

## THE INFLUENCE OF THE RUSSIA-UKRAINE WAR ON THE DEVELOPMENT OF THE ECONOMY OF THE WORLD AND GEORGIA

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**Abstract.** In the post-pandemic stage of 2022-2023, the world economy faced severe new challenges, as the economic stagnation and depression caused by the COVID-19 pandemic was compounded by the start of hostilities in Ukraine by the Russian Federation on February 24, 2022. The world civilized community imposed strict sanctions against Russia in order to deter aggression. At the same time, the difficulties for the economy of many countries of the world have worsened and reached a critical point. At the same time, the post-pandemic challenges were also accompanied by the problems characteristic of the global recession - the increase in prices and inflation levels, the decrease in investments, the fall in the exchange rate of the national currency, unemployment, the energy crisis, the increase in the price of real estate, the increase in the vulnerability of the population and other problems.

**Keywords:** *Russia-Ukraine war, global recession, post-pandemic challenges, monetary policy of the National Bank, International Monetary Fund, World Bank Group.*

**Introduction.** Along with the economic damage caused by the COVID-19 pandemic, Russia's invasion of Ukraine has significantly disrupted global business and world economic growth prospects. This is accompanied by a high-inflationary environment, in response to which the central banks of most countries of the world have tightened their monetary policy, and even more restrictions are expected.

Against the backdrop of increased interest rates, stagflationary risks have also increased. The tightening of financial conditions globally poses the risks of economic growth restrictions and additional inflationary pressure for countries with developed and developing economies.

As of 2022, the pandemic has almost ended, and most of the countries in the world have significantly reduced their budgets for the fight against Covid-19. The main surprise in the month of February 2022 was the start of the Russia-Ukraine war. The war created many uncertainties and undefined risks in the world economy.

Along with the political crisis, Russia's invasion of Ukraine caused a sharp rise in the prices of energy resources and food products globally, because before the war, Russia and Ukraine were one of the largest exporters of basic raw materials (natural gas, oil resources, grain, etc.). Also, the sanctions imposed by the international community and the ongoing war in Ukraine limited the supply of goods from these countries and led to an increase in the prices of energy resources and food products on the international markets. However, from the second half of 2022, following the recovery of supply chains on the international commodity markets, a trend of price reduction was evident. This positive dynamic was caused by the improvement of production prospects in America and Russia and the recovery of exports from Ukraine to the Black Sea ports.

Current trends in international markets are the basis for cautious optimism, although inflationary risks and the high uncertainty of world economic development trends are also worth noting.

The current Russia-Ukraine war has different effects on different countries. In Georgia, due to its geopolitical location, foreign demand increased more than expected. The influx of citizens of Russia, Belarus and Ukraine in large numbers and the gradual recovery of tourism had a positive impact on economic activity. Also, the potential of the economy is showing signs of faster recovery than expected, which is also stimulated by the growing foreign direct investment. Accordingly, the forecast of economic growth in 2022 has increased to 10.0%. Economic growth in the country exceeds its potential level. However, the growth of credit activity has slowed down as a result of tighter monetary policy and recently implemented macroprudential instruments. slowed down.

Along with this, it should be noted that the tightened monetary policies of the European Central Bank and the Federal Reserve System have the effect of tightening the policy on foreign currency lending. Fiscal stimulus is also decreasing. Given these trends. In the conditions of strong supply shocks, keeping inflation expectations at a low level remains a significant challenge, as inflation has long exceeded the target rate as a result of consecutive shocks, which creates risks of the so-called “second round” effect and an increase in medium-term inflation expectations.

### **The impact of the Russia-Ukraine war on the world economy**

In the third quarter of 2022, the high inflationary environment was maintained in both developed and growing developing countries. This is mainly due to the challenges in the background of the ongoing war in Ukraine and the high prices of products on the international commodity markets. However, it should be noted that recently oil prices, as well as food prices, have a tendency to decrease.

In the third quarter of 2022, the pace of economic activity slowed in the US, due to sharply increased consumer prices and a tightening financial environment. At the same time, the volume of exports slightly worsened, and the commodity stocks decreased. Along with the Russia-Ukraine war, the US government continues to impose sanctions against Russia, which is an additional challenge for the country. The annual level of inflation remains quite high, reaching 8.2% in September 2022. In response to increased inflation expectations, the Federal Reserve increased the federal funds rate to a range of 3-3.25%.

According to the International Monetary Fund's estimate for October 2022, the real economic growth in the USA was determined by 1.6%, which is 0.7 pp less than the previous forecast<sup>6</sup>, and 1% is predicted in 2023. As for inflation, its forecast rate is 8.1% in 2022, and 3.5% in 2023.

At the end of 2022, the rate of improvement in economic activity slowed down in the EU area as well. This is due to the challenges in the background of the Russia-Ukraine war. Due to economic sanctions, there is also an expectation of an energy crisis in most EU countries, as a result of which consumer and business sentiments have worsened.

Also, the euro depreciated recently, against the background of which the annual rate of inflation is still high, which reached 10% in September, which is a record high indicator in the history of the existence of the European Union. It should also be noted that European countries have imposed several packages of economic sanctions against Russia in order to reduce dependence on it, which is an additional pressure on the economic activity of EU countries. According to the International Monetary Fund, the economic growth forecast for the European Union in 2022 is 3.1%, which is an improvement of 0.5 pp compared to the previous forecast and is mainly explained by higher than expected growth indicators in the first half of the year. In 2023, the growth will be 0.5%. The predicted inflation rate in 2022 is 8.3%, and in 2023 - 5.7% [International Monetary Fund. (2022). World Economic Outlook: Countering the Cost-of-Living Crisis. Washington, (WEO, October 2022)].

In the third quarter of 2022, economic activity in Turkey continued to improve at a slow pace. Consumer sentiment and consumption remain weak, largely due to the recent record depreciation of the Turkish lira. Against the backdrop of devaluation, inflationary pressures

increased further, with annual inflation reaching 8.5% in September 2022, while exports also increased.

According to the IMF's October estimate, Turkey's real economic growth in 2022 amounted to 5%, which is an improvement of 2.3 pp compared to the previous forecast, and 3% growth is predicted in 2023. As for inflation, its rate is 73.1% by 2022, and 51.2% in 2023.

Economic activity in Russia worsened in the third quarter of 2022 due to economic sanctions imposed by the international community (US, EU). Investments, consumer spending and retail sales all fell. Against the backdrop of the imposed sanctions, the business environment in the Russian Federation has also deteriorated. Shortly after the start of the war, against the background of a record depreciation of the Russian ruble, despite its subsequent strengthening, the annual inflation rate increased significantly, which amounted to 13.7% in September. At the same time, in response to increased expectations, the Central Bank of Russia decided to increase the monetary policy rate to 20% in February, which was gradually reduced again to 7.5% in September. It is also worth noting that, since the end of March, as a result of the active use of capital controls, the official exchange rate of the ruble has stabilized against the US dollar.

According to the IMF forecast, the economic growth of the Russian Federation in 2022 was set at 3.4%, which is an improvement of 2.6 pp compared to the forecast of 2021, and in 2023 a drop of 2.3% is expected. The projected inflation level will be 13.8% in 2022 and 5% in 2023.

In the context of the war waged by Russia, the post-pandemic challenges in Ukraine have been further exacerbated by the shocks caused by the hostilities. The number of dead is increasing every day, and more than 8 million Ukrainians have already left the country. As a result of the war, such important infrastructure facilities as roads, bridges, ports, airports and fuel storage depots have been destroyed. Also, residential houses, hospitals, which destroys the potential of the business environment and economy.

According to the IMF, the real economy of Ukraine will shrink by 35% in 2022, and the expected level of inflation is 20.6%. It is important that, against the destructive war, the civilized part of the world, including Georgia, supports Ukraine and also provides economic and humanitarian aid.

At the end of 2022, there was high economic activity in Armenia. This is mainly due to the high influx of Russian citizens into the country, against the background of which the business environment and the service sector have improved. However, the tense geopolitical situation and the military conflict with Azerbaijan have a negative impact on Armenia's economic activity. The annual rate of inflation is also high, reaching 9.9% in September 2022.

Armenia's economic growth in 2022 is 7%, which is an improvement of 5.5 percentage points compared to the previous forecast, and in 2023 it is predicted to be 3.5%. As for the forecasted inflation, it will equal 8.5% on average in 2022, and 7% in 2023.

In 2022, the growth rates in both the oil and non-oil sectors of Azerbaijan continued to improve. This was largely facilitated by the high oil prices in the international market and the improvement of the industrial sector, and the volume of investments also increased. Against this background, the foreign sector also improved. However, at the same time, the annual rate of inflation remained high, reaching 15.6% in September, and the exchange rate of the Azerbaijani manat against the US dollar stabilized.

In 2022, economic growth in Azerbaijan amounted to 3.7%, which is an improvement of 0.9 pp compared to the previous forecast, and in 2023, the forecasted rate will be 2.5%. As for inflation, it was 12.2% in 2022, and 10.8% in 2023.

Based on the assessment of the economic development trends of the countries discussed above, it is noteworthy to note the level of world economic growth and global inflation rates and forecast assumptions. According to the October 2022 reports of the International Monetary Fund (IMF), Global economic growth in 2022 is expected to be 3.2%, as in the previous forecast, and 2.7% in 2023, which is a 0.2 percentage point (pp) deterioration. However, against the background of increased inflationary pressure, the expected level of global inflation is 8.8% in 2022 and 6.5% in 2023. As for developed and developing countries, their real growth forecast in 2022, as well as in 2023, is equal to 3.7%, which is an improvement of 0.1 points compared to the previous forecast. As for inflation, the forecast for 2022 is 9.9%, and for 2023 it is expected to be 8.1%.

### **The impact of the Russia-Ukraine war and the trends of Georgia's economic development**

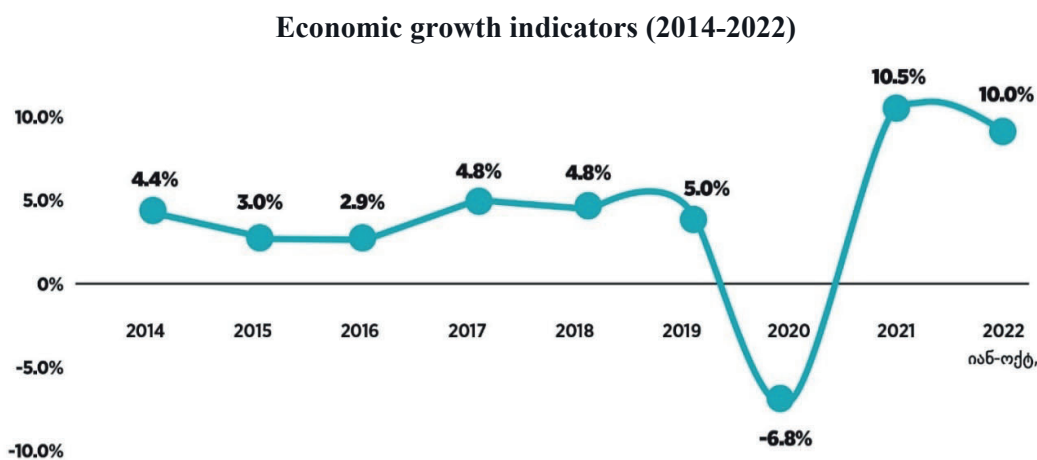
Georgia, as a country with a small open economy, is sufficiently sensitive to global events, therefore, in the conditions of the current high inflation environment, the National Bank remains focused on reducing inflation and maintains a tighter monetary policy.

The main challenge of the post-pandemic period in Georgia is the high inflation rate, which, unfortunately, came true and the rapid increase in prices continued in 2022. The increase in prices by more than 10-15% did not allow the National Bank to reduce the strict monetary policy and, on the contrary, increased the refinancing rate from 9% to 11%.

The year 2022 turned out to be more positive than expected in terms of ending the pandemic. The pandemic has almost ended in Gaza, which completely removed strict

regulations and restrictions on the tourism sector, and significantly reduced the costs of the country's budget against Covid-19.

The main surprise of 2022 was the Russia-Ukraine war. The war created a lot of uncertainty in the economy. It was expected that economically, Georgia would suffer significantly, but the opposite happened. The migration of Russian citizens to Georgia accelerated the growth of the Georgian economy and strengthened the exchange rate of the GEL. The strengthening of the GEL and high economic growth eased the burden of the state debt, which exceeded the critical limit of 60% of the gross domestic product (GDP) at the end of 2020. By 2022, the Georgian government predicted a 6% growth of the economy. Due to the start of the war, the future of the development of the Georgian economy became unclear. In March-April, international organizations reduced the growth forecast of Georgian economy to 3%. During this period, the government of Georgia did not change its forecast and left it at 6% until autumn. In November, it increased the expected growth forecast for 2022 to 10%.



Source: Data of the national statistical service of Georgia

The Russian-Ukraine war did not slow down the growth rate of the Georgian economy, on the contrary, it accelerated it. The main reason for this is about 200,000 migrants from Russia, Ukraine and Belarus who came to live in Georgia. First of all, the migration to the real estate sector has increased the demand for buying and renting residential houses. In January-November, Georgia received 2.5 billion US dollars from Russian visitors (including migrants) and remittances from Russia. If we add to this the money brought in, this amount probably reaches 3.5 billion dollars. Exports, which increased by 32% in 2022, made a significant contribution to the high economic growth. In the 11th month of 2022, Sakarya received 1.2 billion dollars more income from exports than in the 11th month of 2021.

In January-September 2022, the highest economic growth was observed in the following sectors: electricity supply - 52%, information and communication - 45%, transport - 29%, mining industry - 22% and hotels and restaurants - 21%. The healthcare sector decreased by 4.7%. The annual inflation level in Georgia in January-November 2022 was 10.4%. It was even higher at the beginning of the year - 13.9%, which is a record high in the last 10 years. High inflation was not only a problem of Georgia, it affected almost all countries of the world. The main cause of inflation at the global level was the deficit of the state budgets increased due to the pandemic and the eased monetary policy. To a certain extent, the situation was exacerbated by global logistical difficulties. However, high inflation started in 2021, and in 2022, the world inflation rate was expected to decrease. This did not happen, because the start of the war in Ukraine significantly increased the price of oil, gas and other products.

**Conclusion.** In the post-pandemic stage of 2022-2023, the world economy faced new severe challenges, as the economic stagnation and depression caused by the COVID-19 pandemic was compounded by the start of hostilities in Ukraine by the Russian Federation on February 24, 2022. The world civilized community imposed strict sanctions against Russia in order to deter aggression. At the same time, the difficulties for the economy of many countries of the world have worsened and reached a critical point. Along with this, the post-pandemic challenges were also accompanied by the problems characteristic of the global recession - the increase in prices and inflation levels, the reduction of investments, the fall and instability of the exchange rate of the national currency, unemployment, the energy crisis, the increase in the price of real estate, the increase in the vulnerability of the population and other problems.

Despite the fact that the global GDP in 2022 will exceed 100 trillion dollars for the first time in history, 57% of this amount is held by developed countries, including the USA (25% of the world economy) and the European Union (17%). Among developing countries, China with 18%. Russia's share is only 2%.

It is the West that will take the brunt of the crisis in 2023. The economic decline started after the cost of electricity, fuel and heat reached 13% of GDP in 2021. In the last year 2022, they exceeded 17%. The increase in energy prices was a direct result of Russian aggression. Because the West imposed sanctions against Russia's oil and natural gas, and the Kremlin cut off gas supplies to the European Union. Europe is more at risk of recession (recession not only for two quarters, but for the entire year 2023).

As the world's leading oil and gas producer, the US is in a much better position than the EU, which is 60% import dependent. Experts estimate the probability of a recession in the US at 70%. This is shown by the research conducted by Bloomberg in December.



At the same time, the global recession will significantly affect the reduction of per capita income, economic growth and other macroeconomic indicators. The post-pandemic consequences are particularly hard on those countries that have a weak healthcare system and are mainly dependent on imports of goods and services, tourism and foreign remittances.

The above-mentioned post-pandemic challenges are significantly aggravated by the Russia-Ukraine hostilities, which will have a particularly sharp impact on the economies of both developed and vulnerable developing countries.

The post-pandemic challenges and the Russia-Ukraine war will continue for a long time, its defeat will require a long time and the mobilization of billions of funds, which will accordingly exacerbate the global recession process, while the world financial crisis and depression will doubt the solvency of countries, and as a result, most countries in the world will be at risk of financial crisis and default. It is possible to stand.

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რუსეთ-უკრაინის ომის გავლენა მსოფლიოსა და საქართველოს

ეკონომიკის განვითარებაზე

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კონფერენციის სამეცნიერო კომიტეტისა და ეკონომიკისა და ბიზნესის  
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**აბსტრაქტი.** პოსტპანდემიურ ეტაპზე 2022-2023 წლებში მსოფლიო ეკონომიკა ახალი მძიმე გამოწვევების წინაშე დადგა, რადგანაც COVID-19 პანდემიით განპირობებულ ეკონომიკურ სტაგნაციასა და დეპრესიას 2022 წლის 24 თებერვალს რუსეთის ფედერაციის მიერ უკრაინაში საომარი მოქმედებების დაწყება დაემატა. მსოფლიო ცივილიზებულმა თანამეგობრობამ რუსეთის ფედერაციის წინააღმდეგ აგრესიის შეკავების მიზნით მკაცრი სანქციები დააწესა, რაც იმავდროულად, მსოფლიოს მრავალი ქვეყნის ეკონომიკისთვის სირთულეები კიდევ მეტად გაამწვავა და კრიტიკულ ნიშნულს მიაღწია. ამასთან ერთად პოსტ-პანდემიურ გამოწვევებს გლობალური რეცესიის მახასიათებელი პრობლემებიც დაემატა- ფასებისა და ინფლაციის დონის ზრდა, ინვესტიციების შემცირება, ეროვნული ვალუტის გაცვლითი კურსის ვარდნა, უმუშევრობა, ენერგეტიკული კრიზისი, უძრავი ქონების გაძვირება, მოსახლეობის მოწყვლადობის ზრდა და სხვა პრობლემები.

COVID-19 პანდემიის შედეგად მიღებულ ეკონომიკურ ზარალთან ერთად, რუსეთის უკრაინაში შეჭრამ გლობალური ბიზნესისა და მსოფლიო ეკონომიკის ზრდის პერსპექტივები მნიშვნელოვნად გააუარესა. ამასთან ერთად რუსეთ-უკრაინის მოულოდნელმა ომმა მსოფლიო ეკონომიკაში ბევრი გაურკვევლობა და

განუსაზღვრელი რისკები წარმოშვა, რაც განსაკუთრებით მწვავედ აისახება, როგორც განვითარებულ ასევე მოწყვლად განვითარებადი ქვეყნების ეკონომიკაზე, მათ შორის საქართველოს ეკონომიკის ზრდაზე და განვითარებაზე.

პოსტ-პანდემიური გამოწვევები და რუსეთ-უკრაინის ომი თუ ხანგრძლივად გაგრძელდება, მის დამარცხებას დიდი დრო და მილიარდობით ფინანსების მობილიზება დასჭირდება, რაც შესაბამისად მეტად გაამწვავებს გლობალური რეცესიის პროცესს, ამასთან მსოფლიო ფინანსური კრიზისი და დეპრესია ეჭვის ქვეშ დააყენებს ქვეყნების გადახდისუნარიანობასა და შედეგად მსოფლიოს უმრავლესი ქვეყნები ფინანსური კრიზისისა და დეფოლტის საფრთხის წინაშეც კი შესაძლებელია დადგნენ.

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