomes. Disruption to trade in key raw materials has the potential to exacerbate existing bottlenecks in global supply chains. Economic forecasts see the ongoing recovery from COVID as more muted, but not yet de-railed, though the CBI's forthcoming March business surveys will provide an early indication of the impact on wider business sentiment.

The conflict has also triggered a profound shift in geo-political priorities, with moves by the US, UK, EU and other countries to scale back imports of energy from Russia, placing energy security at the top of political agendas and accelerating commitments to energy diversification. Military spending across Europe is set to rise. And European countries are likely to have to absorb millions of refugees in the coming months. While all these trends will have significant economic implications for the medium term, this note takes a short-term view, updating our initial analysis of the immediate impact on the UK economy. It focusses on four main transmission channels: higher global commodity prices; trade disruption; financial market volatility and increased uncertainty. Initial reflections from CBI members appear to confirm that the first two of these are the most important. But though the transmission mechanisms are clear, the scale of the impact remains much less certain.

Summary

- At a macro level, higher energy prices are the greatest concern for the UK economy, resulting in further upward pressure on inflation and a moderate hit to GDP growth over the next two years.
- Russia's share of UK energy imports is low. However, Europe's high dependency on Russia for its energy supplies represents a significant downside risk to economic activity, with even small disruptions to supply sufficient to curb European production and send global energy prices higher.
- The UK's direct trade with Russia and Ukraine is limited, but their role as exporters of key raw materials means disruption to global supply chains is likely. Global prices for non-energy commodities—eg, industrial metals and foodstuffs—have also surged.
- Although individual banks and companies with operations in Russia and Ukraine are having to adapt to sanctions and voluntary curbs on business with Russian entities, Russia is a relatively small economy, which should help contain the risk of "contagion" through the global financial system.
- The prospect of further increases in energy prices sharpens the dilemma facing the Bank of England's Monetary Policy Committee. The MPC must weigh up the near-term impact of higher commodity prices on domestic inflation against corresponding hits to demand (via the impact on real household incomes and firms' earnings).
- While heightened uncertainty might normally encourage the Bank to adopt a "wait-and-see" approach, given existing concerns around near-term inflation expectations and wage-price dynamics, higher energy and commodity prices are likely to persuade the MPC to raise interest rates further in the coming months, though more gradually than previously expected.

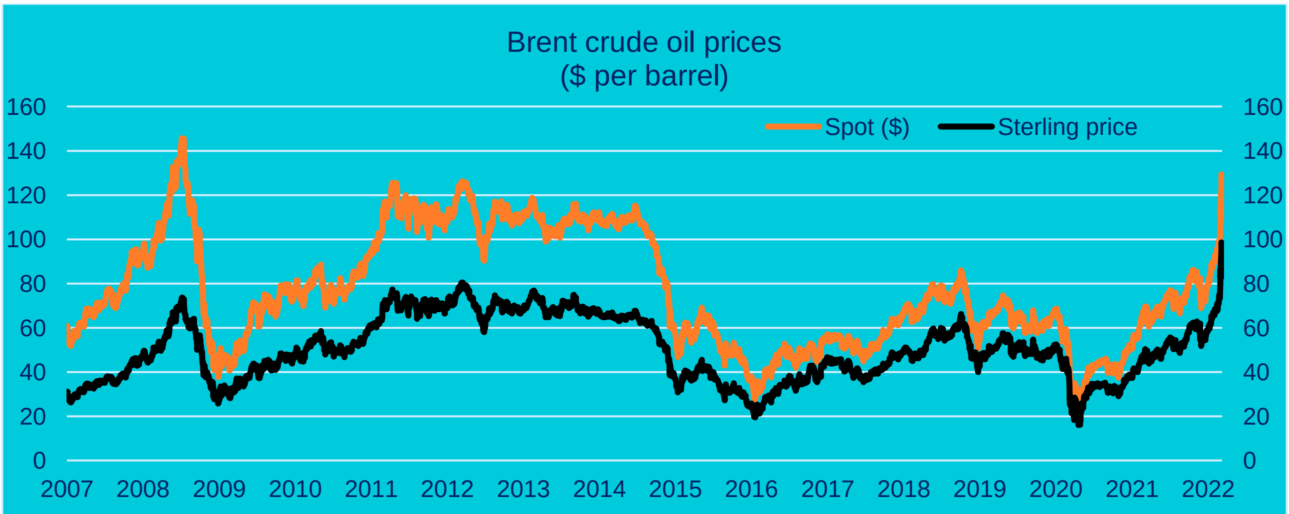
The main impact channels:

Commodities

Overview

The most immediate impact on the UK economy will come through the sharp rise in global commodity prices in the wake of Russia's invasion, in particular for oil and gas. The UK gets only a small share of its energy from Russia, but the prices that companies and households pay are closely linked to developments in European markets. And Russia is the biggest provider of gas to mainland Europe, as well as a major exporter of crude oil and refined petroleum products. So far, direct oil and gas flows via pipelines from Russia to Europe have continued, but seaborne trade of Russian oil, metals and grains is declining as traders struggle to secure insurance or letters of credit or voluntarily seek alternative suppliers. With Russian supply effectively curtailed, commodity markets have been extremely volatile, with international oil prices moving sharply higher and Russian oil trading at a heavy discount. There has also been a broad-based rally in global prices for a range of commodities in which Russia and Ukraine specialise, notably including foodstuffs and a host of industrial metals.

- The European economy is at the epi-centre of the shock to commodity markets. Russia accounts for 27% of EU oil imports and traditionally 30%-40% of the EU's gas imports, though this share has diminished closer to 20% this year as EU countries seek alternative supplies.
- By contrast, the UK is much less exposed than Europe to the physical disruption of its energy supplies. Overall, Russia accounts for less than 4% of the UK's gas supply and around 8% of imports of crude oil. However, UK businesses and consumers will need to pay higher prices.
- The price of a barrel of Brent crude rose above $100 per barrel following Russia's invasion and has fluctuated wildly between $110-140 p/b ever since, as markets reacted to sanctions and rumours of additional supply from strategic reserves or Middle Eastern producers. Having retreated from its multi-year highs, Brent crude was trading around $110 p/b on March 10th—an increase of 13% since the invasion began and 40% since the start of 2022.
- UK wholesale gas futures have been similarly volatile, with a one-month contract hitting highs above 800p per therm in intra-day trading in early March, before settling around 300p per therm on March 10th—an increase of 40% since the invasion started and almost 100% since the start of the year. UK gas prices have increased five-fold since March 2021.
- Prices for a range of industrial metals have also spiked. Prices for palladium (used in catalytic converters) have risen by 20% since Russia's invasion. Aluminium prices rose by 17% following the invasion, before settling 4% up by March 10th, up over 20% since the start of the year. Nickel prices doubled in the space of two days before trading on the LME was suspended on March 8th.
- Russia and Ukraine are the world's largest and third largest exporters of wheat, respectively, together supplying more than one-quarter of the world's wheat exports (8% from Ukraine). Ukraine supplies 12% of barley exports, almost 13% of corn exports and 40% of sunflower oil exports. Wheat prices have jumped by 20% following Russia's invasion. Russia is also the world's largest exporter of fertilisers and the second largest supplier of ammonia, a key input for fertiliser production.



Source: Macrobond.

What are CBI members saying?

Within industry, a number of sectors are particularly exposed to higher energy prices. This is especially the case for electricity generation. As was evident in 2021, higher gas prices will quickly feed through to higher wholesale electricity prices, resulting in an even more pronounced impact on households' purchasing power and company profits. As Table 1 below shows, one of the most energy intensive activities of all is the manufacture of fertilisers and industrial gases. When soaring gas prices in 2021 prompted one US-owned fertiliser company to scale back fertiliser production in the UK, it was revealed that as a by-product the firm also supplied 60% of the UK's carbon dioxide, a vital input into the food supply chain. In the metals sector, smelting capacity has already been reduced across Europe over the last year in response to high energy prices. Other sectors that are particularly vulnerable include petrochemicals and non-metallic minerals (glass, cement, ceramics, etc.). Meanwhile, with transport accounting for the overwhelming majority of oil consumption, higher oil prices will quickly feed through to fuel prices. Air transport is the most of energy intensive sector by far.

- High energy prices have the potential to curb production in the most energy-intensive sectors. A power generation firm reported their first loss of business as an on-site customer pulled back production due to high energy prices. A manufacturer of industrial gases reported customers switching off their plants because of high gas prices. An energy firm said a planned delivery of steel was suspended because the Italian supplier had shut down its operations due to high energy costs.
- A minerals firm that supplies potash (an ingredient of fertilisers) described energy costs as their key concern. An agricultural association highlighted the potential implications for fertiliser supply, noting that farmers are under increasing pressure to pass on higher fertiliser costs to consumer prices.
- A number of airlines have warned that higher fuel prices may cause a reduction of flights on less profitable routes, while flight times and costs to destinations like Japan, South Korea and India will increase now that carriers are no longer able to fly over Siberia.
- High energy costs will be passed down supply chains. Companies from a broad range of sectors, spanning manufacturing and services, had already indicated concerns over energy costs in recent months. A manufacturer of packaging materials said they were facing a chronic crisis in energy. An alcoholic drinks firm noted that energy prices were having a severe impact on product costs, as distillation and glass manufacturing are energy intensive. A clothing firm warned of rising airfreight costs from already high rates.
- Pressure on businesses' costs is likely to increase as energy hedging contacts expire. A ports operator noted they will face a further rise in fuel costs and though other energy costs were hedged for the moment, both energy and fuel costs will be a concern in the future. A consumer services group with a large food retail chain told us they had hedged energy costs until the first quarter, but their new contract includes a variable element, while the fixed price component has also increased.

Table 1: Top 20 most energy intensive sectors/industries, 2019

Gross calorific values, Terajoules per £ m

Industry/sector	
Air transport services	447.2
Manufacture of industrial gases & fertilisers	113.4
Manufacture of coke oven & refined petroleum products	103.6
Manufacture of basic iron & steel	60.6
Manufacture of petrochemicals	58.1
Mining of coal and lignite	34.9
Manufacture of other basic metals & casting	34.2
Fish and fishing products	29.9
Manufacture of glass, ceramics, etc	27.8
Water transport services	27.3
Manufacture of cement, plaster & related	25.1
Manufacture of dyestuffs & agro-chemicals	21.1
Manufacture of vegetable and animal oils and fats	17.4
Rail transport	17.1
Paper and paper products	16.3
Crude petroleum and natural gas	16.1
Wood and wood products (excl. furniture)	14.9
Rubber & plastics products	14.6
Public transport (including taxis)	14.6
Electricity production	13.8

Source: ONS, "Energy use reallocated and energy intensity in the United Kingdom, 1990 to 2019".

What's the outlook for commodity prices?

Clearly further increases in commodity prices remain a risk as a result of physical supply disruptions or the evolving political response to the conflict. Recent announcements by the governments of the US, UK, EU and others to ban or scale back purchases of Russian energy imports demonstrate a willingness to extend sanctions on the Russian economy further. In particular, the US Treasury has suggested that it could seek to disrupt the repatriation of Russian exporters' offshore earnings, to avoid diluting the impact of curbs on access to foreign exchange reserves by Russia's central bank. Such a move would effectively lower the cost to Russia of retaliating to sanctions by restricting its own commodity exports. Coming after two years of falling inventories as a result of the COVID pandemic, commodity supply is likely to remain restricted so long as the conflict is ongoing or until Russian commodity exports can be redirected into alternative markets (potentially China or India), a process that could take months, if it occurs at all.

- As of March 10th, Brent crude futures pointed to oil prices remaining in the $100-110 p/b band through to early summer, before easing below $100 p/b by the end of the year. Markets are likely already pricing in a further release of strategic petroleum reserves, in addition to 60m barrels announced on March 1st. A $20 p/b fall in oil prices on March 9th was largely driven by hopes that OPEC+ could boost production, while rumours that the US could move to loosen sanctions on Venezuela and Iran in order to release more oil supply could ease some of the pressure on prices.
- However, the risks are skewed to the upside, given the near-term difficulties of replacing any significant portion of Russian crude exports of 7m b/d (6m b/d of which clears through the now dysfunctional seaborne market). There also remains a risk that Russia could seek to retaliate to sanctions by seeking to curtail gas exports to Europe. In such a scenario, it is expected that energy prices would exceed recent records—with oil surpassing the $140 p/b level seen briefly in mid-2008. This would increase the chances of a recession.
- While markets for non-energy energy commodities have retreated from recent highs, soaring food prices remain a major concern given uncertainties around Spring planting in Ukraine. A preliminary assessment by the UN Food and Agricultural Organisation suggests that sudden shortfalls in grain and sunflower seed exports from Russia and Ukraine could only be partially compensated for by alternative suppliers during 2022/23 season, with the result that international food and feed prices could rise by a further 8%-22% above already elevated levels.

Trade and investment

Overview

Russia and Ukraine are relatively small economies and direct sales or earnings for UK firms are comparably limited. Many companies have suspended shipments to Russia or paused/closed their operations. Those that continue to trade are adjusting operations in response to the collapse of the rouble. Although direct trade is small, the two countries' role as exporters of key raw materials to the global economy means disruption through global supply chains is likely. At a time when backlogs in supply chains were only just beginning to show signs of improvement following the COVID pandemic, the impact of trade disruption is likely to be greater than direct exposures suggest. Indeed, indirect exposure via supply chain blockages is already evident in some sectors, with automotive production having been curtailed at some UK and European plants following shortages of components from Ukraine. However, the limited direct exposure of Western financial institutions to the Russian economy should limit the risk of "contagion" through global financial markets.

- Russia and Ukraine represent small export markets for the UK—1% for Russia and even less for Ukraine. Shares are slightly higher for other major European economies (5% in for Germany), but considerably higher for eastern European countries, notably Poland (20%) and the Baltic states.
- UK exports to Russia are worth around £4.3bn per year, dominated by business services (£450m), cars (£386m), telecoms & computer services (£277m), pharmaceuticals (£272m), financial services (£269m), and a range of capital equipment. UK imports from Russia are worth around £11.6bn per year, mainly consisting of energy and other commodities.
- The UK's total assets in Russia were worth around £36bn in 2020 (less than 2% of GDP). Of this, direct investments in Russian firms were worth £11bn.
- Direct exposures of UK and other European banks to Russia small, at less than 1% of their total direct exposures. Out of Russian entities' \$121bn exposure to all foreign banks, \$90bn was to owed to European banks, of which UK banks account for \$3bn.

Rather than looking at direct trade flows, an alternative way to understand the potential impact of the disruption to trade with Russia is to look at "value added" trade data, which takes into account the role of Russian exports (including commodities and intermediate inputs) in the exports of other countries. This can give an indication of the potential for disruption through global production chains. Table 2 below provides a snapshot of these links for European economies (with the US included for comparison). It reveals the importance of geography in determining trade links, with Russia a significant supplier of inputs into cross border supply chains in many industries in Eastern Europe. On average, Russia accounts for between 3% and 8% of the total value added of exports in Hungary, Poland, Finland and the Baltic states. This compares with shares of less than 1% for countries on the western fringes of Europe.

In certain industries, however, Russia's footprint extends relatively deeply into Western European supply chains—notably petroleum products, but also basic metals and chemicals. For example, Russia is the source of 17% of value added in Dutch exports of petroleum products, 13% of Italian exports and almost 10% of French exports—products that are frequently destined for other European markets. These figures highlight the particular risk of any disruption to supplies of crude oil through the Druzhba pipeline, which could threaten the operations of oil refineries and chemicals production sites located close to pipeline terminals in Hungary, Slovakia, Czech Republic, Poland and Germany. Overall, however, the data suggest that disruption to trade with Russia should be manageable, with the top line of the table highlighting the relatively limited role of Russia as a direct source of value added in the majority of sectors and for many European countries—including in the UK.

Table 2: Russian inputs into European/US exports

Value added sourced from Russia as a percentage of countries' gross exports

	US	IRL	CHE	GBR	ESP	FRA	PRT	AUT	BEL	DEU	ITA	DNK	SVN	NLD	SWE	CZE	HUN	POL	EST	GRC	LVA	FIN	SVK	LTU
Total exports (including services)	**0.2**	**0.5**	**0.5**	**0.5**	**0.6**	**0.8**	**1.0**	**1.0**	**1.2**	**1.2**	**1.3**	**1.6**	**1.7**	**1.7**	**1.9**	**2.8**	**3.0**	**3.1**	**3.8**	**3.9**	**4.0**	**4.3**	**4.6**	**7.7**
Agriculture	0.2	0.7	0.5	1.0	0.3	0.6	0.6	0.7	1.1	1.1	0.7	1.2	1.0	0.9	1.5	1.8	2.4	2.4	4.3	2.4	4.4	2.3	2.1	4.0
Fishing	0.1	0.5	0.2	0.6	0.6	0.9	0.7	0.8	2.0	0.8	1.0	1.8	0.9	0.9	1.8	2.3	2.3	2.9	4.3	1.9	2.9	1.9	2.7	6.2
Oil & gas	0.2	1.0	0.7	0.4	0.1	0.1		1.1		5.8	2.0	0.4	1.6	1.1	3.5	1.7	3.7	2.2	3.9	1.6	5.1	3.1	5.3	8.0
Non-energy commodities	0.2	0.6	0.7	0.7	0.7	0.9	0.9	1.3	2.6	0.9	0.5	1.7	2.7	3.3	0.9	2.6	2.5	7.1	3.7	0.8	3.2	2.9	8.1	12.0
Mining services	0.1	1.0	0.1	0.5	0.7	0.2	1.1	0.8	2.0	0.8	0.2	1.0	5.2	3.4	1.6	4.8	2.2	0.4	4.0	2.1	4.2	2.3	1.5	3.9
Food & drink	0.2	0.8	0.5	0.5	0.4	0.5	0.6	0.8	0.9	0.9	0.9	1.1	1.2	0.8	1.0	1.6	2.8	1.7	3.4	1.9	4.4	1.9	1.9	3.4
Textiles & clothing	0.2	0.5	0.5	0.3	0.3	0.5	0.4	0.7	0.8	0.9	0.5	0.9	1.0	1.2	1.0	1.9	1.9	1.5	4.1	1.3	4.2	2.0	1.7	3.6
Wood products	0.3	0.9	0.5	1.6	0.6	0.6	0.8	1.0	1.1	1.1	0.8	1.3	1.6	1.0	2.1	2.0	2.3	2.3	5.6	2.5	4.1	3.6	1.4	3.7
Paper & printing	0.2	0.8	0.6	0.6	0.5	0.6	0.7	1.0	1.0	1.2	0.9	0.8	2.9	0.9	1.4	2.1	2.0	2.0	4.3	1.3	3.3	3.4	2.5	6.0
Coked & refined petroleum	0.5	0.7	1.7	3.5	2.2	9.7	9.2	3.2	3.7	10.1	13.2	3.1	14.7	17.3	22.4	23.8	34.1	28.0	7.3	11.4	32.4	37.6	59.7	45.3
Chemicals	0.3	1.1	0.9	0.9	0.9	1.5	1.5	1.6	1.7	1.8	2.6	0.9	2.4	2.3	1.8	23.1	8.4	5.9	10.0	3.6	5.9	5.3	5.5	6.0
Pharmaceuticals	0.1	0.3	0.4	0.3	0.4	0.5	0.6	0.6	0.4	0.6	0.8	0.3	1.3	0.5	0.8	1.4	2.2	0.8	2.9	1.1	2.4	0.8	2.7	2.2
Rubber & plastics	0.3	0.5	1.0	0.6	0.7	0.8	1.0	1.1	1.2	1.1	1.1	1.0	1.5	1.2	1.9	3.2	3.1	2.8	6.1	1.8	4.7	4.5	3.8	4.9
Non-metallic minerals	0.3	0.6	0.9	0.7	0.6	0.7	0.8	1.0	2.8	1.6	1.2	1.5	3.0	1.2	2.2	2.4	7.9	4.4	4.0	2.2	3.9	2.9	5.5	18.4
Basic metals	0.9	0.9	1.6	1.5	1.2	1.8	1.5	2.5	3.7	5.1	3.7	3.3	3.7	4.8	1.7	4.5	8.8	9.6	8.4	6.5	7.0	7.1	12.5	8.4
Metal products	0.6	0.6	0.6	0.5	0.9	0.9	0.9	1.5	2.0	1.4	1.2	2.0	1.8	1.8	1.3	2.3	2.6	3.2	7.1	3.6	8.6	4.5	2.4	4.7
Computers, electronics, etc	0.1	0.8	0.5	0.3	0.4	0.5	0.5	0.6	0.7	0.7	0.8	0.6	1.0	0.8	0.5	1.7	1.0	1.7	1.7	1.5	1.8	0.9	1.4	2.3
Electrical equipment	0.4	0.8	0.9	0.5	0.8	0.8	1.0	1.0	1.6	1.0	1.3	0.8	1.6	1.2	1.1	2.3	2.2	2.7	3.8	7.0	3.4	2.7	1.9	4.2
Machinery & equipment nec	0.4	0.7	0.6	0.5	0.6	0.7	1.0	1.0	1.1	0.9	0.9	1.1	1.8	0.8	0.7	2.4	1.7	2.4	5.2	2.7	5.4	2.0	2.6	4.7
Autmotive	0.4	0.7	0.6	0.6	0.7	0.8	0.7	0.9	0.8	0.8	0.9	1.5	1.5	0.8	0.8	1.8	1.4	1.9	2.5	2.4	10.9	2.1	1.6	3.8
Other transport	0.3	0.8	0.5	0.5	0.5	0.8	0.8	1.0	0.7	1.0	0.7	1.1	1.6	1.3	0.7	1.6	2.5	3.0	5.4	2.0	4.8	3.5	2.9	4.2
Other manufacturing	0.2	0.4	0.6	0.5	0.4	0.6	0.6	1.2	1.5	0.9	0.8	0.8	1.1	0.7	1.1	1.6	1.5	1.8	4.7	2.3	4.1	1.6	1.5	3.6

Source: OECD, Trade in Value Added (TiVA) data.

What are CBI members saying?

- Firms in a diverse range of sectors have told they have suspended shipments/services to Russia and Ukraine, either permanently or pending new processes for managing orders amid the evolving sanctions regime. This includes: supplies for the oil & gas industry; components for power generation; packaging materials; vehicles; machinery & equipment; medical devices; clothing; and logistics services. The Russian market tends to account for small shares of their overall business.
- Companies relying on imports from Russia have noted uncertainty over whether existing contracts will be fulfilled, affecting the supply of coal for steel production, metals such as aluminium and titanium, corn and wheat inputs for biofuels, pulp for the paper/packaging industry, and parts for machinery & equipment. Companies are setting up process to check whether future suppliers are compliant with sanctions. Retailers have withdrawn Russian goods from the shelves.
- Specific concerns have been raised over the future supply of some inputs, including: nickel (used in catalytic converters); car parts and particularly wiring from Ukraine, a key component in all vehicles; neon gas, which is used in the production of microchips; and titanium for the aircraft industry. A number of companies have also highlighted the role of Ukraine as a destination for IT outsourcing, with one highlighting a large number of developers working in Ukraine for UK businesses.
- A number of energy companies are seeking to divest from their Russian businesses. Some also have operational responsibilities that must be carefully managed to ensure the safety of people and protection of the environment. Beyond energy, Russia serves as manufacturing base, particularly for firms relying on inputs such as metals. Within the UK, a number of firms are examining their contracts with Russian entities, including energy intensive manufacturers as well as services providers (such as real estate).

Economic outlook: weaker growth, higher inflation

Although higher commodity prices and trade spillovers are likely to represent the most important channels through which the war in Ukraine will affect economic activity in the UK, the broader impact on confidence and the tightening of financial market conditions over the past two weeks has the potential to further weigh on growth, though changes have been fairly modest so far. As of March 10th, the FTSE-100 had lost a little over 4% of its value since the invasion—eroding the gains made during the previous few months. The FTSE-250 has lost a little under 4%. The pound has depreciated by around 3% against the US dollar, while remaining broadly stable against the euro. And yields on government bond yields have been broadly stable.

The net result of all the above factors for the UK economy is likely to be higher inflation and weaker growth. In the short-term, the impact of rising energy costs on CPI inflation and household incomes will be limited by Ofgem's price cap, which is fixed until October (assuming no changes before this). However, businesses may feel the effects on their energy bills more quickly—especially those that have not hedged or whose fixed price contracts expire in the coming months. Transport & logistics companies and motorists have already seen pump prices jump. Many economic forecasters now expect consumer price inflation to peak above 8% in April, with a second peak possible in October if the energy price cap is raised again. Inflation is also likely to remain higher than previously expected next year (for example, NIESR predicted inflation could be 2% points higher this year and next, averaging 7% in 2022 and 4.4% in 2023, up from 5.3% and 2.7% respectively in their February forecast).

Higher inflation will, in turn, add to the squeeze on real household incomes, weighing on spending on other goods and services. And for businesses, higher costs for energy and other inputs will put further pressure on profitability, leading some firms to scale back employment or investment plans. Academic research suggests that, as a rule of thumb, a 10% increase in the oil price would tend to lower the level UK GDP by 0.4%, with around half of the impact being felt within the first year, and remainder felt over the following 2-3 years. All else equal, therefore, the 60% rise in oil prices since early December, when our last forecast was released, implies a potential hit to the level of GDP of over 1% point this year, pushing growth down to around 4% (from 5.1% in our December forecast). Until recently, we held the view that the UK still had room to recover from the pandemic, with household spending supported by a healthy labour market spending and consumer spending expected to continue rotating from goods back to services as COVID numbers recede. High savings were also expected to provide a cushion for spending, though mainly for higher-income households.

The level of uncertainty over the outlook has undoubtedly increased, however. Consumer confidence had already weakened in February to its lowest in 13 months amidst rising inflation concerns. Business confidence and the ability to invest is likely to be lower—the first indications from CBI business surveys will be published later this month. Most important, the potential for further escalation of the conflict and/or significant disruptions to commodity flows could dramatically change the picture further.

Recent developments have sharpened the dilemma for the Bank of England. On the one hand, the Bank's Monetary Policy Committee (MPC) must weigh the risk that higher inflation will encourage workers to bigger pay rises and lead businesses to pass on costs through larger price increases. Meanwhile, higher inflation will add to the squeeze on household spending power and raises the prospect of a sharp slowdown in growth and below-target inflation over the medium-term. On the other hand, they would normally prefer to look through a commodity price shock such as this, preferring to allow inflation to temporarily rise rather than risk exacerbating the shock.

Historically, central banks have sometimes preferred to delay major policy decisions until uncertainty surrounding geopolitical risks has diminished. However, in the current climate, with concerns that a tight labour market is already stoking wage pressures, the MPC seems likely to raise interest rates further in the coming months.

For information on UK government sanctions and support, please visit the CBI website: www.cbi.org.uk/articles/ukraine-crisis/

We would also welcome your feedback and thoughts on the economic impact of the Ukraine crisis.

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