Blog

Ukraine has suffered most in many ways

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AUTHOR



Iikka Korhonen
Head of BOFIT

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Ukraine has suffered most from Russia's illegal war of aggression launched a year ago. Nobody knows the exact numbers of dead or wounded Ukrainians, but they certainly number in the tens of thousands. The World Bank put Ukraine's pre-war population at just under 44 million. About 8 million initially fled the country, but some are already returning. There are also millions of internally displaced Ukrainians.

Besides the humanitarian emergency, the war Russia started has been catastrophic for the Ukrainian economy. The country was just recovering from the impacts of the COVID-19 pandemic when the full-scale invasion was launched on February 24, 2022 – the thawing of a frozen war that had begun with the annexation of Crimea and occupation of the Donbas in 2014 that reduced Ukraine's GDP by about 15 % in 2014 and 2015.

After the multi-front attacks in the initial months of Russia's "special military operation" last year, the focus of the war settled back to the eastern and southern parts of Ukraine. This has had its own impact on the Ukrainian economy. Prior to the war, a very significant chunk of Ukraine's economic activity, particularly with respect to its export industries, occurred in the country's eastern and southern parts. Moreover, about 70 % of Ukrainian exports were transported to world markets via the country's Black Sea ports.

Given the direct impacts of the war, the large numbers of refugees and displaced persons, and e.g. the closing of some of Ukraine's main export channels, it is hardly surprising that Ukraine's GDP contracted by about a third last year. And with the reduction in economic activity, tax revenues fell

significantly. Based on data collected by Consensus Economics, institutional forecasters currently expect Ukraine's GDP to grow by about 1 % this year (Figure), followed by significantly higher growth next year. The forecasts, however, are all over the map, due in part to different assumptions about how and when the war might end. In the most optimistic scenario, Ukraine's GDP growth rebounds so much next year that output climbs to near-pre-invasion levels.

Even if a truce is declared at some point this year, the reconstruction of Ukraine will still be extremely expensive. Much of the country's infrastructure has been damaged in some way or another. Cities located near the front lines have been shelled and bombed extensively, so even the price for refurbishing damaged apartment buildings or building new blocks of flats will be high.

In September 2022, Ukraine's government, the World Bank and the European Commission published a joint report that estimated that the price tag for Ukraine's reconstruction would be around 350 billion dollars. Of course, the longer the war continues, the larger the ultimate cost of reconstruction. In January 2023, Ukraine's government warned that the price of reconstruction was already approaching 1 trillion dollars. It is impossible, of course, to give a realistic cost estimate before the war ends and reconstruction begins. There is also no clarity at this point as to who exactly should pay for reconstruction.

It currently appears that the best option for ending the war is making sure that Ukraine retains its ability to operate effectively and has the military capability to push the occupying forces out of Ukrainian territory. Ukraine last year received 3–5 billion dollars a month in international financial aid, and its ongoing need for money remains undiminished. The importance and need for military assistance continues to rise. Indeed, a substantial and rapid increase in aid at this point could even reduce Ukraine's economic losses and minimise the suffering of its population over the long term.

Chart 1.



Keywords

international economy, Russia, Ukraine, war