

ECONOMIC CONSEQUENCES OF THE RUSSIAN-UKRAINE WAR FOR THE GLOBAL ECONOMY

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Many countries have already experienced serious economic consequences of the Russian full-scale invasion of Ukraine. Russia and Ukraine are major exporters of agricultural products and fossil fuels; therefore, hitches in the supply of these goods and resulting price hikes are being observed all over the world. Since the countries of the Black Sea region are significant exporters of fertilisers, deficit and price hikes may lead to a decrease of agricultural yields in many world regions. This, in turn, may lead to higher volatility of food prices (World Food Programme, 2022).

The issue of price formation stability and application of various regulating tools towards agricultural key commodities, on which securing global food security directly depends – especially low-income food deficient countries (FAO, 2021) that are net importers of agrarian products — is a core aspect on the agenda of leading international organisations and formal groups, such as the World Trade Organisation (WTO), UN Food and Agriculture Organisation (FAO), International Grains Council, and Cairns Group. FAO data estimate that more than 251 million people in these countries are severely food insecure (Vickers et al., 2022).

The FAO (2022b) has monitored global food price levels since the 1990s. In March 2022, experts of the organisation recorded food prices peaking around the world. The prices increased by over 12% compared to previous months and by over 30% compared to a similar time period (March 2021). In April 2022, the FAO food price index was equal to 158.2 points on average, which is 0.8% lower than in March 2022, but it still was about 30% higher compared to a similar time period of the previous year (April 2021) (FSIN, 2022). This, in turn, means that people, particularly in the Least Developed Countries (LDCs), struggle with food prices, because a significant part of their income was spent on food already before COVID-19 and the Ukrainian war. The World Bank estimates the average share of household expenditures in developing countries spent on food between 50 and 60%, but in some of the poorest countries it can be as high as 80%. For example, in South Asia it was 52.7% and in Sub-Saharan Africa 61.9% (World Bank, 2023a, 2023b). It is important to state within this context that Ukraine has a sufficient reserve of food products to fully satisfy global demand.

According to the World Bank forecast concerning product markets, the cost of many food products will soar. The UN food price index affirms that costs have peaked since the start of its calculation 60 years ago. At the same time, according to expert predictions, wheat prices will rise by over 40% (World Bank, 2022c), reaching a record level in its nominal value in 2022.

Over the last three decades, countries of the Black Sea region have become key global suppliers of grains, oil crops, and vegetable oil. Ukraine and the Russian Federation are among the world's seven largest producers and exporters of wheat, corn, barley, sunflower seeds, and sunflower oil. A major part of these products is supplied to countries of Northern Africa and the Near East, as well as to European countries and China, in the case of corn originating from Ukraine. Ukraine is a large sunflower oil supplier and provides over half of the global production of this product. In 2019 Ukraine and the Russian Federation covered 25% of the global wheat export volume and 14% of the corn export (UN Comtrade Database, 2023).

Therefore, the war in Ukraine has caused further destabilising of the global agrarian markets in times of already highly volatile international product and raw material prices. Considering favourable weather conditions and some growth of production facilities of the Ukrainian agrarian sector, potentially, 2022 was supposed to deliver high yields of cereals and accordingly maintaining a high level of export opportunities. However, military actions in Ukraine and invasion of a considerable part of its territory provoked several negative factors, particularly the relocation of population, damage, and destruction of civil infrastructure, limiting transportation of people and goods, which partially or fully froze the ability of farmers to act normally, harvest, and sell their harvest. The situation has further deteriorated due to interruptions in infrastructure and institutional provisions. After the active military actions moved to the eastern and southern parts of the country at the beginning of April 2022, economic activity, particularly agricultural activity, in central, northern, and some southern parts of the country started to resume. In these areas, farmers started working in the fields, often facing a challenge to retrieve unexploded ammunition before applying fertilisers for winter crops or preparing soil for planting spring crops. These circumstances evoke serious anxiety about their potential negative effect on the food security within the country as well as on the international level.