

### Box I.1.1: Key assumptions concerning the forecast

Given the high uncertainty over the unfolding of events, the Spring Forecast has to rely heavily on ad-hoc assumptions for forecasting purposes. For the customary technical assumptions underpinning the forecast, see Box I.5.1.

#### Russian invasion of Ukraine and geopolitical tensions.

The magnitude of the economic impact of the war is highly uncertain and depends crucially on its duration. The central scenario for the forecast of the global and EU economies assumes that geopolitical tensions will not normalise before the end of the forecast horizon. All sanctions against Russia stipulated until the cut-off date of the forecast<sup>(1)</sup>, including those already implemented after Russia's annexation of Crimea in 2014<sup>(2)</sup>, are assumed to remain in place throughout the forecast horizon. For Ukraine, a specific working assumption is made that economic activity remains unchanged in 2023 compared to 2022.<sup>(3)</sup>

#### People fleeing the war in Ukraine to the EU.

Assumptions on people fleeing Ukraine concern: cumulative net inflows into the EU in 2022 and 2023; their distribution across Member States; their integration in the labour market; and the associated fiscal costs for Member States. In a nutshell:

- The number of people fleeing the war in Ukraine to the EU would gradually reach 6

<sup>(1)</sup> For the EU, these sanctions are reported by the [Council](#). For non-EU sanctions, the [Brookings Sanctions Tracker](#) provides detailed information.

<sup>(2)</sup> Sanctions already implemented after Russia's annexation of Crimea in 2014 have an end date (currently extended until June 2022), which is assumed to be extended at least until the end of the forecast horizon.

<sup>(3)</sup> Note that the IMF also assumes sanctions to remain in place over the forecast horizon of the WEO. Staff expect a contraction in Ukraine's GDP in the order of 35% but did not produce a forecast for Ukraine for 2023. The ECB assumed that (i) there would be no further escalation of the war; (ii) over time there will be a resolution of the conflict but has not specified when this resolution would take place. Finally, no assumption was made on refugees. Forecasts for Ukraine by professional forecasters included in the March 2022 report of Consensus Economics vary markedly (e.g. GDP growth in 2022 between -15.0% and -46.5%, and in 2023 between -6.5% and +70%).

million by the end of 2022, and stay stable over 2023.

- Their geographical distribution is projected using four determinants with equal weights: (1) the distribution of Ukrainian immigrants in the EU in 2021; (2) the distribution of flows of Ukrainian immigrants by country over recent years (2015-20); (3) the relative population of Member States; and (4) the actual distribution of people fleeing Ukraine across the EU as of March 23 2022 (as estimated by DG HOME based on information provided by Member States).
- The employment rate of those arriving from Ukraine who are of working age increases from 8% (on average) in 2022 to 20% (on average) in 2023.
- Gross annual fiscal costs per person have been estimated based on EUROMOD, the tax-benefit microsimulation tool for the EU, for each Member State.<sup>(4)</sup> Fiscal estimates take into account that some of those arriving will take up work and that labour market behavior of Ukrainian nationals may resemble that of EU mobile workers.

#### The COVID-19 pandemic.

Overall, as in the Winter 2022 interim Forecast, the Spring Forecast assumes that the pandemic will not cause any major disruptions in the EU economy over the forecast horizon. However, absenteeism could continue to weigh on production for a few more months and uncertainty over the future evolution of the pandemic, including possible new shocks to labour supply, remains significant. For China, it is assumed that the current "dynamic Zero-COVID" policy is continued throughout the forecast horizon.

<sup>(4)</sup> Calculations are based on the methodology described by Christl M., Bélanger A., Conte A., Mazza J. & Narazani E. (2021), The fiscal impact of immigration in the EU, JRC Working Papers on Taxation and Structural Reforms No 01/2021, European Commission, Joint Research Centre, Seville.

**Rapidly increasing prices are set to curtail households' real incomes.** Higher energy and

food prices weigh on purchasing power, especially for lower income households that