

# The Global Economic Consequences of the War in Ukraine

**Editors: Luis Garicano, Dominic Rohner, Beatrice Weder di Mauro**

# **Economic losses in Ukraine and elsewhere**

Luis Garicano

# Massive human cost... and economic

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- 13,917 civilian casualties in the country (of which 5,718 killed and 8,199 injured
  - Plus 80k Russian military casualties?
- Economic costs are huge
  - Looming macroeconomic crisis is looming because the Ukrainian government has been forced to partially finance the war with an inflation tax. Revenues only cover about a third of the Ukrainian government's monthly deficit of \$5 billion; 1/3 foreign help; 1/3 monetized
  - Oleksiy Blinov and Simeon Djankov using bank card activity, show that private consumption in Ukraine fell by half during the first month of the war and then recovered half of the loss, up to 70–74% of the previous year's level by June.

# Human capital losses key for long term

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- Blinov and Djankov : Physical destruction challenge is bad, but Human capital likely to be most significant: emigration, casualties, school interruptions
  - Data from WWII and Vietnam war: speaks to losses in mental health, clinical depression, functional limitations
- Tilman Brück, Michele Di Maio and Sami Miaari
  - Palestinian data shows persistence and long lasting damage
- Angrist, Djankov, Goldberg and Patrinos: evidence of persistence is overwhelming
  - WWII, Tajik Civil war, Ebola crisis
  - Learning crisis compounds COVID losses of schooling (31 weeks)
- Sascha Becker
  - There are the huge costs from the internal and external displacement of over 10 million Ukrainians due to the war.

# Human Capital: recommendations

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- Recommendations (Angrist, Djankov, Goldberg and Patrinos)
  - Open classes in neighboring countries to refugee kids
  - Online, by-phone, or in-person tutoring can happen anywhere and bring positive results
  - Adapt curricula for refugees

# Sanctions

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Felbermayr, Kirilakha, Syropoulos, Yalcin and Yotov: sanctions are increasingly weapon of choice

Do they work?

- Itskhoki and Mukhin: they do, don't worry about rubble!
- Harrison: import sanctions are effective, since Russia is unable to spend its export cash pile
- Mikhail Mamonov, Anna Pestova and Steven Ongena: banks successfully anticipated themç
- Pestova, Mamonov and Ongena: measurable, but small effects on firms
- BUT: Huge export revenues through oil and gas: Anette Hosoi and Simon Johnson- we need a full fossile fuel embargo
  - And it is possible: famous Rüdiger Bachmann et al. piece- we can bear it!
- In the mean time: Tariffs or Caps?
  - Weder di Mauro and Martin: combine both- tariff on oil, caps on gas.

# Trade war and disrupted supply chains?

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- Russia's position in world trade is key
  - Deborah Winkler and Lucie Wuester: Russia very high in global value chains.— exporting raw materials (mostly metals) and chemicals and energy (notably, coke and petroleum). Thus huge disruption expected
- Careful about the reactions!!
  - Michele Ruta: substitution and inertia will preserve supply chains--- only the misguided reactions by governments, inducing autarky and reshoring, will lead to very significant losses in productivity and high economic costs.
  - Alvaro Espitia, Simon Evenett, Nadia Rocha and Michele Ruta worry about the impact of policy interventions in terms of worsening the war-related losses due to trade disruptions.
- Once relocation of supply sources takes place, it persists
  - Tobias Korn and Henry Stemmler show in their chapter that when violence persists over time (as it already has in this war), the relocation effects caused by violence tend to persist in the long run. Once relocation away from a certain supplier or buyer takes place, it remains after peace is established.

# Global impact and green energy transition

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# Impact of War on Developing Countries

- Chapters 21-24
- Spillovers on countries around the world through food price spikes
- Conflict may go down in places producing staple food
- But more conflict in places mostly consuming staple food
- Risks of food riots
- Agricultural and energy importers hit hardest – real incomes dropping by up to 1-5%

# The Impact of the War on Ukraine

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- Chapters 25-28
- A huge tragedy with shockingly high numbers of fatalities
- Forecasts of GDP falling by more than a third and massive fiscal deficit
- Learning losses could amount to more than one year of schooling
- Crucial to provide unhindered access to schooling for refugee children
- Language and vocational training offers key for adults

# Long-Run Impact on Multilateralism and the International System

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- Chapters 29-31
- Surge in European identity
- Smaller financial integration
- Having two trade blocks (West vs East) would lead to median loss of 4% on average

# Increased Urgency of Green Energy Transition I

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- Chapter 32 -- 10 policy recommendations:
- *#1: Use targeted transfers to compensate the rise in prices of fuel, gas and electricity. Do not use retail price regulation or blanket subsidies.*
- *#2: Announce a post-war brown energy, heating gas and fuel levy. Tax revenues to be fully distributed to citizens, typically in a progressive way.*
- *#3: Subsidising renovation and envelope isolation.*
- *#4: Install a high-level working group to set recommendations and benchmarks for business travel, including the use of offsets.*
- *#5: Stop subsidising planes, start investing massively in trains.*

# Increased Urgency of Green Energy Transition II

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- *#6: Reduce the relative costs of electric cars with respect to fossil fuel ones.*
- *#7: Stepping up information provision about resource emissions and CO2 emissions per activity.*
- *#8: Any short-run reintroduction of highly polluting energy sources to replace Russian oil and gas must be (1) explicitly temporary and (2) conditional on elimination of obstacles to wind and solar energy*
- *#9: Extend plant lifetimes when safely possible, and limited to the short run, to navigate through the current crisis.*
- *#10: European united response (1) investing in emergency interconnections of gas and electricity; (2) joint purchase and storage of gas; and (3) a fiscal solidarity mechanism able to cushion the blow of the crisis to the most vulnerable countries and citizens.*