

The Economic Consequences of the War in Ukraine

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The conflict in Ukraine Is a disaster for the poor of this planet.

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In 1919, the renowned British economist John Maynard Keynes wrote *The Economic Consequences of the Peace*, a book that would prove controversial indeed.

In it, he warned that the draconian terms imposed on defeated Germany after what was then known as the Great War — which we now call World War I — would have ruinous consequences not just for that country but all of Europe. Today, I’ve adapted his title to explore the economic consequences of the (less than great) war now underway — the one in Ukraine, of course — not just for those directly involved but for the rest of the world.

Not surprisingly, following Russia’s February 24th invasion, coverage has focused mainly on the day-to-day fighting; the destruction of Ukrainian economic assets, ranging from buildings and bridges to factories and whole cities; the plight of both Ukrainian refugees and internally displaced people, or IDPs; and the mounting evidence of atrocities.

The war’s potential long-term economic effects in and beyond Ukraine haven’t attracted nearly as much attention, for understandable reasons. They’re less visceral and, by definition, less immediate. Yet the war will take a huge economic toll, not just on Ukraine but on desperately poor people living thousands of miles away. Wealthier countries will experience the ill effects of the war, too, but be better able to cope with them.

Shattered Ukraine

Some expect this war to last [years](#), even [decades](#), though that estimate seems far too bleak. What we do know, however, is that even two months in, Ukraine’s economic losses and the outside assistance that country will need ever to achieve anything resembling what once passed for normal are staggering.

Let’s start with Ukraine’s refugees and IDPs. Together, the two groups already make up 29 percent of the country’s total population. To put that in perspective, try to imagine 97 million Americans finding themselves in such a predicament in the next two months.

As of late April, [5.4 million](#) Ukrainians had fled the country for Poland and other neighboring lands. Even though many — estimates vary between several hundred thousand and a million — have started returning, it's unclear whether they will be able to stay (which is why the U.N.'s figures exclude them from its estimate of the total number of refugees). If the war worsens and does indeed last years, a continuing exodus of refugees could result in a total unimaginable today.

That will put even more strain on the countries hosting them, especially Poland, which has already admitted nearly [three million](#) fleeing Ukrainians. One estimate of what it costs to provide them with basic needs is [\\$30 billion](#). And that's for a single year. Moreover, when that projection was made there were a million fewer refugees than there are now. Add to that the [7.7 million](#) Ukrainians who have left their homes but not the country itself. The cost of making all these lives whole again will be staggering.

Once the war ends and those 12.8 million uprooted Ukrainians begin to try to rebuild their lives, many will find that their [apartment buildings and homes](#) are no longer standing or not habitable. The [hospitals and clinics](#) they depended on, the places they worked, their children's [schools](#), the shops and [malls](#) in Kyiv and [elsewhere](#) where they bought basic necessities may have been razed or badly damaged, too.

The Ukrainian economy is expected to contract by 45 percent this year alone, hardly surprising considering that half of its businesses aren't operating and, according to the [World Bank](#), its seaborne exports from its now embattled southern coast have effectively ceased. To return even to pre-war levels of production will take at least several years.

About [one-third](#) of Ukraine's infrastructure (bridges, roads, rail lines, waterworks, and the like) has already been damaged or demolished. Repairing or rebuilding it will require between [\\$60 billion](#) and [\\$119 billion](#). Ukraine's Finance Minister reckons that if lost production, exports, and revenue are added in, the total damage done by the war already exceeds [\\$500 billion](#). That's nearly four times the value of Ukraine's [gross domestic product in 2020](#).

And mind you, such figures are approximations at best. The true costs will undoubtedly be higher and vast sums in assistance from international financial organizations and Western countries needed for years to come.

At a meeting convened by the International Monetary Fund (IMF) and the World Bank, Ukraine's Prime Minister estimated that the rebuilding of his country would require \$600 billion and that he needs \$5 billion a month for the next five months just to bolster its budget. Both organizations have already swung into action. In early March, the IMF approved a [\\$1.4 billion](#) emergency loan for Ukraine and the World Bank an additional [\\$723 million](#). And that's sure to be just the beginning of a long-term flow of funds into Ukraine from those two lenders, while individual Western governments and the European Union will doubtless provide their own loans and grants.

The West: Higher Inflation, Lower Growth

The economic shock waves created by the war are already hurting Western economies and the pain will only increase.

Economic growth in the wealthiest European countries was 5.9 percent in 2021. The IMF [anticipates](#) that it will fall to 3.2 percent in 2022 and to 2.2 percent in 2023. Meanwhile, between just February and March of this year, inflation in Europe [surged](#) from 5.9 percent to 7.9 percent. And that looks modest compared to the leap in European energy prices. By March they had already risen a

whopping [45 percent](#) compared to a year ago.

The good news, reports the [Financial Times](#), is that unemployment has fallen to a record low of 6.8 percent. The bad news: inflation outran wages, so workers were actually earning 3 percent less.

As for the United States, economic growth, projected at [3.7 percent](#) for 2022, is likely to be better than in leading European economies. However, [the Conference Board](#), a think tank for its 2,000 member businesses, expects growth to dip to 2.2 percent in 2023. Meanwhile, the U.S. inflation rate reached [8.54 percent](#) in late March. That's twice what it was 12 months ago and the highest it's been since [1981](#).

Jerome Powell, chair of the Federal Reserve, has [warned](#) that the war will create additional inflation. *New York Times* columnist and economist Paul Krugman believes that it will drop, but if so, the question is: When and how rapidly? Besides, Krugman expects price increases to [get worse](#) before they begin to ease. The Fed can curb inflation by jacking up interest rates, but that could end up further reducing economic growth. Indeed, Deutsche Bank made news on April 26th with its prediction that the Fed's battle against inflation will create a "[major recession](#)" in the U.S. late next year.

Along with Europe and the U.S., the Asia-Pacific, the world's third economic powerhouse, won't escape unscathed either. Citing the effects of the war, the [IMF](#) cut its growth forecast for that region by another 0.5 percent to 4.9 percent this year compared to 6.5 percent last year. Inflation in the Asia-Pacific has been low but is expected to rise in a number of countries.

Such unwelcome trends can't all be attributed to the war alone. The Covid-19 pandemic had created problems on many fronts and U.S. inflation was already creeping up before the invasion, but it will certainly make matters worse.

Consider energy prices since February 24th, the day the war started. The [price of oil](#) was then at \$89 a barrel. After zigs and zags and a March 9th peak of \$119, it stabilized (at least for now) at \$104.7 on April 28rd — a 17.6 percent jump in two months. Appeals by the [U.S.](#) and [British](#) governments to Saudi Arabia and the United Arab Emirates to increase oil production went nowhere, so no one should expect quick relief.

Rates for [container shipping](#) and [air cargo](#), already hiked by the pandemic, rose further following the invasion of Ukraine, and [supply-chain disruptions](#) worsened as well. Food prices also rose, not only due to higher energy costs but also because Russia accounts for nearly 18 percent of [global exports](#) of wheat (and Ukraine 8 percent), while Ukraine's share of global corn exports is [16 percent](#) and the two countries together account for [more than a quarter](#) of global exports of wheat, a crucial crop for so many countries.

Russia and Ukraine also produce [80 percent](#) of the world's sunflower oil, widely used for cooking. Rising prices and shortages of this commodity are already apparent, not only in the European Union, but also in poorer parts of the world like the [Middle East](#) and [India](#), which gets nearly all of its supply from Russia and Ukraine. In addition, [70 percent](#) of Ukraine's exports are carried by ships, and both the Black Sea and the Sea of Azov are now war zones.

The Plight of "Low-Income" Countries

The slower growth, price hikes, and higher interest rates resulting from the efforts of central banks to tame inflation, as well as increased unemployment, will hurt people living in the West, particularly

the poorest among them who spend a far larger proportion of their earnings on basic necessities like food and gas.

But “low-income countries” (according to the World Bank’s [definition](#), those with an average per-capita annual income below \$1,045 in 2020), particularly their poorest denizens, will be hit so much harder.

Given Ukraine’s enormous financial needs and the West’s determination to meet them, the low-income countries are likely to find it far more difficult to get the financing for the debt payments they’ll owe because of increased borrowing to cover the rising costs of imports, especially essentials like energy and food. Add to that [reduced export earnings](#) owing to slower global economic growth.

The Covid-19 pandemic had already forced low-income countries to weather the economic storm by borrowing more, but low interest rates made their debt, already at a record [\\$860 billion](#), somewhat easier to manage. Now, with global growth ebbing and the costs of energy and food rising, they’ll be forced to borrow at far higher interest rates, which will only increase their repayment burden.

During the pandemic, [60 percent](#) of low-income countries required relief from their debt-repayment obligations (compared to 30 percent in 2015). Higher interest rates, along with higher food and energy prices, will now worsen their predicament. This month, for instance, [Sri Lanka](#) defaulted on its debt. [Prominent economists](#) warn that that might prove to be a bellwether, since other countries like [Egypt](#), [Pakistan](#), and [Tunisia](#) face similar debt problems that the war is aggravating. Together, 74 low-income countries owed [\\$35 billion](#) in debt repayments this year, a 45 percent increase from 2020.

And those, mind you, are not even considered low-income countries. For them, the IMF has traditionally served as the lender of last resort, but will they be able to count on its help when Ukraine also urgently needs huge loans? The IMF and the World Bank can seek additional contributions from their wealthy member states, but will they get them, when those countries are also coping with growing economic problems and worrying about their own angry voters?

Of course, the greater the debt burden of low-income countries, the less they’ll be able to help their poorest citizens handle higher prices for essentials, especially food. The Food and Agricultural Organization’s food price index rose [12.6 percent](#) just from February to March and was already 33.6 percent higher than a year ago.

Soaring wheat prices — at one point, the price per bushel [nearly doubled](#) before settling at a level 38 percent higher than last year — have already created shortages of flour and bread in Egypt, Lebanon, and Tunisia, which not long ago looked to Ukraine for between 25 percent and 80 percent of their wheat imports. Other countries, like [Pakistan and Bangladesh](#) — the former buys nearly 40 percent of its wheat from Ukraine, the latter 50 percent from Russia and Ukraine — could face the same problem.

The place suffering the most from skyrocketing food prices may be Yemen, a country that has been mired in civil war for years and faced chronic food shortages and famine well before Russia invaded Ukraine. Thirty percent of Yemen’s imported wheat comes from Ukraine and, thanks to the reduction in supply created by the war, the price per kilogram has already risen nearly five-fold in its south. The [World Food Program](#) (WFP) has been spending an extra \$10 million a month for its operations there, since nearly 200,000 people could face “famine-like conditions” and 7.1 million in total will experience “emergency levels of hunger.”

The problem isn’t confined to countries like Yemen, though. According to the [WFP](#), 276 million

people worldwide faced “acute hunger” even before the war began and if it drags on into the summer another 27 million to 33 million may find themselves in just that precarious position.

The Urgency of Peace — And Not Just for Ukrainians

The magnitude of the funds needed to rebuild Ukraine, the importance the U.S., Britain, the European Union, and Japan attach to that goal, and the increasing cost for critical imports are going to put the world’s poorest countries in an even tougher economic spot. To be sure, poor people in wealthy countries are also vulnerable, but those in the poorest ones will suffer so much more.

Many are already barely surviving and lack the array of social services available to the poor in wealthy nations. The American social-safety net is [threadbare](#) compared to its European analogues, but at least there *is* such a thing. Not so in the poorest countries. There, the least fortunate scrape by with little, if any, help from their governments. Only [20 percent](#) of them are covered in any way by such programs.

The world’s poorest bear no responsibility for the war in Ukraine and have no capacity to bring it to an end. Other than the Ukrainians themselves, however, they will be hurt worst by its prolongation. The most impoverished among them are not being shelled by the Russians or occupied and subjected to war crimes like the inhabitants of the Ukrainian town of [Bucha](#). Still, for them, too, ending the war is a matter of life or death. That much they share with the people of Ukraine.

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P.S.

- Foreign Policy in Focus. May 4, 2022:
<https://fpif.org/the-economic-consequences-of-the-war/>