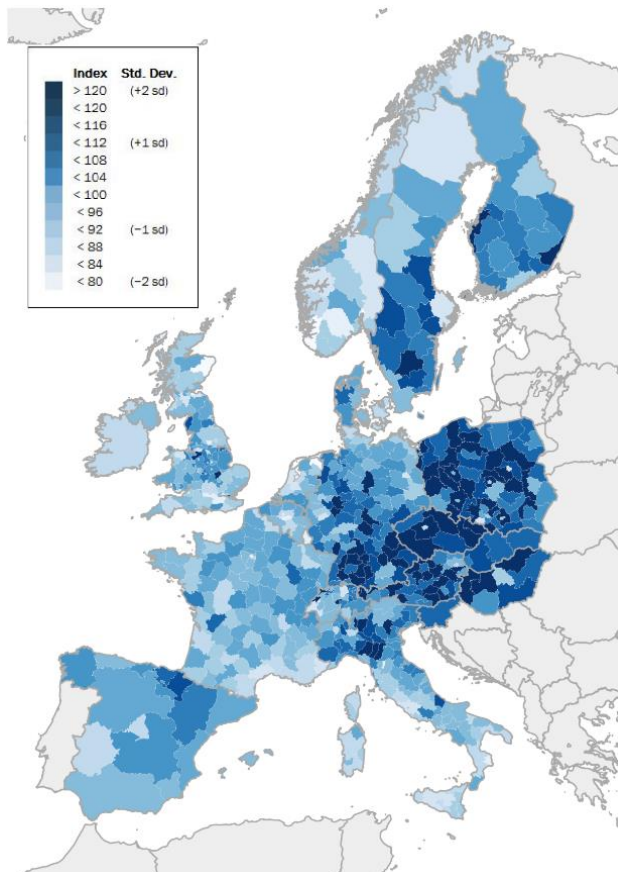


BAK Press release | War in Ukraine: impact on European regions

## Europe's industrial heartland put to the test by the war in Ukraine

BAK Economics, 31.03.2022 (Basel/Bern/Lugano/Zurich) – The war in Ukraine is causing great suffering for all those involved in the conflict and considerable economic consequences for European countries and regions. An analysis by BAK Economics regarding the structural impact on European regions shows a clear East-West divide: the regions of the Eastern European countries - Poland, the Czech Republic and Hungary - are the most affected, followed by the main industrial locations in Western Europe. By contrast, most Swiss regions are below the European average. Production sites in Eastern Europe are particularly exposed not only because of their geographical proximity to the center of war, but also because of their high industrial density, their close integration into global value chains and their high energy intensity. This makes these regional economies particularly vulnerable to the economic consequences of conflict. For similar reasons, albeit to a lesser extent, the industrial heartland of Western Europe is also being tested. The war also highlights the need to accelerate the structural change towards a greener economy and to strengthen supply chains in order to make them more crisis resistant.

### Map of potential regional impact (European regions Nuts 2/3)



Note: Potential regional impact index: sectoral impact multiplied by the respective regional economic structure (value added). The average of TL2 regions in European countries is set to 100. The standard deviation of the same sample variable is set to 10. An index value of 110 means that the region is more affected by the Ukraine-Russia war than the average, by one standard deviation. Source: BAK Economics

The war in Ukraine is having a major impact on the European economy. Moreover, it is affecting an economy that is still recovering from the pandemic crisis and is suffering from supply problems and rising prices. However, there are big differences between the regions of Europe. Some are direct, such as the reception of refugees or trade links with Russia. However, the indirect consequences have a much greater impact: rising prices, energy shortages, disruption of supply chains and loss of business opportunities.

The study highlights the large differences between European regions in terms of the potential exposure of their economies to the effects of the war in Ukraine. In this sense, the regional economic structures and the respective regional business models are decisive in defining the impact of the war and sanctions on the different economic sectors. It is also shown that some economic stressors are clearly identifiable: Eastern European industries are particularly affected not only because of their geographical proximity to the theatre of war, but also because of their high industrial density, their role in international value chains and their high energy intensity, all of which make them vulnerable to the disruptions caused by the crisis. For similar reasons, albeit to a lesser extent, the industrial heartland of Western Europe is also being put to the test.

Thanks to their economic structures, however, Swiss regions are less affected by the crisis than the European average: the canton most at risk is Jura, due to the precision cluster, while Basel-Stadt, with its pharmaceutical industry, is the least affected region. But even outside the structural elements discussed here, many regions are particularly exposed to economic risks. These differences in the intensity of the economic burden in Europe must be taken into account, particularly with a view to the discussion of aid packages and the measures to be implemented.

The war in Ukraine further demonstrates the great importance of regional resilience:

- The war in Ukraine highlights the need to move the economy towards more sustainable and decarbonised production models, especially given rising energy prices and dependence on Russian energy sources. The Ukrainian crisis reinforces and accelerates the pressure for structural change.
- As the pandemic crisis has already shown, the need to diversify global value chains is even more fundamental. There is therefore a clear need for decisive action by both the state and companies.

Regions that are more advanced in this structural change - decarbonisation, sustainable production models and diversification of supply chains - can better cushion the effects of the new crisis. Being at the forefront of structural change also helps to build regional resilience.

[LINK TO THE STUDY ANT THE MAP](#)

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