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ASSESSING THE POSSIBLE INFLUENCES OF THE RUSSIA – UKRAINE WAR ON ECONOMIC GROWTH

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ABSTRACT

Against the background of a major insecurity event with strong economic and social repercussions, more and more analyses, simulations and attempts are being made to identify possible developments and consequences. The experience of previous conflicts and the results of the models and scenarios used to estimate the trajectories and disruptions caused by conflicts help with the decision-making process, but the variables in the peace equation are numerous and increase the degree of uncertainty in what regards the impact of the economic, social and security policies adopted. Through the prism of developments in the current geopolitical and security environment, with prospects of profound change after the end of the conflict between Russia and Ukraine, the paper highlights some of the economic effects of the Russia – Ukraine war and highlights its possible influences on economic growth at regional and global level, and also analyses growth in the states directly involved in the war or that are connected in various forms (economically-wise, neighbouring countries, etc.) with the two states.

KEYWORDS:

War, economic effects, propaganda channels, economic growth

1. Introduction

The first period of 2022 has once again highlighted how, in addition to destroying a country, a military conflict can also affect the lives and economies of other countries, near or far from the conflict zone. Even if it is difficult to accept, the realities show how Russia's military aggression against Ukraine has shattered the peace of European states and is causing more and more severe human suffering and enormous material and infrastructure destruction with each day of conflict. Faced with one of the harshest and most incomprehensible aggressions unleashed by one state against another since the Second World War, more and more states and international organisations are looking for ways to put an end to the conflict and mitigate its economic and social consequences.

The events that European citizens (and not only) are witnessing, are unfolding under the umbrella of the uncertainty of what will be "tomorrow" and

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"after tomorrow", and bring the field of security to the fore, highlighting the importance of each of its dimensions. In specialized literature, security is often explained in terms of its absence, i.e. insecurity. Lack of security or only disruption of security (such as the current situation at the EU border, caused by the war in Ukraine) demonstrates how the deterioration of one link in the chain leads to the dysfunction of the others (the military and economic/energy dimensions being in this case the sparks that affect the whole mechanism).

The connections between the security domains and the way in which the effects spread show that none of its components should be neglected. Given that individuals and societies perceive the level of security to be decreasing around them, current events also reveal how this issue is coming back into focus and begins to be valued more highly than in peacetime.

The elaboration process is based on a number of papers in the literature that highlight the interdependence between security investment, economic growth and socio-economic development, and the impact of war on the economies of conflict states (Hevit, 1991; Collier 2006; Clements, Gupta & Khamidova 2021; Guénette et al, 2022; Pettinger, 2022; Bond, Cornago, Mortera & Scazzieri, 2022). Furthermore, there is increased focus on the results of studies carried out by international (UN; IMF, OECD, EDA) and national (National Bank of Romania; Ministry of Finance) institutions/organisations that reveal the link between the phenomenon of globalisation of security, the export/import of insecurity and the highly diverse countermeasures. The event which underlies the argument presented is the military conflict between Russia and Ukraine, the consequences of which are also reflected in the data published by a number of institutions, including SIPRI, the World Bank, Eurostat, etc.

2. The general framework for the manifestation of conflict influences

The experienced situations of insecurity, over time, by the countries of the world have demonstrated beyond doubt that peace and security are part of the framework necessary for the proper functioning of every economy and, by extension, for development. Much research in the field shows that security is fundamental to well-being, both directly and indirectly, as economic and health objectives become unattainable below a certain security threshold (Collier, 2006).

As the conflicts that have marked the security environment in recent years have predominantly been civil (intra-state) armed conflicts, the work of many authors (Murdoch & Sandler, 2002; Collier & Elliott, 2003) is mainly concerned with this type of conflict (manifestations and costs), while there is less work on interstate (small-scale) conflicts (Brown & Rosecrance, 1999; Sköns, 2005).

It is important to note that the economic and social damage caused by wars is difficult to quantify, as it varies from case to case, encompassing many different factors, including the type of war, the specific nature of operations, the length of time, the technique used and, more recently, the degree of digitisation of operations and the use of high-tech technologies.

In what regards the frequency and duration of inter-state armed conflicts in the contemporary period, which is reflected in the consequences thereof, we may notice that wars between states are less frequent and shorter in duration, but the scale of destruction caused is much greater. According to some publications in the field, inter-state conflicts (such as the one at Romania's eastern border) accounted for less than 7 % (two out of 29) of the total number of conflicts in the first decade of the 21st century (Tertrais, 2012), and had an average duration of about 3 years – shorter compared to civil wars that lasted longer, even 7 years (Collier, 2006).

The high level of casualties in contemporary inter-state armed conflicts is driven both by the use of smart weapons systems and by the fact that their reach includes not only belligerent and neighbouring states, but also other states caught up in the unseen (but felt) chain of security globalisation. According to the UN, all states are exposed to the shockwaves of war, but the level of exposure and a country's ability to cope with the shock determines its vulnerability (United Nation, 2022).

Estimates by some authors regarding the of dividends conflict prevention and of the average cost of war, using war-induced expenditures and economic growth as variables, support the assessment that *"war is the costliest for a country"* (Milante, Mueller & Muggah, 2020).

As can be seen from the publications about the disasters caused by military conflicts in history, as well as from partial data on the effects of the war between Russia and Ukraine, no side of economic and social life remains untouched by the ruthless arm of war, even if the ramifications and the depth of the effects differ. It can even be said that some of them manifest themselves regardless of the type of conflict, such as those of an economic nature highlighted in the following figure (Figure no. 1).

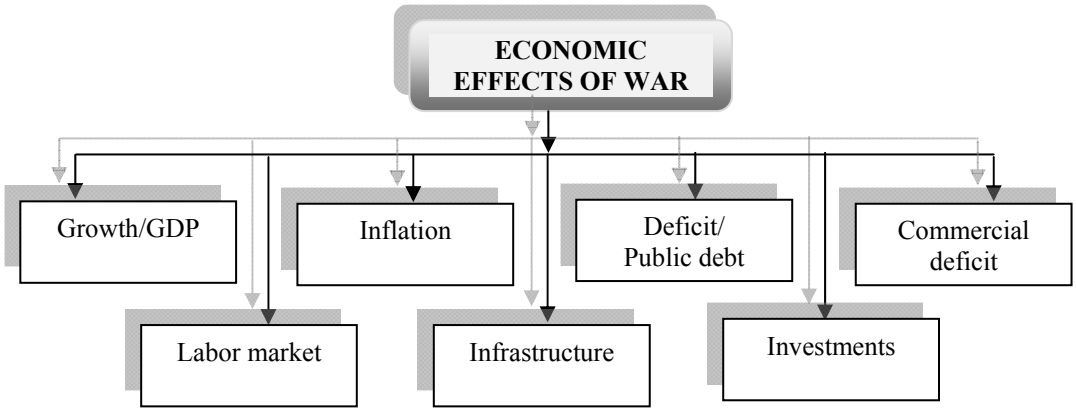


Figure no. 1: Effects of war on the economic environment
(Source: Author)

In order to avoid any possible misunderstandings about the economic sides illustrated in the previous figure, we note that the scope may be wider, but the one that are reproduced sum up an important part of the major problems currently facing the economies of the countries. At the same time, the economic importance of each of them contributes substantially to the increased uncertainty about states' policy responses and the possibilities for recovery after peace.

As mentioned above, in order to contextualize the economic impact of the conflict at the eastern edge of Europe, we chose to analyse the influence on economic growth, as reflected in the evolution of the gross domestic product (GDP), the main macroeconomic aggregate of national accountability that represents the result of the production activity of resident production units. Although the results obtained help form a picture of the losses incurred, we consider that it is still too early to draw conclusions, as the period covered is marked by uncertainties which may affect the accuracy of the deductions.

3. Assessments regarding some economic consequences of the war in Ukraine

3.1. Underlying factors of the spread of economic and social effects

Coming as a shock, the war in Ukraine is having an impact through various channels on economies still recovering from the chaos of the pandemic. Thus, the channel of the capital is seen in the literature as having a greater impact on economic growth as the destruction affects both the physical and human capital, in the source countries of the conflict and in neighbouring nations (Dunne & Tian, 2013).

Other channels through which the effects of war spill over to economies and populations include: the foreign direct investment/FDI channel (through diversion to lower-risk areas), the trade channel (disruption or blockage of supply chains), the migration channel (through displacement of people to safer territories), and the reallocation of resources to less productive activities, such as that of strengthening border defences (Murdoch & Sandler, 2002).

In addition to the above, state institutions deteriorate (decrease in efficiency), which can lead to an additional increase in the damage caused by conflict, especially if they were of poor quality prior to the conflict. We observe that the assessment is often made with reference to internal conflicts (Imus, Gaëlle & Rother, 2017), but by generalising the results of some research in the field it can be concluded that the statement is also valid for other types of conflicts. Moreover, the analysis of the effects of past and ongoing conflicts reveals that *"due to regional economic integration and regional multiplier effect*s*"*, spill over effects can go beyond a country's immediate neighbours (Murdoch, James & Sandler, 2004).

A country in the immediate neighbourhood of Ukraine, Romania is also facing the adverse effects of the war, which, according to the experts of the National Bank of Romania (NBR) are propagated through various channels (Romanian National Bank, 2022), namely: the trade channel, the financial channel, the channel of investor confidence and the migration channel. However, due to the low level of trade and financial exposure in bilateral relations with Russia and Ukraine, Romania expects the economic impact transmitted through direct channels to be minimal. Regarding the level of exposure, a Keys Fin analysis shows that in the ranking of Romania's trading partners in 2020, Ukraine ranked 21st and the Russian Federation 18th (Keys Fin, 2022).

Based on the fact that the negative effects of war on GDP define the economic cost of war (Sköns, 2005), the GDP levels achieved by the warring states and other states caught in the economic trap of war are tracked in order to highlight the economic consequences of the war in Ukraine. For relevance, the levels of GDP expected to be achieved during the course of the conflict are viewed in comparison with those previously recorded and with estimates made for the future. In assessing the economic impact of the war as reflected by GDP, it is also necessary to take into account the fact that the increasing losses incurred by states during and after the conflict encompass the influences transmitted in different forms to each of the growth-generating components.

Reflecting the impact of conflict on growth is supported by the results of studies addressing the same issue, as shown below. Thus, according to Dunne and Tian, a report by the United Nations Development Programme (UNDP, 2008) shows that the GDP of two out of seven war-affected countries fails to reach pre-war GDP per capita levels within 15 years after the official end of the conflict (Dunne & Tian, 2013).

Asli Demirgüç-Kunt (World Bank Chief Economist for Europe and Central Asia) argues in a press release that the pandemic and the war in Ukraine have shown once again that the economic

damage caused by crises *"can set back years of per capita income and development gains"* (*Russian Invasion to Shrink Ukraine Economy by 45 Percent this Year, 2022*).

In the same vein, SIPRI and World Bank researchers who have looked back to the period between 1989 and 2015, show that in war-affected countries, economic growth setbacks are major, with growth of even 4.8 percent lower per year (Milante, Mueller & Muggah, 2020).

3.2. Considerations on the impact of the Russia – Ukraine conflict on global growth

According to data published by the Institute for Economics & Peace (IEP) in 2016, the global economic impact of the armed conflict reached $742 billion PPP in 2015 (after the annexation of the Crimean Peninsula in February 2014) (Institute for Economics and Peace (IEP), 2016). If the economic impact of conflict is viewed through the prism of GDP losses due to armed conflict (which refers to the loss of productivity resulting from the diversion of public and private capital from productive to conflict-related activities, as well as the destruction of capital), it is found that these amounted to $317 billion at purchasing power parity (PPP) in 2015, 4 % more than in 2014 (Institute for Economics and Peace (IEP), 2016).

In the Global Peace Index 2022, the same institute shows that due to armed conflict global GDP losses were $106.7 billion by purchasing power parity (PPP) in 2021, only one year before the outbreak of the war between Russia and Ukraine (February 2022). The estimated level reflects an increase in global GDP loss in 2021 of $19.3 billion PPP compared to the previous year. In percentage terms, this equates to an increase in the loss of 22.1 %, as compared to 2020 of (Institute for Economics and Peace (IEP), 2022).

The economic effects of war are spreading across the globe through commodity prices, financial conditions, trade patterns, migration and confidence flows. Ngozi Okonjo-Iweala (Director General at World Trade Organization) argues that the impact of the war in Ukraine is linked to the fragile state of the global economy at the time of the outbreak. According to him, *"The war in Ukraine […] has also affected the global economy at a critical time. Its impact will be felt around the world, especially in low-income countries where food accounts for a large share of household spending"* (*Russia – Ukraine conflict puts fragile global trade recovery at risk*, 2022).

Although Russia and Ukraine account for less than 3 % of global exports and less than 2 % of global imports, the war and subsequent sanctions have damaged trade connectivity (World Bank, 2022).

The way in which the armed conflict between Russia and Ukraine is influencing economic growth, at the level of states, regions and cumulatively at the global level, is reflected in the evolution of the GDP for the current year and the immediate post-2022 period. In what regards the data published by various international institutions, it is worth noting that there are differences both between institutions and between the data published periodically by the same institutions; the differences noted are due, on the one hand, to the scenarios invoked and, on the other, account for the extraordinary uncertainty accompanying the estimates made. Thus, before the Russian invasion of Ukraine, the years 2022 and 2023 should have been favourable for the continuation of the recovery of the global economy that began after the pandemic was over, with the Organisation for Economic Cooperation and Development (OECD) economic outlook for global GDP growth of 4.46 % for 2022 and 3.2 % for 2023, as published in December 2021 (OECD Economic Outlook, March 2022).

With the unanticipated outbreak of the war, the IMF's forecast for October 2021 was even more optimistic, with a

global growth estimated at 4.9 % for 2022 and 3.45 % for 2023.

Data released after the outbreak of the war shows that it has exacerbated the pre-existing stresses of the pandemic on the global economy, bringing with it a significant slowdown in global growth, with growth estimates for 2022 well below those of the previous year (Figure no. 2).

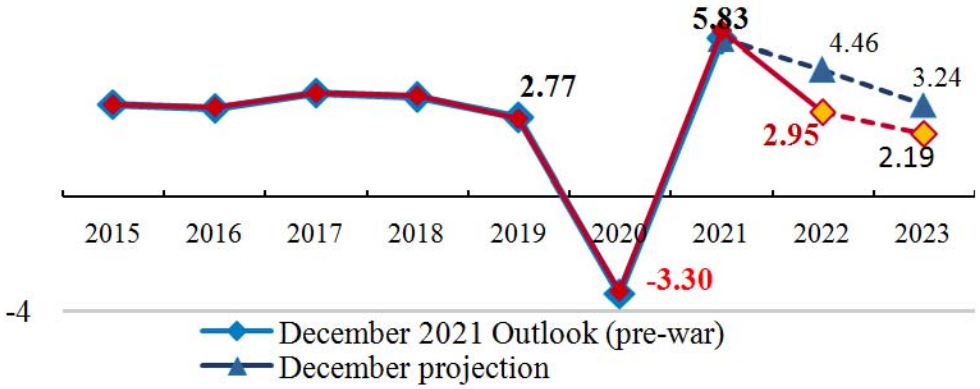


Figure no. 2: OECD perspectives on the global evolution of GDP
(Source: OECD, 2022)

In its September 2022 forecast, the OECD estimates a global growth at below 3 % (2.95 %) for 2022. In its October 2022 forecast, the IMF estimates global growth at above 3 % and 3.2 % respectively for 2022.

However, most international institutions preview heightened uncertainties about the end of the war, tensions in global supply chains, a widening of the natural gas supply disruptions, higher energy prices and tighter financing conditions as risks that will make the negative influences of the war even more pronounced in 2023. It can therefore be assumed that the simultaneous materialisation of several downside risks could lead to a substantially weaker growth.

Moreover, the World Bank expects that in a significantly more challenging context, such as that created by the war in Ukraine, the world economy will experience the sharpest slowdown after an initial recovery from the global recession in 80 years. The economic growth has been projected to an of average 3 % between 2022 and 2023 (The World Bank, June 2022).

In their turn, IMF experts expect the worst to come in 2023, as around a third of the world economy will experience two consecutive quarters of negative growth. They forecast a global growth slowing from 3.2 % in 20222, to 7 % in 2023. The level is judged to be the weakest since 2001. With the exception of the global financial crisis and the acute phase of the COVID-19 pandemic, the effects felt are considered similar to those of a recession (International Monetary Fund (IMF), October 2022).

The lowest level of global growth is indicated by the OECD, which predicts that global growth will fall to 2.2 % in 2023 «compared to the OECD's December 2021 forecast, projected global GDP is at least USD 2.8 trillion lower in 2023 (in PPP terms and 2015 prices)» (OECD, September 2022).

3.3. Influences of the war on European economic growth and the growth of other states under the spectre of conflict

Due to a ripple effect, the war in Ukraine hit European states at a time when the power to respond to a new crisis was being reduced by efforts to combat the health crisis and economic recovery.

Against the backdrop of incomplete recovery from the Covid-19 pandemic, and due to economic interconnections with the two warring states and a sharp increase in geopolitical uncertainty, the economic activity at European level has been severely disrupted. As a result, economic growth projections for Europe have been revised downwards as the war has continued, with real gross domestic product (GDP) growth estimated at 2.9 % in 2022 and 2.5 % in 2023 (European Investment Bank, 2022).

In what regards the euro area, the latest data published by the European Central Bank (ECB) also indicate a substantial slowdown in economic growth: 3.1 % in 2022, 0.9 % in 2023 and 1.9 % in 2024 (Central European Bank, 2022). Moreover, according to the IMF, in the emerging and developing Europe, growth is projected at 0.0 % in 2022 and 0.6 % in 2023 (IMF, 2022).

The severity of the impact is maximized by the pressure on national public budgets, which have to allocate financial resources to support public and private consumers to alleviate the shock of rising energy and gas prices. Furthermore, the support from public financial resources provided by some states to the refugees settled on their territories adds pressure on their budgets and increases their fiscal cost. examples include the Czech Republic, Estonia or Poland, whose fiscal cost for refugee support amounted to around 1 % of the GDP in 2022 (IMF 2022).

Although, as it has been shown, the economic interconnection between states cascades effects from one state to another, the impact on each state is different. Thus, the regional economies where Russia remains a key investment partner, those with high energy dependence on Russia, and those relying heavily on imports of food and other raw materials from Ukraine and Russia are expected to be the most affected. In general, the economies of Central, Eastern and South-Eastern Europe, which are territorially and commercially closer to Ukraine, Russia and Belarus, are considered to be much more affected than those in Southern Europe.

According to data published by international institutions, EU and non-EU Member States, some of which are presented in Figure no. 3, will feel the impact of the war more severely in 2023, with estimated economic growth still below pre-war levels. As illustrated in Figure no. 3, there are countries that, although not involved in the war, such as Germany, Moldova and Poland, will nonetheless suffer significant economic losses (reflected in estimated GDP),due to the strong trade relations with Ukraine and Russia (subject to sanctions). Thus, a severe decline in growth is forecast for Germany (a major energy dependent state on Russia) of 1.5 % in 2022 and -0.3 % in 2023 (IMF, October 2022).

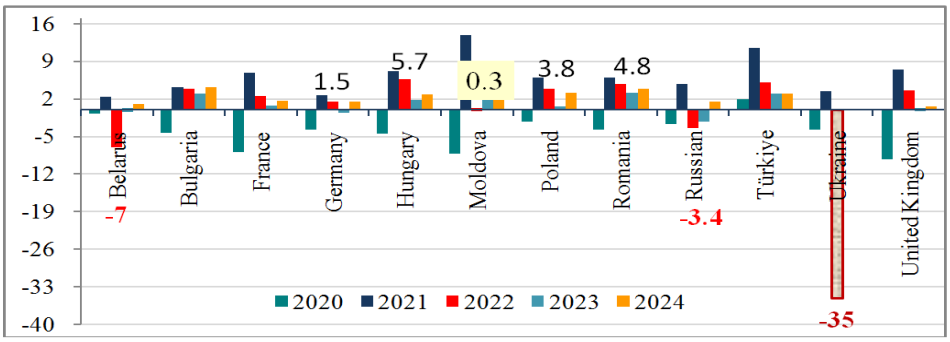


Figure no. 3: Real GDP growth in states affected by the shock of war
(Source: IMF, October 2022)

Moreover, growth estimates for the Polish economy reveal that the GDP is expected to fall by up to 0.5 % in 2023, suggesting much lower growth than the 5.9 % in 2021 (IMF, October 2022).

Romania is also economically affected by the war at its border, even if trade relations with the two warring states are not at a very high level.

The effects of the war in Ukraine on the national economy, reflected in the expected levels of economic growth, show that the difficulties experienced could jeopardise the post-pandemic recovery of the economy. As regards the challenges that the Romanian economy could face, with an impact on growth prospects, there is an assessment by specialists at the National Bank of Romania (NBR), according to which *"In conjunction with the disruptions in the agri-food commodity markets, quasi dominated by Russia and Ukraine, as well as the visible weakening of demand from external European partners, a relative stagnation of the Romanian economy is expected in the coming quarters"* (Romanian National Bank, 2022).

In line with the NBR's assessments, the Romanian Government states in the Convergence Programme 2022-2025 that in the context of the Russia-Ukraine conflict, *"the main challenges (contagion risks) arise from persistent inflationary pressures, weaker confidence among economic agents and significantly slower projected economic growth in Romania's main trading partners (especially the Eurozone), which will in turn affect exports, private consumption and investment in the Romanian economy"* (Romanian Government, 2022).

The European Commission (EC) assesses Romania's economic outlook as modest, estimating a real GDP growth of 2.6 % in 2022 and 3.6 % in 2023, with the higher growth in 2023 to be supported mainly by investment from EU funds, including the Recovery and Resilience Mechanism (RRM) (European Commission, 2022).

Unlike the European Commission, the IMF anticipates that the impact of the war on Romania's economy will be less severe, anticipating a real GDP growth of 4.8 % in 2022, slowing in 2023 to 3.1 %, and then a slight recovery in 2023, with growth estimated at 3.5 % (IMF, 2022).

The National Commission for Strategy and Prognosis (NCSP) has improved its growth forecast for 2022 to 4.6 % and expects the economic growth to decelerate to 2.8 % in 2023 (31. NCSP, Medium-term forecast 2022-2026, autumn version).

The higher-than-expected growth of 5.7 % recorded in the first half of 2022 led NCSP specialists to assess that *"in a difficult global context, with geopolitical conflicts at national borders and energy crises that have amplified pressures on commodity prices, while eroding the purchasing power of the population, the Romanian economy has shown a higher-than-expected resilience to supply shocks, achieving a robust economic growth this year"* (Romanian Commission for Strategy and Forecast, 2022).

As a state that is directly involved in the war, Ukraine is facing the destruction of its social and economic infrastructure and high outward migration of a large part of its workforce. According to data published by the IMF, the economic and social disruption in Ukraine will drastically reduce the country's productive capacity, with the GDP shrinking by around 35 % in 2022 (International Monetary Fund, 2022).

According to the assessments of expert institutions, Russia's economy is less severely affected than previously estimated, which shows that the measures taken on oil exports and the fiscal and monetary policies implemented have helped the Russian economy to withstand the international sanctions imposed and the damage caused by the war. Thus, the IMF forecasts that, amid falling private demand, Russia's GDP will contract by 3.4 % in 2022 and by 2.3 % in 2023 (International Monetary Fund, 2022).

4. Conclusions

As the assessments show, war knows no borders and extends its tentacles beyond the territory of its manifestation. Its victims are often populations and economies far removed from the conflict zone but connected to the belligerent states through various channels. In the period ahead, it is essential that, as a first step, each state should work to overcome the shock of the war on the economic and social environment and, with the help of experts in the field, identify intervention solutions to support economic recovery on an upward path. Subsequently, states should aim to increase the resilience of their economies to various shocks, whatever their nature, and to manage the construction of economic and financial policies that take into account the new geopolitical context that is foreseen.

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