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WARFARE BEYOND THE BATTLEFIELD: GLOBAL ECONOMIC IMPLICATIONS FOR UKRAINE

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Summary. *The article examines the financial and economic aspects of the ongoing conflict between Russia and Ukraine within an international context. It explores both positive trends of support provided by European countries and the challenges encountered in decision-making processes. The conflict, now spanning almost a year, has led to infrastructure destruction, loss of lives among military and civilian populations, and significant damage to Ukrainian cities and towns. This situation has influenced both internal and external economic policies. With the help of several European countries, the Ukrainian Government has taken steps to protect its citizens through military, economic, and financial aid. International cooperation has presented opportunities for collaboration and shared responses in facing aggression. The article also considers the complications arising in the decision-making process due to the international context. The study highlights the profound impact of the Russian invasion on Ukraine's economy, including a sharp decline in real GDP growth and trade disruptions. The mass displacement of citizens and the strain on social services and the labour market have resulted in socioeconomic challenges. In conclusion, the research underscores the critical role of international financial aid in supporting Ukraine during its ongoing conflict with Russia. The article delves into the intricate relationship between economic policies, political decisions, and international cooperation during times of crisis.*

The Russian Federation's war against Ukraine has been going on for almost a year now, with infrastructure being destroyed, military and civilian casualties, and huge damage to Ukrainian towns and villages caused by aggressive actions. The situation caused by the war in Ukraine has affected both domestic and foreign economic policy. Of course, the Government of Ukraine, with the help of many European countries, which provide substantial military, economic and financial support, is doing everything possible to ensure the social protection of its citizens. The international context of Ukrainian issues creates both difficulties in decision-making and new opportunities.

This study aims to examine the financial and economic aspects of the war in Ukraine in the international context, identifying positive trends in European countries' assistance to Ukraine, new opportunities for cooperation, and difficulties in decision-making.

The morning of 24 February 2022 dramatically changed the life of Ukraine: Russia's treacherous invasion, hundreds of missiles launched into our territory caused irreparable and painful losses, large-scale damage to infrastructure, massive population displacements, and, most importantly, a large number of military and civilian deaths. But this is only one side of the country's tragedy. The situation had an extremely negative impact on the economy, which was reflected in a sharp decline in real GDP. "In the second quarter of 2022 alone, GDP growth fell by 37.2% year-on-year". Trade lost its pre-war pace and volume, which inevitably led to an increase in inflation. Naturally, a fairly large number of people (over 7 million Ukrainians, which is about a fifth of the population) sought refuge in European countries or central and western Ukraine, becoming internally displaced persons. Of course, the government of the country and many European countries, as well as the United States, are doing everything possible to protect citizens, but problems remain in the social sphere and the labour market. "The number of registered unemployed per vacancy has jumped from 6 to 12 since the beginning of the war, and research data indicate that the unemployment rate has risen to 40%". [3]

All aspects of Ukraine's financial situation are reflected in the report of the International Monetary Fund. However, despite the extremely difficult and challenging situation, the Government of Ukraine has adapted its monetary and exchange rate policies, which has ensured relative financial and exchange rate stability. The devaluation of the exchange rate was a positive development, which helped to stabilise foreign exchange reserves and maintain overall macroeconomic and financial stability. Of course, fiscal policy prioritises spending on defence, social payments, restoration of critical infrastructure and humanitarian needs. However, unfortunately, the military operations in the country are not yet over, and their activity waxes and wanes, creating uncertainty about the size of the financing needs. To date, it is still impossible to calculate financial losses and predict economic risks, which are due, among other things, to the barbaric destruction of Ukraine's critical infrastructure and incalculable losses in the energy and agricultural sectors.

However, Ukraine's economy has survived and is gradually adapting to wartime conditions. As of January 2023, the main hostilities were localised in the eastern and southern territories of Ukraine. Life in the non-combat zones is gradually stabilising, although private consumption, purchasing power and investment have been significantly reduced, causing an unprecedented increase in the budget deficit and a critical decline in tax revenues. Since the beginning of the war, the government has been urgently cutting non-essential expenditures, as spending, mainly on defence, has been steadily increasing and continues to grow. "As a result, the budget deficit, excluding external grants, is estimated to have reached 13.9% of GDP in 2022 at the end of August. Due to the significant increase in non-tax revenues provided by external grants, the overall budget deficit was lower at the end of August and amounted to about 8% of GDP". [3]

Unfortunately, the military operations are still active, so it is difficult to predict both political and financial prospects for 2023 in Ukraine. According to experts, the state of the global economy as of the first half of January 2023 is not critical, as was predicted several months ago. However, this does not guarantee that the global economy is stable and strong. At the World Economic Forum in Davos, International Monetary Fund (IMF) Director Kristalina Georgieva stressed the significant concerns associated with the following phenomena: "The economic growth rate of 2.7% is the weakest GDP growth in decades, except the global financial crisis and the COVID-19 pandemic. Lack of defined inflation behaviour. The situation due to Russia's full-scale war against Ukraine". [1]

The situation caused by the war in Ukraine has affected both domestic and foreign economic policy. Predicting the main risks of 2023, we can note that the main point is the uncertainty of the end of the war, significant destruction of production potential, steady growth in unemployment and, as a result, a decrease in consumer solvency, and migration of labour potential. It is impossible to mitigate war risks "through the use of market instruments (such as monetary taming of structural inflation, market financing of the war budget deficit, or tax cuts to attract private capital). Also, not all policy decisions depend solely on the position of Ukrainian government officials. The international context of Ukrainian issues creates both difficulties in decision-making and opens up new opportunities" [2].

Unfortunately, we can assume that the global crisis in the financial and energy structures may negatively affect the volume and rhythm of international financial support to Ukraine, which will lead to corresponding consequences in the state budget and economy. There are also certain inflation risks associated with the natural adjustment of the economy to the new operating conditions, which leads to adjustments in pricing policy, changes in supply logistics and sales markets, partial re-profiling of business structures, and an increase in the share of imports. The country's civilian energy infrastructure is being heavily hit by Russian missiles, which creates an additional inflationary structural shock and leads to a reduction in working hours, increasing production costs. Ukraine faces serious challenges in 2023 that need to be addressed urgently - "the launch of a plan to finance the reconstruction of Ukraine's economy with the participation of international partners is a top priority of economic policy that should be implemented before the end of hostilities, despite the risks. The receipt and distribution of international assistance should be carried out with the adequate functional participation of national state institutions". [2]

In 2023, the structure of financing the state budget deficit of $38 billion will not differ significantly from 2022: 46% of expenditures will be financed by international aid. Other borrowings will amount to UAH 170 billion, including UAH 90.7 billion of domestic borrowings. In 2022, the general fund of the state budget received UAH 1,491 billion. Of this amount, UAH 480.6 billion was gratuitous international assistance in the form of grants [4]. Thus, according to IMF estimates, in 2023 Ukraine "may need $3-5 billion of external financing per month. This amount will depend on the nature of the hostilities and the macroeconomic situation in the country. International aid funds only social payments and the functioning of the state. The structure of military expenditures is based on domestic budget revenues in the form of taxes, loans, privatisation proceeds, *etc* [4].

A separate issue is the global financial assistance to Ukraine in 2023. Thus, in December 2022, the G7 countries made a joint decision to organise a platform to provide substantial assistance to Ukraine, support its economy, provide military equipment, and facilitate its further recovery and gradual revival. The G7 finance ministers reached a consensus that ensures coordinated budgetary and economic support for Ukraine through 2023. It was about "mobilising up to $32bn. This amount includes €18 billion from the EU and budget support from the US and Japan. Support for the Ukrainian government, state-owned enterprises and the private sector through the European Bank for Reconstruction and Development, the International Finance Corporation and the European Investment Bank will amount to $6.7 billion".[4] As noted above, the EU is allocating €18 billion to Ukraine, €1.5 billion per month for a year. On the positive side, these loans have a 10-year grace period. EU member states will cover the bulk of the interest costs. However, an essential condition for this long-term loan is that Ukraine must implement reforms that should affect public administration, the rule of law, and the fight against corruption and fraud. "The US has set aside a separate section in the 2023 state budget for assistance to Ukraine. It includes a sum of $45 billion". The media hastened to call it aid to Ukraine, although this conclusion is not entirely true. Consider the structure of US financial assistance, which includes "direct assistance to Ukraine from the United States: $13.37 billion in economic and budgetary assistance to the government of Ukraine; $9.0 billion in military assistance to Ukraine; $2.47 billion for humanitarian purposes in Ukraine and countries hosting Ukrainian refugees". The United States also has expenditures that directly bypass Ukraine: "$11.88 billion - compensation to the US Army for weapons it will transfer to Ukraine; $6.98 billion - support for US troops stationed in Europe; $2.4 billion - to host Ukrainian refugees in the United States; $166 million - for the needs of the State Department and USAID in Ukraine; $126.3 million - to prepare for overcoming the consequences of possible nuclear incidents in Ukraine" [4]. However, this amount also includes US expenditures that are not entirely related to assistance to Ukraine: "$300 million for the US nuclear energy sector; $50 million for the Food for Peace programme; $5 million for the McGovern-Dole fund for education and child nutrition; $6 million for verification of the use of the allocated funds" [4]. An important point to note is that the US President's authority to "provide weapons to Ukraine" has been raised to $14.5 billion. In general, the US budgetary assistance to Ukraine is expected to be $1.1 billion per month (from January to September 2023)" [4].

In 2022, Ukraine "received $2.7 billion in special rapid support instruments from the IMF, while paying the Fund $2.4 billion in debts from previous years" [4]. Ukraine had expected a new large programme to be signed by the end of 2022, but the IMF "introduced only a new support instrument.

In December, the IMF Board of Executive Directors approved a Monitoring Programme involving the Fund Board for Ukraine. The IMF notes that this programme "aims to help Ukraine maintain its macroeconomic and financial stability and provides for the development of a macroeconomic framework that will facilitate increased donor assistance to Ukraine". [4]

Unfortunately, there is no real monetary assistance from the IMF yet. In addition, the promised monthly assistance "in the amount of €1.5 billion and $1.1 billion is significantly lower than the IMF's estimate of the need for such funding ($3-5 billion)". Therefore, it is quite natural that the Government of Ukraine may consider it necessary to turn to the World Bank's partners, as well as to the countries that have already assisted in 2022, such as the United Kingdom, Canada, Italy, France, and others.

Conclusion. In the current landscape where Ukraine stands as a defender of democratic values worldwide, the imperative of ensuring the optimal functioning of the state during times of conflict becomes paramount. The multifaceted impact of warfare extends well beyond the battlefield, infiltrating the economic fabric of nations and reshaping global dynamics.

It has become evident that effective response mechanisms, collaborative strategies, and well-coordinated international financial assistance are pivotal in mitigating the economic repercussions of conflict. The case of Ukraine serves as a testament to the interdependency of global economies and the shared responsibility of nations to fortify one another in times of adversity. As Ukraine confronts economic challenges resulting from conflict-induced disruptions, the international community's support becomes a beacon of hope, reinforcing the notion that alliances built on solidarity and shared values can transcend geopolitical boundaries.

In light of the presented findings, it is evident that the world must recognize the urgency of addressing not only the military aspects of conflicts but also their profound economic implications. The lessons drawn from Ukraine's experience emphasize the need for proactive measures to stabilize economies affected by war, while also advocating for comprehensive strategies that integrate financial aid, diplomatic efforts, and socio-economic rehabilitation. The international community's response to conflicts must encompass a holistic approach that encompasses financial assistance, diplomatic engagement, and steadfast commitment to upholding democratic values. By doing so, nations can stand united in facing the economic challenges wrought by warfare and, in turn, contribute to the broader endeavour of building a more resilient and interconnected global society.

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