

# Ukraine Economy Collapse due to Russia Invasion

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## ABSTRACT

The economy of due to the war-hit country Ukraine will collapse by 45.1% in 2022. The World Bank further issued a warning stating a possibility of an even bleaker economic outlook, far worse than the 10-35% downturn. The World Bank said that Russia and its neighboring countries are suffering consequences from the ongoing Ukraine war as Putin's country is likely to see a 11.2% decline in GDP. The war which began on February 24 has caused more than four million Ukrainians to flee to Poland, Romania, and Moldova, further causing the prices of grains and energy to soar. Ukraine's economy is severely affected due to the shrunken government revenues, businesses, and trade in goods that are badly disrupted. Further, heavy damages to infrastructure have made it hard for grain exports and other economic activities. An increase in poverty in the war-hit country is another cause for concern as the proportion of the population living on \$5.50 a day is expected to rise to 19.8% this year from just 1.8% in 2021, according to the World Bank.

**KEYWORDS:** Ukraine, Russia, Putin, Economy, War, government, damages, world bank, poverty, energy

## INTRODUCTION

Russia's attack on Ukraine and retaliatory sanctions from the West may not portend another global recession.



The financial defence due to war in Ukraine

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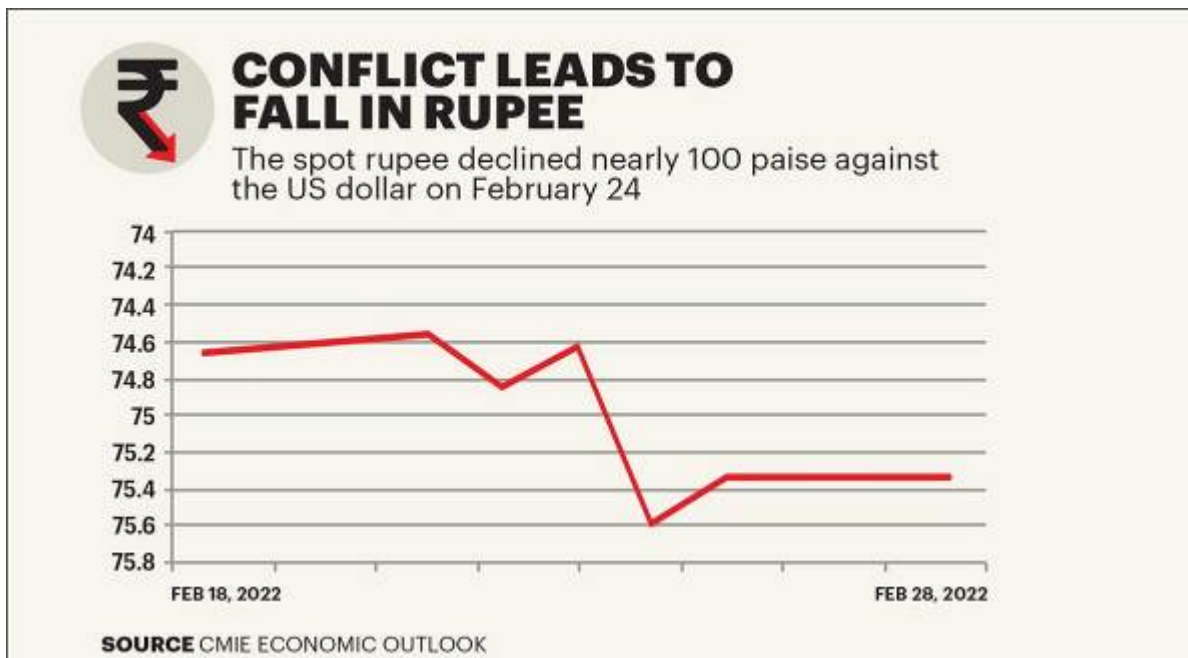
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The two countries together account for less than 2% of the world's gross domestic product. And many regional economies remain in solid shape, having rebounded swiftly from the pandemic recession.

The war in Ukraine has caused the prices of all sorts of products to rise. Not just gas, oil and fuel, but also foodstuffs. This means that inflation is rising and the purchasing power of many households is falling. The government has already taken measures to cushion the impact of rising prices. [1,2]

The war and the related sanctions mean that less energy and fewer raw materials are arriving from Russia, Ukraine and a number of other countries. A drop in supply while demand remains the same means prices increase.



### The economic impact of Russia-Ukraine conflict

Companies sometimes pass on these higher prices to other companies and consumers. This can mean that even products that are not directly from Russia or Ukraine become more expensive.

The uncertainty about the war and its potential consequences is also leading to higher prices.

In particular, products that cost a lot of energy to produce are becoming more expensive. Goods of which Russia, Ukraine and Belarus are major producers are also increasing in price. These include oil, gas, grain, timber, nickel, palladium and aluminium.

The prices of various raw materials were rising even before the war in Ukraine. Energy prices were also relatively high. The war has caused these prices to increase further. Everyone is going to feel the impact of the war in Ukraine in their wallets. This is mainly due to the increase in energy prices, which means higher bills. Vehicle owners will also have to pay more to fill up with petrol or diesel.[3,4]

The Netherlands Bureau for Economic Policy Analysis (CPB) is therefore forecasting that purchasing power will drop by around 2.7 per cent on average in 2022. The government has responded by taking a number of steps to reduce the burden on households that will be impacted the most.



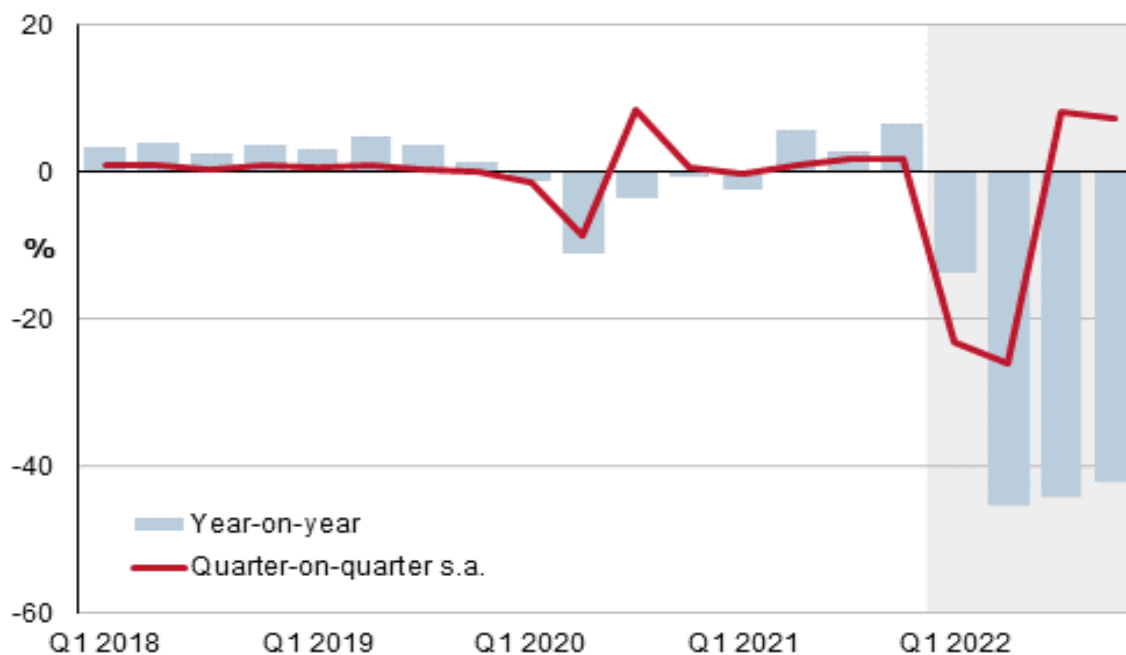
## Loss in Ukraine

It's difficult to predict how long this situation will continue. This is because there are a number of factors at play, such as the duration and severity of the war and the related sanctions. The government is taking a range of different scenarios into account.

Russia's invasion of Ukraine carries huge risks for a world economy that's yet to fully recover from the pandemic shock. The assault followed weeks of tensions that already sent tremors through the world economy by ratcheting up energy prices. The pandemic has left the global economy with two key points of vulnerability — high inflation and jittery financial markets. Aftershocks from the invasion could easily worsen both.[5]

## Discussion

The economic impact of the 2022 Russian invasion of Ukraine began in late February 2022, in the days after the Russian Federation recognized two breakaway Ukrainian republics and commenced a large-scale conflict in Ukraine.



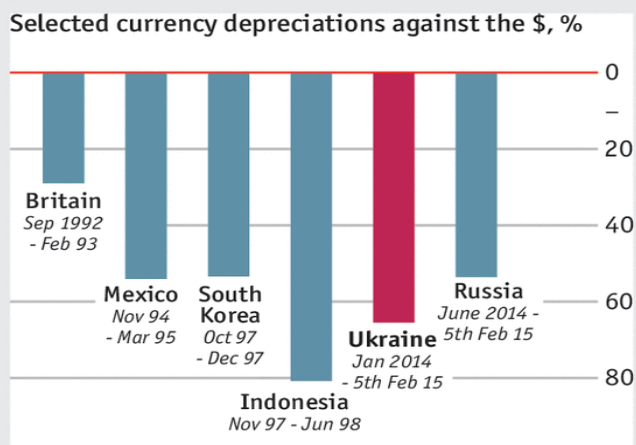
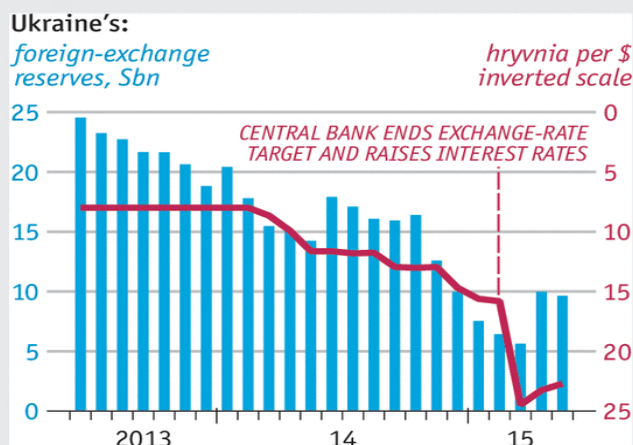
## Ukraine politics

The subsequent economic sanctions have targeted large parts of the Russian economy, Russian oligarchs, and members of the Russian government. The National Bank of Ukraine suspended currency markets, announcing that it would fix the official exchange rate. The central bank also limited cash withdrawals to ₪100,000 per day and prohibited withdrawal in foreign currencies by members of the general public. The PFTS Ukraine Stock Exchange stated on 24 February that trading was suspended due to the emergency events. Bloomberg News service reported that the Ukrainian economic growth for 2022 is likely to suffer a sharp decline estimated at a 45% decrease in annual performance as a result of the Russian invasion. The value of Belarusian dollar denominated bonds due in 2027 fell to a record low of 6.5 cents from 88 cents prior to the invasion.

The "catastrophic" war in Ukraine will cause the country's economy to shrink 45% this year.

Russia's invasion has destroyed infrastructure across Ukraine and led to severe shortages of water, food, heating, and energy. It estimated that the damage to infrastructure was likely to be well above \$100 billion, or about two-thirds of Ukrainian gross domestic product. "Russia's invasion of Ukraine has triggered a catastrophic humanitarian toll and severe economic contraction. Ukraine needs massive financial support immediately as it struggles to keep its economy going and the government running to support Ukrainian citizens who are suffering and coping with an extreme situation.[6,7]

## Currency and depreciation



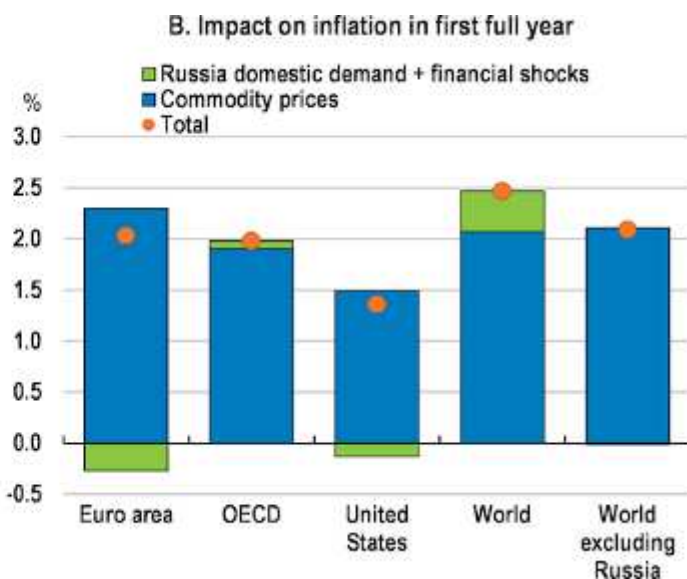
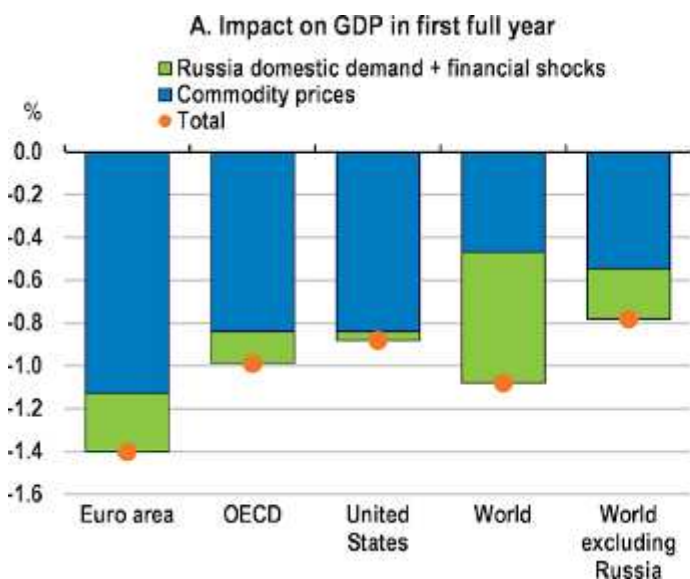
Source: Thomson Reuters

Economist.com

### Crisis in Ukraine

Ukraine's economy is running on fumes and needs urgent assistance everywhere one looks. Russia has blocked Ukrainian ports from exporting goods, targeted factories and essential infrastructure with barrages of missiles, and stolen an estimated 400,000 tons of grain for transport to Russia. The latter is a bitter echo of the 1930s, when Moscow engineered a genocidal famine in the restive region by taking its food. The scale of Ukraine's economic implosion is mind-boggling. Over the past few days, the West has started to provide a much-needed economic lifeline to Ukraine through unprecedented trade liberalization in addition to billions of dollars mobilized for military equipment, refugee aid, and budgetary support. Just as the West has become the arsenal of Ukraine's democracy, it will also need to open the financial floodgates further if Ukraine is to beat back its invaders.[8,9]

To be sure, Ukraine's economic situation is daunting. Its infrastructure losses are already over \$100 billion, according to an estimate by the United Nations that is likely outdated given Russia's stepped-up attack on civilian infrastructure this past week. Ukraine may need \$600 billion for postwar reconstruction—and more the longer the war drags on. Ukraine's long-term economic prospects are conditioned on the war's outcome—including how much of its territory and resources it will control—and the level of relative stability and security that can be established after the war. There are ample resources across the West to finance Ukraine's wartime economy through grants, loans, and trade concessions. Getting Ukraine up and running is in the West's—and above all, Europe's—own interest. Not only does the EU need a functioning bulwark against an imperialist Russia, but the EU is also Ukraine's main trade partner.[10]



### Economic & Policy impacts of war in Ukraine

Ukraine's supply chains sustain German factories, its grain and a host of other agricultural products feed the world, and an even deeper collapse of its economy could send millions more refugees to Europe.

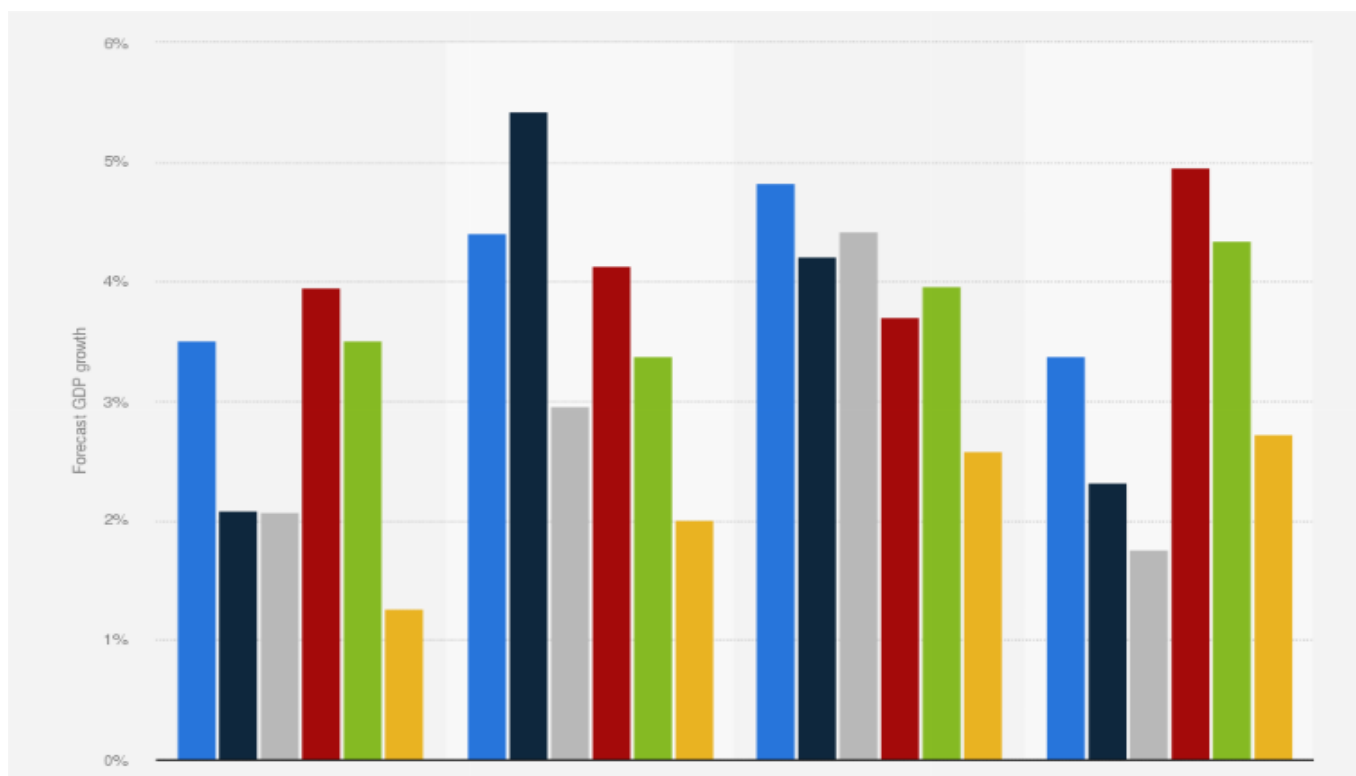
The hardest part will be mobilizing the significant funds required to finance Ukraine’s economy. One model could be the Ukraine Defense Consultative Group, where around 40 countries recently met to coordinate military aid. A similar group could be set up for economic and financial support within a future G-20 reconstituted without Russia. Countries such as South Korea, Saudi Arabia, and Mexico are well positioned to help underwrite this effort. And over time, perhaps even China could be persuaded to support Ukraine’s economy, given its loans and investments in the country and wider stake in maintaining its economic and financial lifelines to Europe and the West.[11,12]

**Results**

Europe has a “special responsibility” toward Ukraine and must allocate “massive investment” to sustain it. In particular, the European Bank for Reconstruction and Development—which has invested more than \$150 billion across Central and Eastern Europe since its founding in 1991—will be a key player in galvanizing this effort. The bank has already facilitated over \$16 billion of investment in Ukraine and recently announced a new \$2 billion package. Its annual meeting next week will already be dominated by the topic of Ukraine. Now that Ukraine’s economic survival is crucial to the outcome of the war and Europe’s security itself, it will require a serious, scaled up, and fast response to ensure Ukraine’s ultimate success. The war in Ukraine has caused the prices of all sorts of products to rise. Not just gas, oil and fuel, but also foodstuffs.

Russia's invasion will cause more economic damage across eastern Europe and parts of Asia than the coronavirus pandemic.[13,14]

The conflict in Ukraine has shut half of the country's businesses and slashed exports, the World Bank said.



**GDP growth forecast due to war in Ukraine**

Anna Bjerde, the bank's vice-president, said Ukraine needed "massive financial support immediately".

The bank has sent almost \$1bn of assistance to Ukraine so far and has promised a further \$2bn in the coming months.

It said the closure of Black Sea shipping from Ukraine had cut off some 90% of the country's grain exports and half of its total exports.

Ukraine is the world's biggest exporter of sunflower oil and the shutdown of exports has affected global food prices.

The World Bank said the war had made economic activity impossible in large parts of the country, disrupting farming and harvest operations.

"The magnitude of the humanitarian crisis unleashed by the war is staggering. The Russian invasion is delivering a massive blow to Ukraine's economy and it has inflicted enormous damage to infrastructure. The Ukraine war and the pandemic have once again shown that crises can cause widespread economic damage and set back years of per capita income and development gains. Ukraine went into the war in good shape, with its economy growing at an annualised quarter-on-quarter pace of almost 7%;

strong prices for its exports of grain, iron and steel; a well-regulated banking industry and a government deficit of less than 3% of gdp last year. Its debt stood at just under 50% of gdp, a number that many finance ministers can only dream of. An impressively digitised tax and benefits system means that revenues are still coming in smoothly from the parts of the economy that are still functioning. Pensions and government salaries are all still being paid, even in areas that are now under Russian occupation, thanks to resilient digital systems and a surprisingly unscathed internet.[15]

### Conclusions

Destroyed lives, destroyed homes and destroyed infrastructure are the immediate consequences of Russia's invasion of Ukraine. The war also imperils the world's economic recovery from the COVID-19 pandemic: inflation, food security, energy security and further supply-chain pressures are among the many challenges policy makers worldwide must tackle. The war in Ukraine risks upending Europe's economic recovery. The Russian invasion caused a massive humanitarian crisis – almost seven million Ukrainians have fled the country. The conflict and resulting sanctions have disrupted exports from the region for commodities like metals, food, oil and gas, pushing up inflation to levels not seen in decades.[15]

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