

# СЕКЦІЯ 1

## ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ

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DOI: <https://doi.org/10.32840/2522-4263/2023-1-1>**Sheiko Iryna**

*Candidate of Economic Sciences, Associate Professor,  
Associate Professor at the Department of Economic Cybernetics  
and Management of Economic Security  
Kharkiv National University of Radioelectronics*

**Storozhenko Oleksandra**

*Candidate of Technical Sciences, Associate Professor,  
Associate Professor at the Department of Economic Cybernetics  
and Management of Economic Security  
Kharkiv National University of Radioelectronics*

**Kurdenko Oleksandr**

*Senior lecturer at the Department of Economic Cybernetics  
and Management of Economic Security  
Kharkiv National University of Radioelectronics*

**Шейко І.А.**

*кандидат економічних наук, доцент,  
доцент кафедри економічної кібернетики  
та управління економічною безпекою  
Харківського національного університету радіоелектроніки*

**Стороженко О.В.**

*кандидат економічних наук, доцент,  
доцент кафедри економічної кібернетики  
та управління економічною безпекою  
Харківського національного університету радіоелектроніки*

**Курденко О.В.**

*старший викладач кафедри економічної  
кібернетики та управління економічною безпекою  
Харківського національного університету радіоелектроніки*

### ECONOMIC IMPACT OF WAR FOR UKRAINE, EUROPE AND GLOBAL WORLD

### ЕКОНОМІЧНІ НАСЛІДКИ ВІЙНИ ДЛЯ УКРАЇНИ, ЄВРОПИ ТА ГЛОБАЛЬНОГО СВІТУ

#### ANNOTATION

This article analyzes the economic consequences of Russia's military aggression for directly fighting Ukraine, as well as Europe and the global world. Based on the analysis of statistical reports of international agencies, it was determined that the most significant challenges for the economic life of the countries were the increase in prices, especially for food and energy products, the slowdown in GDP growth, and the increase in the level of indebtedness of the countries. Countries with a low level of income and a high share of food costs in the family budget suffer the most from the increase in food prices. Also inflation dynamics for EU countries was analyzed. It was noted that Ukraine suffered the most from military actions, and therefore the country needs a clear and detailed plan of actions for post-war reconstruction. The main requirements for recovery programs are outlined: urgency, coordination between donor countries and Ukraine, regularity of financial assistance during and after the war, financial accountability and transparency.

**Key words:** GDP decline, consumer price index, food and energy prices, Ukraine's reconstruction programs, economic resilience.

#### АНОТАЦІЯ

Дослідження присвячене проблемі економічних наслідків повномасштабної Російської агресії для Європи, світу та безпосередньо воюючої України. На основі даних, представлених у щорічних публікаціях міжнародних агентств, визначені основні виклики для економіки глобального світу: зростання цін, сповільнення зростання ВВП країн, підвищення рівня заборгованості країн. Звернено увагу, що прогнози світового банку та МВФ сходяться на тому, що рівень інфляції у 2022 році досяг свого піку та у майбутньому має тенденцію до падіння. Для Європи військовий конфлікт призвів також до міграції значної кількості громадян України, необхідності додаткового фінансування витрат на оборону та безпеку, припинення торгівельних зв'язків із Росією та Білоруссю. Визначено, що серед усіх регіонів світу саме у Європі протягом 2022 року найбільше зріс індекс споживчих цін – на 15% у порівнянні із 2021 роком. У дослідженні визначено, що зростання споживчих цін на продукти харчування та енергоносії у 2022 році досягло максимуму за період з 2015 р. Найбільше зростання цін на енергоносії у ЄС було досягнуто в період з серпня по жовтень, коли країни Європи накопичували паливо у сховищах

для майбутнього опалювального сезону. Особливу увагу у статті присвячено розгляду економічних наслідків військових дій для України. Визначені основні загрози та найбільші статті економічних втрат: інфляція на кінець року очікується на рівні 30%, річне падіння ВВП на рівні 35%. Розглянуто ситуацію в агросекторі та на енергетичному ринку країни. Зазначено, що у місячному вимірі експорт агро продукції у 2022 р. перевищив показники 2021 р. Зазначено, що без повноцінно функціонуючого бізнес-сектору країна зараз потребує регулярної фінансової допомоги з боку країн-донорів та міжнародних інституцій. Акцентовано увагу, що процес післявоєнної реконструкції вимагає докладного планування та відповідного фінансування. Визначені основні вимоги до програм реконструкції та відновлення України: терміновість, координація між країнами-донорами та Україною, регулярність надання коштів із фонду відновлення та стабільність поповнення фонду, фінансова підзвітність агенції-розпорядника фонду відновлення України та прозорість розподілу коштів.

**Ключові слова:** падіння ВВП, індекс споживчих цін, ціни на продовольство та енергію, програми відновлення України, економічна стійкість.

**Formulation of the problem.** Russia's military aggression against Ukraine has caused, in addition to the humanitarian catastrophe, a number of negative phenomena in the economic sphere, such as: a drop in production and the level of GDP, rising prices, migration of Ukrainian citizens and loss of labor potential, security challenges and increased costs for defense and weapons production, the need for financing post-war recovery of Ukraine. The ongoing war in Ukraine has dimmed prospects of a post-pandemic economic recovery for emerging and developing economies in the Europe and Central Asia region. All these questions require a thorough analysis and the formation of an optimal strategy for their solution.

Ukraine's economy is now projected to contract by 35% this year although economic activity is reduced by the destruction of productive capacity, damage to agricultural land, and reduced labor supply as more than 14 million people are estimated to have been displaced [7, p. 1]. The level of debt for countries worldwide, especially developing countries, raised dramatically in 2022. These challenges increase the urgency of considering the issues of the economic consequences of the war between Russia and Ukraine for the region and the whole world.

**Analysis of recent research and publications.** Many modern economists, practicing economists, and experts consider the economic consequences of the war in Ukraine and offer their own forecasts. Among such authors can be distinguished. Gorodnichenko Yu., Sologoub I., Weder di Mauro B., Repko M. International agencies and governmental organizations such as International Monetary Fund, World Bank, European Council, Center for Economic Policy Research (CEPR) reflect their own results of the economic consequences of war on a regular basis. In addition, well-known agencies participate in the creation of programs for the post-war reconstruction of Ukraine: World Bank, CEPR, IMF, Ukraine Recovery Conference (URC), Ukrainian National Recovery Council. However, changes in the theater of military operations, changes in economic life are happening so

quickly that any forecasts and programs for the post-war reconstruction of Ukraine require constant revision, which prompted this study.

**Formulation of the purposes of the article.** The purpose of the article is to analyze the problems of economic development of Ukraine, Europe and global world in the context of Russian invasion to Ukraine.

**The main research material.** The full-scale invasion of Ukraine by Russia has resulted in new challenges not only for Ukraine and country-aggressor but also for the whole region and global world, the main among them are:

- global GDP growth has declined sharply since the beginning of 2022 and is expected to remain below the average of the 2010s [8, p. 3–4];
- global inflation has risen sharply especially for energy and food prices due to reduction of Russia's supply of energy resources to European countries and his attempts to blocking Ukraine's agro-export through the Black Sea [5, p. 1–2; 8, p. 3]
- more than 14 mln of Ukrainians are estimated to have been displaced. This wave of refugees is much more than Syrian war wave [7, p. 1].

To the purpose of our investigation these negative issues need to be investigated in details.

The ongoing war in Ukraine has dimmed prospects of a post-pandemic economic recovery for emerging and developing economies in the Europe and Central Asia region [7, p. 1]. In World Bank last global outlook it is predicted a period of pronounced weakness for "three major engines of growth" – the USA, European Union and China with adverse spillovers for emerging market and developing economies (EMDEs), many of which are already struggling with weakening domestic conditions [8, p. 3] (Figure 1). The share of countries for which the World Bank adjusted its forecasts for 2023 regarding GDP growth downwards is 49% [8, p. 5].

Russia's invasion of Ukraine has resulted in further increases in near-term inflation expectations because Russia and Ukraine are major exporters of many commodities: fuels, metals, food, wood, chemicals. The war-driven supply shortages and shipping disruptions have added to price increases in commodity markets, on top of the sharp price rises since mid-2020, and to global inflationary pressures [8, p. 9]. Also International Monetary Fund (IMF) made a GDP growth rate and inflation rate projections for advanced and emerging economics (Figure 2) [5, p. 3–4, 8–10].

The forecasts of the World Bank and the IMF coincide in that of inflation has risen particularly rapidly in poorer countries, partially due to the greater share of food in consumer spending. Relative to previous projections of both institutions – World Bank and IMF, global inflation is assumed to remain higher for longer period.

Although inflation is a worldwide problem, affecting most countries all over the world, it has the most severe impact on lower-income groups in developing economies, where up to half of household consumption expenditure is on food (Figure 3) [5].

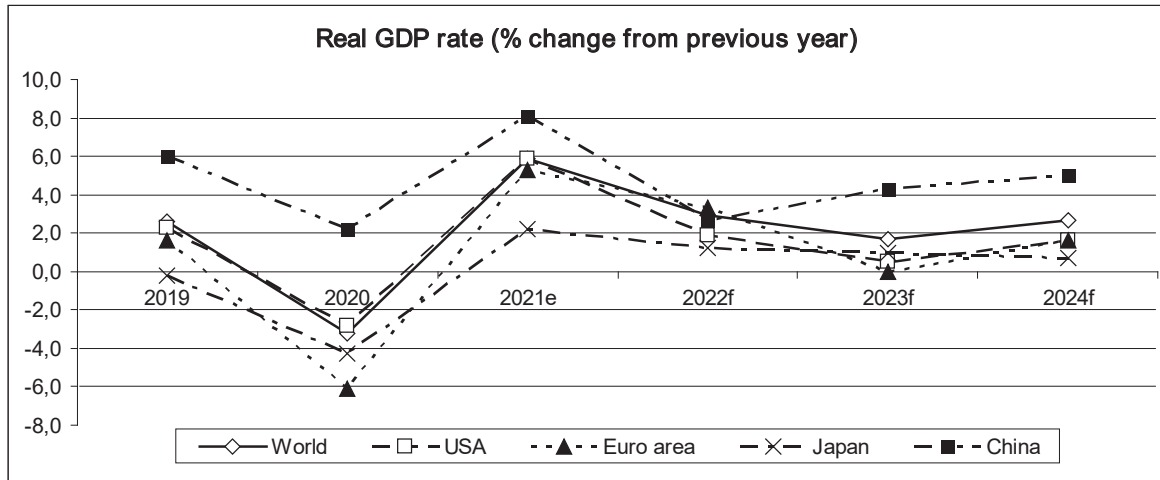


Figure 1. World Bank forecast of real GDP rate for selected world economies

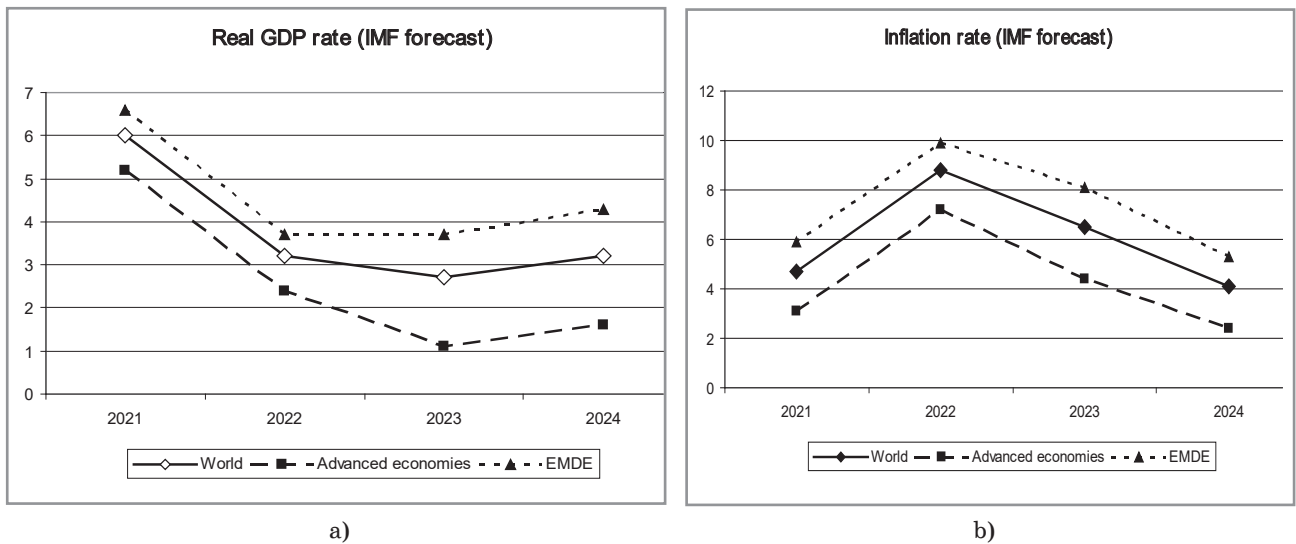


Figure 2. IMF forecast for real GDP rate (a) and inflation rate (b)

Source: constructed by authors on the base of IMF data [5]

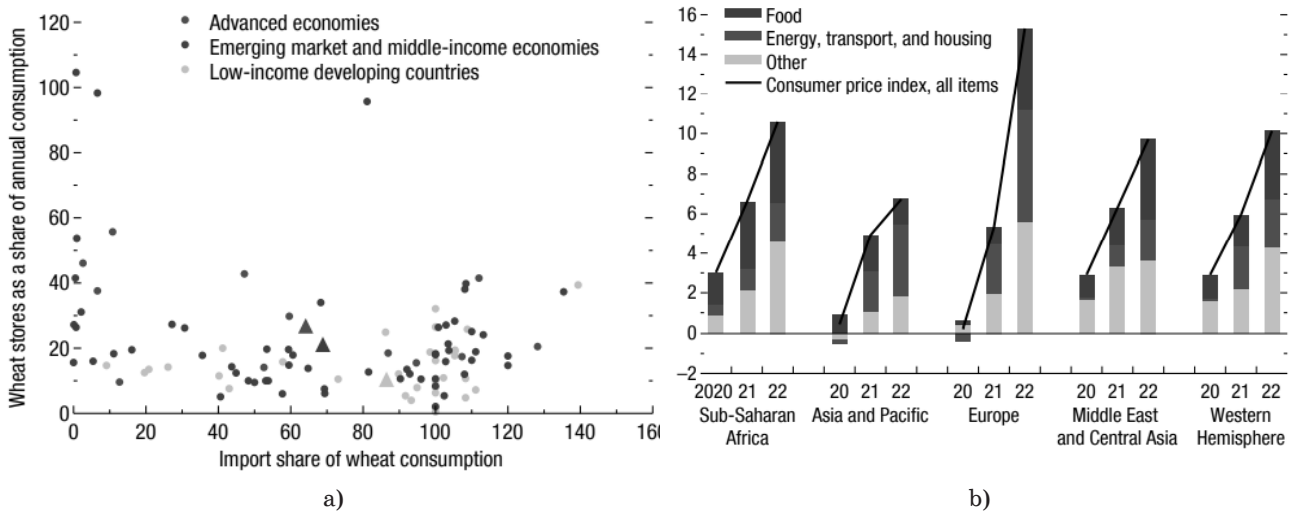


Figure 3. Wheat stores as a share of consumption (a) and dynamics of food and energy prices (b) for different countries and regions

Source: [5, p. 4]

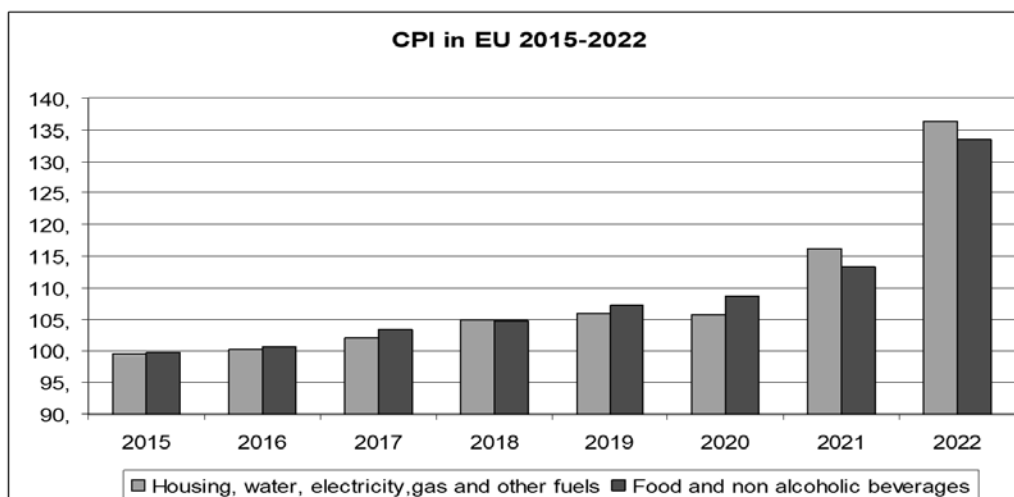


Figure 4. CPI in European Union for 2015–2022 (January 2015 = 100)

Source: constructed by authors on the base of Eurostat [3]

As shown at figure 3b, the most radical growth of CPI due to IMF data is observed in Europe. Dynamics of consumer price index in European Union for 2015–2022 is represented at Figure 4.

If we evaluate the dynamics of the consumer price index by the months of 2022, then the largest increase in energy prices was achieved in the period from August to October, when European countries accumulated fuel (namely, natural gas) in storage facilities for the heating season of 2022–2023.

As about fuel prices, Russian invasion into Ukraine caused oil prices to grow up. Russia is the world's third largest oil producer behind the United States and Saudi Arabia and the world's largest exporter of oil to global markets and the second largest crude oil exporter behind Saudi Arabia. In December 2021, it exported 7.8 mb/d, of which crude and condensate accounted for 5 mb/d, or 64%. About 60% of Russia's oil exports go to OECD Europe, and 20% go to China.

In November 2021, OECD Europe imported a total of 4.5 mb/d of oil from Russia (34% of its total imports), of which 3.1 mb/d was crude oil and feedstocks and 1.3 mb/d oil products [4].

In December 2022, the European Council decided to set an oil price cap for crude oil and petroleum oils from Russia at USD 60 per barrel level. The price cap on Russian oil will limit her resources to finance war and weapons production and stabilize the oil market [2].

Despite such problems for the European and world economy, the main negative consequences of military actions were borne by Ukraine. Ukraine's economy (real GDP) is now projected to reduce by 35% this year although economic activity is scarred by the destruction of productive capacity, damage to agricultural land, and reduced labor supply as more than 14 million people are estimated to have been displaced [7, p. 1].

Annual inflation in November was 26.5% compared to 26.6% in October. By the end of the year inflation in Ukraine will be about 30% [1]. For a country at war, this level of inflation is quite moderate. For comparison, in neighboring Moldova the annual price growth will exceed 30%, in Hungary – 37% in Turkey – 270% [3].

Industrial production in Ukraine from March till December 2022 fell by 70%. Metal exports fell

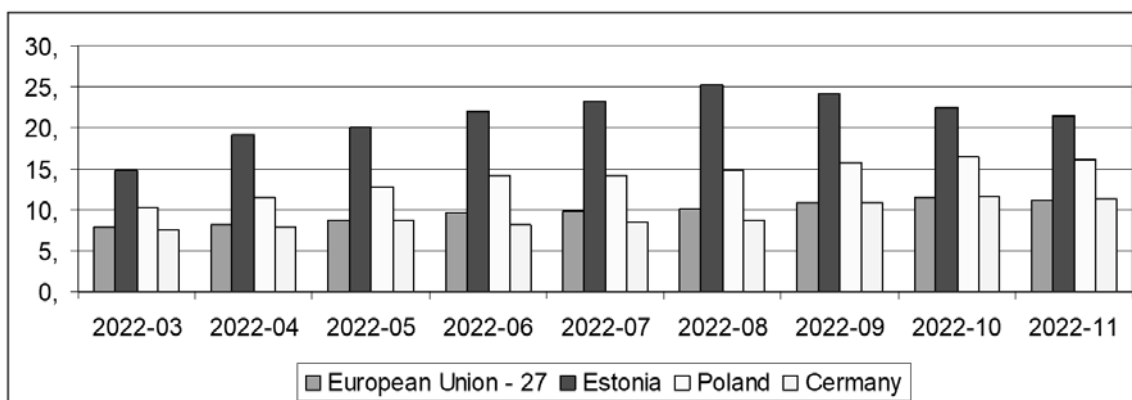


Figure 5. CPI in selected EU countries for March–November 2022

Source: constructed by authors on the base of Eurostat [3]

by 62%, iron ore exports by 54% [1]. In agro-sector since July 2022 Ukraine has exported 20 million tons of grain crops, including 14 million tons exports through sea ports (as part of the «Grain Initiative»). In monthly terms, exports even is greater than 2021 monthly volumes. The harvest of the main crops is currently 64 million tons (for comparison, last year was a record 106 million tons). But the prospects for the next harvests are still unclear [1].

The total international budget aid to Ukraine in 2022 amounted to 27 bln USD. The main donor countries are the USA, EU, Germany, Canada, Great Britain. Their contribution makes up a third of the expenses of the Ukrainian consolidated budget-2022 as of the beginning of November. At the same time, the total need for financing has exceeded 45 billion dollars since February. The USA, and the lack of funds from international partners was covered by monetary financing of the NBU and internal borrowings [1].

In the period from February to September 2022, Ukraine lost about \$4 billion in assets every week. This amount does not take into account the autumn bombings and the destruction of about 30% of the energy infrastructure and power grids [1]. According to recent World Bank estimates, recovery and reconstruction needs across social, productive, and infrastructure sectors total at least \$349 billion, which is more than 1,5 times the size of Ukraine's pre-war economy in 2021 [7]. This means that the sooner the Ukrainian army wins, the smaller the amount of funding needed for post-war reconstruction will be.

M. Repko put attention on the urgency of immediate recovery. There is also the important question of the sources of financing for post-war recovery. Private sector funding will therefore be crucial to avoid overstressing public sector funding capacities [6].

Without systematic financial assistance, in 2023 Ukraine will face fueling of inflation, complications of reconstruction and weakening of stability. However, even current financial assistance to Ukraine is often provided and provided with a delay. This could be avoided with the necessary level of donor coordination. Such coordination could be ensured by the format of the «financial Ramstein» (by analogy with the meetings of the «Ramstein» format for military needs) – a platform for regular meetings and agreements at the highest level between Ukraine, the G7 countries and international financial organizations.

Conclusions. Thus, authors analyzed economic consequences of Russian invasion into Ukraine for region and global economy. The main challenges worldwide were defined as GDP growth slowdown and rising process, especially for fuel and food. Low-income countries, for whose population food costs make up the largest part of the family budget, are in the most dangerous position. But advanced countries also suffer from inflation, growth of cost of living. EU-members

had to the end of 2022 the highest CPI level from 2008. However, the largest economic losses are borne by the country where military operations are taking place – Ukraine.

To overcome the consequences of the war and restore economic and social life in the country of Ukraine, a detailed action plan with transparent and clear terms of financing, implementation of individual stages and monitoring will be needed. Obtaining the status of a candidate country for the EU will help in this: reforming the legislative framework in accordance with the requirements of the EU will create conditions for increasing trust between Ukraine and donor countries. Accountability is also a requirement for Ukraine recovery process – not only for the efficient use of funds, but also for the creation of favorable public opinion in donor countries, their confidence that the funds are used rationally.

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