UKRAINE
Impact of conflict on the Ukrainian economy: implications for humanitarian needs

OVERVIEW

The Russian invasion of Ukraine in February 2022 has had multiple negative impacts on Ukraine, including damage and destruction to productive assets and critical infrastructure, the displacement of staff and business owners, supply chain disruptions, and disruptions to the banking system in non-government-controlled areas (NGCAs).

The impacts are also reflected in several macroeconomic indicators. The gross domestic product (GDP) decreased by 30% in 2022. Exports and tax income have decreased at a time when increased defence spending is drastically increasing government spending. The devaluation of the Ukrainian hryvnia and increase in inflation are driving up prices.

These negative economic developments drive a wide range of humanitarian consequences and needs. The damage and destruction to productive assets may drive longer-term displacement, as businesses in conflict-affected areas take longer to recover and rehire workers. Electricity cuts resulting from the targeting of critical infrastructure limit productivity, as well as income and employment opportunities for civilians. Humanitarian-provided cash assistance has remained at the same level since February 2022; rising prices mean that the gap between available assistance and the minimum required living income is growing. At the same time, the integration of the Russian banking system and the separation of NGCA populations from the Ukrainian banking system leave people in those areas unable to receive cash assistance from government-controlled areas (GCAs). The economic impacts of the war will also increase pressures on community responders and put humanitarian assistance in remote, conflict-affected areas, and NGCAs especially at risk.

As the world deals with an inflation and cost-of-living crisis, central banks are simultaneously increasing their interest rates to limit inflation. Simultaneous rate increases in most countries increase the risk of a global recession. This economic uncertainty could pressure foreign governments into focusing on domestic issues, leading to diminished popular support for sending financial assistance towards Ukraine. The dependence of the Government of Ukraine (GOU) on foreign money to cover its social assistance programmes in particular, because of a large budget deficit, could further undermine the wellbeing of already vulnerable people, such as older people and those with disabilities.

About this report

This report is based on an initial secondary data review on the state of the economy in Ukraine since February 2022. Five key informant interviews with local thematic experts complement this review to provide a more comprehensive understanding of the situation.

In cases where reliable economic indicators and key informants were not available, especially in NGCAs, the conflict's potential economic impacts and humanitarian consequences were explored from a theoretical perspective.

This report is intended for humanitarian stakeholders and does not seek to provide a comprehensive overview of all economic impacts of the conflict. The focus is instead on the most relevant impacts in terms of humanitarian consequences.

Limitations

One of the main limitations of this study is the lack of available data in NGCAs. It is important to note that this report is a snapshot of the situation at the time it was created, and information may become outdated as the conflict continues to evolve.

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ECONOMIC IMPACT OF THE CONFLICT IN UKRAINE

Damage to and destruction of productive assets

The conflict in Ukraine has caused significant economic losses, particularly in the agricultural, retail, and industrial sectors. In September 2022, direct losses in these sectors were estimated at USD 19 billion, with an additional USD 38 billion worth of damage to transportation infrastructure (Damaged in UA 01/09/2022). A wider analysis found that by June 2022, losses in all productive sectors (including agriculture, irrigation and water resources, commerce and industry, and finance and banking) had reached a total of USD 84 billion. These losses included, but were not limited to, unharvested crops, disrupted export logistics, increased production costs, decreased income, and demolition and repair costs (WB 31/07/2022).

In NGCAs, the conflict has also damaged productive assets, although the full extent of the damage and the status of repair efforts are unclear. Based on the limited existing data, property losses have likely been significant. For example, in Mariupol, reports indicate that 90% of the city's infrastructure is damaged (BBC 20/11/2022). There have been several reported instances of looting of farming equipment and grain and theft of farmland from Ukrainian agricultural firms (France 24 06/05/2022; WSJ 06/01/2023). Three Ukrainian agricultural firms allege that a Russian oligarch in the NGCAs in Donetsk and Luhansk has seized 400,000 acres of farmland (WSJ 06/12/2022). The looting of equipment, the destruction of seed stocks and fertiliser supplies, and fortification or heavy military equipment damaging farmland further hamper agricultural production in conflict-affected areas and make it more difficult to rebuild and resume production when areas become accessible again. These losses can seriously undermine agricultural output and diminish the livelihoods of those working in the agricultural industry in conflict-affected areas.

Even when areas become newly accessible, re-establishing property rights can be difficult because of the destruction and looting of paper-based documentation confirming the legitimacy of property owners during the period of occupation. An electronic property rights registry is available, but it is only 40% complete and does not cover property rights acquired before 2013 (NA 06/10/2022).

The conflict has strongly affected the metallurgy sector in NGCAs, such as through the destruction of or significant damage to large plants in the sector, including Azovstal Metallurgical Combine and Illich Iron & Steel Works (both in Mariupol). These plants employed approximately 30,000 Ukrainians, and damage has disrupted large supply chains, from the mining industry to the tailoring of employee uniforms. As a result, many skilled employees will have to change their profession to find new employment (KII 05/12/2022 a). Both plants accounted for 20% of Ukraine's crude steel output before the 2022 Russian invasion (CEPR 21/09/2022).

Damage to and destruction of critical infrastructure

By 22 November 2022, the deliberate targeting of critical infrastructure had disabled approximately half of Ukraine's electricity generation capacity, leading to power outages and a deficit in power generation (FT 22/11/2022). These power issues have affected market operations and disrupted the productivity of businesses (Reuters 22/11/2022). Power cuts have also disrupted other services, such as water, heat, and refrigeration, which are necessary for certain economic activities, including heavy industries and food production. To minimise the impact of the power cuts, some businesses have attempted to maximise production whenever power is available, including by working at night and on weekends. Some businesses have also purchased generators to ensure a constant electrical supply, but for smaller businesses, the cost of purchasing and running a generator or even the logistics of having it delivered can be prohibitive (UNIAN 14/11/2022; KII 06/12/2022 b). Insufficient electricity has halted operations in some industrial plants, such as steel manufacturers (Reuters 22/11/2022). Air raid alarms and a lack of electricity have also affected the service industry, with sales in cafes and restaurants dropping by an average of 22% throughout the country (27% in Kyiv) (KII 20/12/2022).

The intensification of attacks on critical infrastructure since October has also contributed to a decrease in business confidence in the future economic outlook between September–November, particularly in the industrial, trade, and services sectors (NBU 01/11/2022). Decreased business confidence could lead businesses to focus more on their daily operations and make fewer plans for future growth and investment. As individuals, public institutions, and private industries prepare for power cuts, the increased demand for products, such as generators, clothes, blankets, stoves, solid fuels, and batteries, can also lead to spikes in the prices of those items.

Displacement

Conflict-related mass displacement will result in negative economic effects for many businesses and individuals. 5.9 million people are displaced within Ukraine, and 7.9 million are refugees in Europe (IOM 14/12/2022; UNHCR accessed 24/01/2023). 87% (5.15 million) of IDPs are from Ukraine's southern and eastern regions (IOM 14/12/2022). Economic instability has particularly affected the eastern oblasts, as they have a higher percentage of elderly people and people with disabilities who are more vulnerable to negative economic shocks and less able to participate in the workforce (OCHA 08/08/2022).

A key economic challenge related to displacement has been the evacuation of businesses. The GOU has established a procedure for monetary compensation for relocation, but there has been a lack of information support, and some businesses have been hesitant to relocate (KII 05/12/2022 a).

While relocation is a useful tool for maintaining the operation of businesses, moving likely has negative impacts on employees. These impacts include decreased salaries following transfers, reduced working hours, cuts to non-essential staff, and the increased cost of living in cities with a large influx of IDPs (KII 06/12/2022 a).

The economic impacts of displacement in Ukraine's NGCAs are likely to be severe. The conflict has disrupted economic activity and infrastructure, leading to a decline in production and trade. It has forced many businesses to close or relocate, leading to job losses and a decline in income for those affected. Businesses that still operate lack knowledgeable employees in key positions. Investments are likely to have declined in NGCAs, as businesses and investors are hesitant to invest in an unstable and uncertain environment.

Even when NGCAs become accessible again, the loss of populations resulting from displacement and the destruction of industries hampers recovery (KII 06/12/2022 b). The movement of populations from these areas has led to a lowered demand for goods and services. The subsequent decline in economic activity has also affected the income and savings of the remaining population, who has consequently limited their spending to non-essential items. This decline has caused liquidity issues for micro, small, and medium enterprises in these areas, with some businesses cutting their staffing budgets and delaying payment to suppliers. In an April 2022 survey, 79% of micro, small, and medium enterprises in newly accessible areas reported lower revenues than before February 2022 (UNDP 20/10/2022).

Supply chain disruptions

Damage to infrastructure, such as road and rail networks, warehouses, and gas, electricity, and water utilities, has disrupted the transportation of goods, leading to production and delivery delays and resulting in lost sales and revenue for businesses (ACAPS accessed 18/11/2022; 05/12/2022 b). These disruptions have also increased costs for businesses as they struggle to find alternative sources for raw materials and finished products (KII 05/12/2022 a). As at 25 June 2022, the destruction of an estimated 25,000km of roads and 300 bridges had further affected the transportation of goods across the country (Ukrinform 28/11/2022).

The restoration of overall supply chains, especially in urban areas, is usually relatively quick unless there is large-scale destruction and/or looting of businesses (KII 05/12/2022 b). In Kherson city, mail and telecommunications were among the first services restored (KII 06/12/2022 a). Secondary wholesalers and traders, often small and medium businesses, may have more difficulty because of displaced staff, a lack of capital to restock, and disrupted transport to secondary and rural markets. Small retailers in rural areas may also lack the capital to repair their businesses if fighting damages their shops.

Enduring economic recovery does not necessarily translate from restoring supply chains to newly accessible areas. The continued shelling of areas closer to the frontline, the targeting of critical infrastructure, and displacement away from these newly accessible areas towards GCAs – especially during the cold winter – hamper overall economic recovery (KII 05/12/2022 a; KII 06/12/2022 b).

The consequences of the war have also caused changes in demand patterns, leading to supply chain disruptions. For example, the demand for goods like generators, batteries, heaters, and other items that mitigate the effects of electricity cuts has significantly increased, leading to high prices and shortages in some cases (UNIAN 14/11/2022). These high prices and shortages are likely to continue until the import of sufficient supplies meets the demand or until electricity cuts are no longer a concern.

Explosive ordnance contamination

The presence of mines and unexploded ordnance (UXO) in Ukraine has had significant economic impacts, particularly in areas recently liberated from the control of Russian forces. According to officials, around 250,000–270,000km2 (over 30% of the Ukrainian territory) will require decontamination (NV 18/11/2022; REFL/RL 08/01/2023). This presents a significant challenge for the economic development of these areas, as the presence of explosive remnants of war will continue to hinder the ability of businesses to operate safely and will disrupt the agricultural sector (NV 18/11/2022; KII 20/12/2022).

Martial law

The implementation of martial law in Ukraine has affected economic activity, although there is evidence that businesses have adapted to the new operational constraints (KII 05/12/2022 a; KII 05/12/2022 b; KII 06/12/2022 b). Martial law is renewed 90 days at a time; the latest renewal is valid from 21 November 2022 to 19 February 2023 (The Kyiv Independent 16/11/2022).

The specific impacts of martial law on businesses vary between sectors, and the GOU continues to update and clarify laws and procedures. Some general impacts of martial law provisions that affect economic activity are as follows:

- The GOU can expropriate property that Russia or its residents directly, indirectly, or totally own (Baker McKenzie 30/01/2023).
- Delays on the settlement of imports and exports are reduced from 365 days to 180, giving importers and exporters less time to finalise procedures and payments (Baker McKenzie 30/01/2023).

- There is a ban on importing goods from Russia, disrupting supply chains relying on Russian imports (Baker McKenzie 30/01/2023).
- There is a ban on men ages 18–60 from leaving the country, with some exceptions (Baker McKenzie 30/01/2023). This ban disrupts business operations relying on frequent border crossings, although exceptions exist for the transport industry.
- There is a ban on cross-border payments. Exceptions include imported goods, services, works, and intellectual property rights (Baker McKenzie 30/01/2023). With the exceptions in place, the ban probably has a stronger impact on peer-to-peer transactions rather than on business transactions that can more easily claim to fall under imports or services.
- Ukrainian companies can only repay interest on international loans, not the principal (Baker McKenzie 30/01/2023). This would lead to larger payments on the principal once martial law ends, unless companies can renegotiate the terms of the loans.

Martial law also provides several forms of relief for businesses and individuals, including tax filing delays until the end of martial law, the simplification of tax laws, and tax breaks (Baker McKenzie 30/01/2023).

Access to banking and cash in NGCAs

The 2022 Russian invasion of Ukraine has disrupted access to banking and cash in NGCAs, hindering businesses' and people's abilities to access basic resources and conduct trade.

A Russian presidential decree from November 2022 called for the Russian bank, Promsvyazbank, to take over the so-called state banks of de facto authorities in Donetsk and Luhansk NGCAs, giving residents access to a banking institution that is recognised beyond the NGCAs' borders (LBA 02/12/2022). That said, sanctions prevent its users from receiving Visa or Mastercard bank cards (Eurozine 17/01/2023). Other than Promsyvyazbank, MRB Bank, and the Bank of Russia, few other Russian-licensed banks appear to have established themselves in NGCAs (Eurozine 17/01/2023; Eurasianet 31/05/2017; TASS 02/06/2022; BoR 20/01/2023; Interfax 02/01/2023).

As at 1 January 2023, Russian authorities began phasing out the Ukrainian hryvnia in NGCAs, only allowing Russian rouble payments (Ukrainska Pravda 04/12/2022; Eurozine 17/01/2023; TWP 27/01/2023). Reports indicate that businesses that continue to operate in hryvnias could face confiscation of their premises (Ukrainska Pravda 10/01/2023).

Companies operating in NGCAs may find it difficult to access their Ukrainian bank accounts and savings, hindering their ability to conduct business and access necessary resources. Even if companies can access their bank accounts, they may only be able to transfer a small amount of money into Russian roubles, informally and at a high cost. These difficulties can make it difficult for them to purchase goods from Russian traders, who may not be willing to extend them much credit. As a result, companies have less cash to purchase the items they need, leading to reduced supply and demand in the market.

Difficulties in accessing banking and cash in NGCAs can also affect the ability of companies to purchase goods. Rather than being able to order and pay for items online, they may have to pay cash at the warehouse, which can be time-consuming and inconvenient, and movement constraints may restrict it as a possibility.

Sanctions and changes to the business environment in NGCAs

On 6 October 2022, the EU expanded its current sanctions package to include all NGCAs in Ukraine in response to Russia's so-called annexation of NGCAs. The provisions include a complete ban on importing goods from NGCAs unless they have been granted a certificate of origin by the GOU. This ban also prohibits exporting goods and providing services in the NGCA transport, telecommunications, energy, oil, gas, mineral, and tourism sectors (EU Sanctions Map accessed 24/01/2023). The impact of these sanctions is twofold. First, exporters in NGCAs no longer have access to the European market. Second, businesses relying on equipment and service providers from firms following EU sanctions will no longer receive updates or technical support. Over time, this will translate into unreliable or non-functional equipment, and businesses will have to bear the cost of transitioning towards other providers and manufacturers.

The business environment in NGCAs has shifted as de facto authorities implement new policies, regulations, and rules. One such policy requires businesses to re-register under Russian rules, which involves holding a Russian passport (Eurozine 17/01/2023; Ukrainksa Pravda 24/07/2022). Regulatory changes also likely mean that certain businesses and products are no longer compliant, disrupting economic activity and causing additional costs for businesses to meet the new regulations. These additional costs could include investing in new procedures, purchasing new products, or training employees to comply with the new rules. These disruptions and added costs could make it difficult for businesses to continue operating and lead to reduced profits or even closure.

Both the risk of the general public or of the GoU perceiving a person as a collaborator after the territory becomes newly accessible and any refusal to operate under Russian control heavily constrain participation in the economy of NGCAs. The unwillingness of people in management or ownership positions to continue their work could cause a significant lack of knowledgeable people in key positions for the local economy and institutions (TWP 22/11/2022).

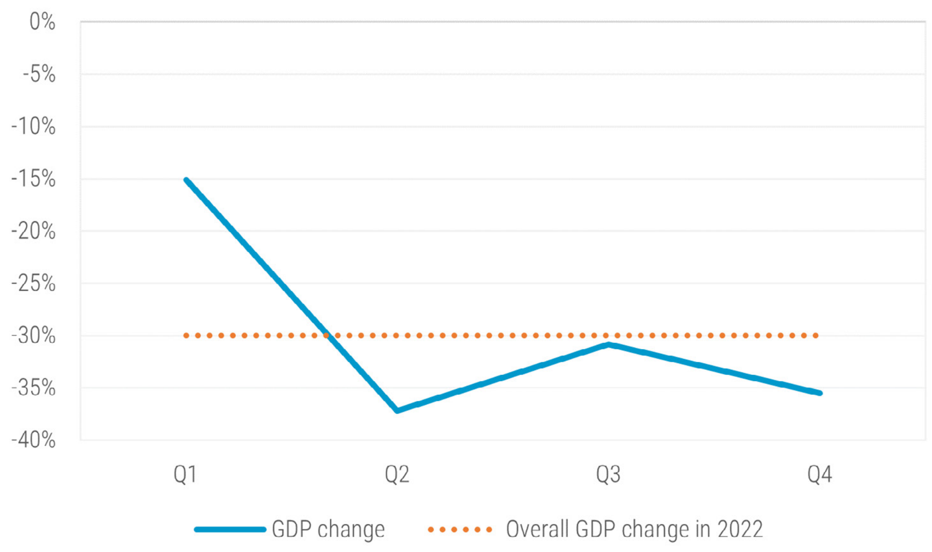
ANALYSIS OF MACROECONOMIC INDICATORS

Gross domestic product

The conflict in Ukraine has significantly affected the country's GDP, with preliminary estimates showing a 30% decrease in 2022. Throughout 2022, the GDP decreased by 15.1% in the first quarter (Q1), 37.2% in Q2, 30.8% in Q3, and 35.5% in Q4 (Interfax 05/01/2023). The rapid drop in GDP as a result of the conflict in Ukraine is likely to significantly affect poverty levels in the country.

The economic shock of the Russian invasion in February 2022 caused the large drop in GDP in Q2, while the success of Ukrainian forces, the repair of damaged infrastructure, and international assistance slowed down the decrease in Q3. Russian missile and air strikes deliberately targeting critical infrastructure characterised Q4, as they caused disruptions to the electrical grid that led to decreased economic activity and a further decrease in GDP.

Year-on-year change in GDP in Ukraine during 2022



Source: Interfax (05/01/2023)

Balance of payments

The balance of payments measures all economic transactions between one country's economy and that of the rest of the world. It includes imports, exports, services, financial assets, and loans and grants, with international financial assistance falling under loans and grants. It summarises an economy's interactions with the global economy and highlights the importance of international financial assistance in Ukraine in 2022–2023. The balance of payments remained positive in the country throughout 2022, except in October and May–June (given slightly negative balances during the latter). Loans and grants received from international institutions and other countries helped maintain the balance of payments mostly positive (NBU 04/01/2023). In August 2022, the balance reached its highest positive peak at USD 2 billion, with approximately USD 3 billion in inflows from official grants (NBU 07/10/2022; WB 07/02/2023).

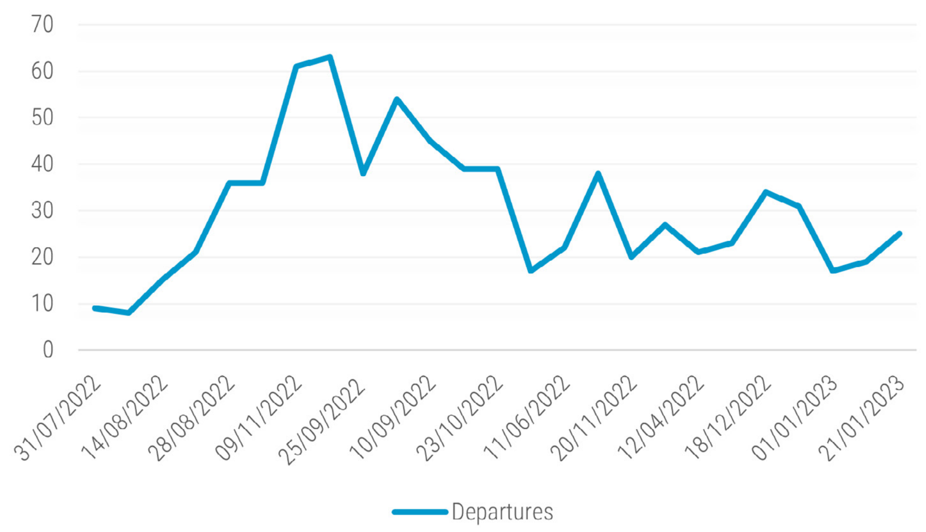
Since the beginning of the 2022 Russian invasion, Ukraine has experienced a shift from a relatively balanced trade position to a trade deficit. This deficit means that the value of imports is higher than that of exports, largely resulting from the closure of seaports hindering exports. Implementing the grain corridor initiative in August, which allowed ships to sail again from Ukrainian Black Sea ports, the increased use of seaports on the Danube, and increased rail and road exports helped boost exports. The value of exports increased from USD 2.9 billion in July to USD 4 billion in September, although it remained 35% lower than the previous year's. The value of imports was 33% lower than the previous year's (OSW 18/10/2022).

The Black Sea Grain Initiative

The 2022 Russian invasion has greatly reduced Ukraine's exports, primarily because of reduced export capacity from its Black Sea ports. Increases in road and rail exports do not make up for the export shortfalls stemming from the decreased seaport activity. Between 24 February and 22 July 2022, sea mines and Russian warships blockaded the Black Sea ports, preventing the departure of any export vessel. On 22 July, the Black Sea Grain Initiative was signed, allowing for the resumption of food and fertiliser exports from these ports (UNCTAD 23/09/2022). On 18 November, the deal saw a 120-day extension (Reuters 18/11/2022). As at 25 January 2023, 674 ships carrying over 18 million tonnes of cargo had left Ukrainian ports (OCHA accessed 25/01/2023).

Even with the Black Sea Grain Initiative and the increase in road and rail exports, the export of goods from Ukraine has not recovered to pre-February 2022 levels. Lowered international demand in iron ores and metals and electricity shortages affecting the production of certain export goods, such as chemical, wood, and industrial products, have slowed down the recovery of exports (NBU 04/01/2023).

Black Sea Grain Initiative: number of departure per week



Source: OCHA (accessed 25/01/2023)

Remittances

In 2022, remittances to Ukraine were expected to reach USD 18.4 billion, accounting for 13.9% of the country's GDP. These remittances would represent a 2% increase from the previous year. Despite being a small increase from 2021, remittance expectations for 2022 were the highest compared to previous years, and their size compared to the GDP is significantly higher than in previous years because of the 2022 drop in GDP (WB accessed 10/01/2023 a; WB accessed 10/01/2023 b; KNOMAD 11/2022). Remittance computations do not consider informal remittance flows, such as people carrying cash between Ukraine and other European countries. Remittance flows may have also shifted towards refugee-hosting countries, as some recipients of remittances in Ukraine have been displaced abroad (KNOMAD 11/2022; CashEssentials 24/11/2022). Before the full-scale invasion, labour migration, especially to the EU, had been continuously increasing remittances to Ukraine. After Egypt, Ukraine was the second-largest recipient of remittances among countries near the EU (Vox Ukraine 08/02/2021).

Remittances play a significant role in helping balance economic cycles, especially during times of economic crisis. Some estimates suggest that in 2016, remittances drove increased consumption in Ukraine, contributing to a 3% increase in the country's GDP (Vox Ukraine 08/02/2021). As 2016 was the first year of GDP growth following the 2014 crash resulting from the Russian occupation of Crimea and the outbreak of war in Luhansk and Donetsk oblasts, remittances may play a similar role in GDP recovery in upcoming years (WB accessed 10/10/2022).

Tax income and state budget

Since February 2022, the GOU has been spending more money than revenues have brought in. Most of the increased spending has gone to defence and security, although social security and public services have also been playing a small role in the increase. In December 2022, the budget deficit was approximately USD 2.7 billion; without assistance from other countries and international organisations, particularly the US and the EU, it would have been well over USD 5.5 billion (OSW 18/10/2022; NBU 04/01/2023).

The 2023 budget includes a deficit of USD 23 billion, which means that approximately USD 3.5 billion in foreign funds will be necessary each month to cover required government expenditures, including salaries and social protection programmes (Reuters 03/11/2022; Razumkov Centre 25/11/2022). Defence spending will make up more than 40% of the budget, and the GOU is relying on external funding to cover most of its social spending. External funding is not guaranteed and depends on the availability of funding from foreign countries and international organisations (Razumkov Centre 18/10/2022). As at October 2022, foreign assistance had covered around 36% of budget expenditures since February 2022 (Forbes 20/10/2022).

The reduction in economic activity and subsequent reduction in business and corporate tax, as well as income tax revenue from displaced and unemployed populations, have also reduced overall tax revenues.

Unemployment

The unemployment rate stood at 24.5% at the end of December 2022, compared to 8.9% in 2021 (Kyiv Post 30/12/2022; WB accessed 02/02/2023). This figure would be higher if it included those who had left the country as refugees or skilled labourers, such as mechanics, who have been absorbed into the mobilisation effort (KII 05/12/2022 b). At the same time, 77% of people reported decreased incomes since February 2022 (NBU 07/10/2022). The conflict has particularly affected the eastern oblasts, which have seen a particularly significant impact on employment. Only 44% of the surveyed population in these oblasts reporting being employed by the end of April 2022, compared to 69% in the western oblasts (UNDP 20/10/2022).

The pre-existing conflict has been affecting Luhansk and Donetsk oblasts since 2014. Between January–June 2021, the GCAs of Donetsk and Luhansk had an unemployment rate of 15.7% and 16.6%, respectively (OCHA 11/02/2022).

The lack of employment is a particular concern for IDPs, with only 34% reporting having paid work in October 2022, up from 29% in July. The main employment constraints include a lack of jobs matching their experience or interests, a lack of jobs because of active conflict in the area, and low salaries (IOM 27/10/2022). Only around 133,000 people receive unemployment benefits due to several factors, such as benefits only being paid for 90 days, the potential requirement to perform 'socially useful work' as long as martial law is in effect, and an obligation for men to show proof of military registration. Most people out of work rely on savings, support from relatives and friends, sporadic part-time work, and assistance from volunteers to meet their needs (EPravda 08/12/2022; UBN 27/12/2022).

Unskilled workers are the most vulnerable to unemployment, as they are the first to lose their jobs when the invasion causes a business activity to cease or decrease. Specialised staff are typically kept longer and only fired once it is clear that work for them will not resume in the near future.

Exchange rate

In July 2022, the National Bank of Ukraine devalued the exchange rate to improve the competitiveness of Ukrainian exports and slow the decrease of reserves in currencies such as the US dollar and the euro. The pegged exchange rate moved from UAH 29.25 per USD 1 to UAH 36.57 per USD 1. This move drove up inflation, particularly for imported products (The Kyiv Independent 21/07/2022; ACTED et al. 12/09/2022). Since the devaluation, cash and grey market exchange rates, parallel markets most relevant for individuals wishing to exchange currencies, have consistently traded higher than the official rate, which reached a peak of UAH 42 per USD 1 in September before falling to UAH 40 per USD 1 in December (NBU 04/01/2023).

A change in the exchange rate can significantly affect the economy and the population's wellbeing. A devaluation of the currency can make imported goods more expensive, leading to increased inflation and decreased purchasing power for citizens. Specific examples are difficult to provide, as import prices are also subject to price fluctuations from international developments, but the impact of currency devaluation is likely partly responsible for some of the price increases reflected in increased inflation.

Inflation

Inflation refers to the general increase in prices over time. It is typically measured by the consumer price index (CPI), meaning the average price of a selection of goods and services that the population consumes. In November 2022, Ukraine experienced an increase in core inflation, reaching 22.1% year-on-year, with a 26.5% increase in CPI and a 35.1% increase in the prices of food and non-alcoholic beverages year-on-year (NBU 14/12/2022). Several factors are likely to have caused this increase in inflation, including an increase in production costs resulting from rising raw material, energy, and logistics prices, as well as a surge in the demand for products related to individual heating (such as heaters, stoves, and backup power) resulting from the targeting of critical infrastructure and subsequent power disruptions. In October, the prices of low-power petrol generators (the most purchased type for individual households) saw a 30–60% increase depending on the model, and more efficient models saw a 10% increase (Mind 17/11/2022). As at January 2023, prices appeared lower than during the October–November 2022 spike but remained higher than before the start of widespread outages (hotline.ua accessed 24/01/2023 a; hotline.ua accessed 24/01/2023 b).

Inflation was high but remained lower than expected in 2022, with government predictions initially stating that the CPI increase could reach 30% in 2022. The lower-than-expected inflation stemmed from a combination of factors, namely a stabilisation of fuel prices in the second half of 2022, price caps on utilities, and improving food supply chains (Reuters 10/01/2023).

NGCAs are also reporting price increases. In Luhansk NGCA, prices are so high that some civilians pool money to fund shopping trips in Russia (LBA 02/12/2022). With the closure of supply lines from GCAs, local businesses in NGCAs can inflate the prices of goods imported from Russia, which is where the only remaining supply chains are.

The increase in inflation can significantly affect the economy and the population's wellbeing. High inflation can lead to a decrease in the purchasing power of citizens, making it more difficult for them to afford goods and services. It can also lead to economic instability and potentially result in a decrease in GDP.

AGGRAVATING EFFECTS OF GLOBAL ECONOMIC TRENDS ON UKRAINE

Global economic developments, such as high inflation in high-income countries, the strengthening of the US dollar, and central banks imposing anti-inflationary measures, have affected the Ukrainian economy (Razumkov Centre 25/11/2022).

Global inflation and cost-of-living crisis

Throughout 2022, inflation affected countries worldwide, partly because of the secondary impacts of the 2022 Russian invasion on the global supply of certain goods. As at December 2022, inflation rates reached 6.5% in the US and 10.4% throughout the EU (OECD accessed 25/01/2023). Inflation in high-income countries reached levels not seen in decades, triggering a cost-of-living crisis (IMF 10/2022). The worldwide increase in prices is reflected in the increase of imported product prices in Ukraine, which the weakening of the hryvnia compounds even more.

Anti-inflationary measures by central banks

Worldwide, central banks have been raising interest rates to combat inflation in their countries and the subsequent cost-of-living crises, a measure that also slows down economic growth (BIS accessed 25/01/2023; IMF 10/2022). This measure, especially when implemented simultaneously around the world, carries the risk of causing a global recession[1] (WB 15/09/2022; IMF 03/2009).

A global economic downturn resulting from central banks imposing anti-inflationary measures could affect Ukraine's economy. A global economic downturn generally leads to a decrease in demand for goods and services, which would result in a decrease in the demand for Ukrainian exports. This downturn would lead to lower revenues for the country and affect industries that rely heavily on exports, such as agriculture and manufacturing.

A global recession would also decrease the willingness of foreign businesses to embark on new ventures, including investments in Ukraine. Governments may also face national popular and political pressure to find ways to curtail their spending, possibly affecting financial assistance for Ukraine.

1 The generally agreed definition of a recession is two consecutive quarters with negative GDP growth (IMF 03/2009).

Strengthening of the US dollar

In 2022, interest rate hikes and the weakening of other major currencies, such as the euro and the Japanese yen, strengthened the US dollar against most other world currencies (Forbes 03/11/2022).

These changes could have a mixed impact on Ukraine, a middle-income economy that is a major exporter of basic goods but that depends on imports for electronics and advanced components. A weaker Ukrainian currency could potentially make Ukrainian exports more competitive in global markets, leading to increased demand for these goods and increased revenues for the country. For example, if the Ukrainian hryvnia grows weaker against the US dollar, Ukrainian exports of basic goods, such as food and construction materials, would become more affordable for foreign buyers, leading to increased demand for these exports.

That said, a weaker Ukrainian currency could also affect the country. For example, the cost of importing electronics and advanced components from other countries would likely increase. This increase would lead to higher prices for these goods within Ukraine, hurting the country's economy and reducing the competitiveness of Ukrainian businesses relying on these imports. If the hryvnia grows significantly weaker against the US dollar, it could also make it more difficult for Ukrainian businesses to borrow money from international lenders.

IMPLICATIONS FOR HUMANITARIAN NEEDS

Damage and destruction of productive assets

Rural households in conflict-affected areas are the most at risk of unemployment; approximately 30% of Ukraine's population (13 million people) live in rural areas, and the agricultural sector employs approximately 27% within that figure (around 3.5 million people) (FAO 24/11/2022). Already, it is reported that up to a quarter of Ukraine's rural population involved in agriculture has stopped or reduced their activities (UN News 14/12/2022). People whose livelihoods depend on the agricultural sector are likely to suffer more pronounced consequences from the loss of farmland, damaged crops, the looting of equipment, and landmine contamination. These consequences may include unemployment, displacement, food insecurity, and the adoption of negative coping mechanisms. Aside from farmers and agribusiness owners, those who work along the entire supply chain, including those in storage, transport, and retail, will feel these effects.

Displaced people with specific skill sets may also experience profound effects from the destruction of productive assets, especially those from sectors more present in the east, such as mining and heavy industries. These people are less likely to find suitable employment in their new location, where those industries do not exist. These conditions are particularly a concern for older working-age people (who are not yet at retirement age), who may struggle or retrain to find work in another trade. The destruction of industrial infrastructure in areas where it was the main income source will face long-term negative economic impacts on income and employment opportunities. These impacts could lead to protracted displacement for people from these regions if they are forced to seek employment elsewhere while awaiting recovery and reconstruction efforts. One such examples is Sievierodonetsk (Luhansk oblast). The city was founded in 1934 to host the Azot chemical plant and its workers, and the chemical industry remained an important part of the city's economy (Britannica accessed 13/02/2023; DW 06/09/2022). Both the industries and the cities were greatly damaged during the full scale invasion, and are now in the NGCAs of Luhansk oblast (Reuters 24/06/2022).

The destruction of records of paper property rights in NGCAs could also lead to protracted displacement for people who wish to return to their homes in newly accessible areas but cannot re-establish their property rights.

Damage and destruction to critical infrastructure

Reduced salaries are a consequence of decreased production resulting from power outages, affecting the livelihoods of those working in affected companies. While these companies have adapted through new policies, such as adapted working hours to reduce the impact of power cuts on their production, the flexibility these policies require may marginalise people with specific scheduling requirements. For example, single-parent households may not be able to adapt their working schedules around the sometimes unpredictable availability of power.

The negative economic outlook expressed by businesses as a result of targeted attacks on infrastructure may translate into less investment in business expansions and less creation of new jobs. It will be especially challenging in areas hosting IDPs that have to absorb new populations into their workforce.

Displacement

The displacement of business owners away from NGCAs and conflict-affected areas leaves the non-displaced and returning population with diminished employment opportunities. At the same time, the displacement of employees away from NGCAs and conflict-affected areas may leave employers wishing to restart businesses without enough local labour. Displacement also comes with an increased risk of labour exploitation.

10% of IDPs surveyed throughout Ukraine between 25 November and 5 December 2022 intended to return within two weeks. 17% of IDPs not wishing to return cited low employment or income opportunities in their place of origin as the barrier to returning (IOM 20/12/2022).

Supply chain disruptions

Areas near the frontline are more likely to feel the impacts of supply chain disruptions, which place greater pressure on community responders in those areas to try to minimise the impacts for the populations they serve (CSM 26/01/2023). These challenges are problematic, as community responders are already dealing with severe burnout and capacity issues resulting from economic stress and the hiring practices of larger national and international NGOs (ACAPS 17/11/2022 and 25/05/2022).

There are fewer reports of medication shortages in pharmacies than during the early months of the war, but there is evidence that, in particular, sexual and reproductive health service delivery remains constrained in the country because of continuing supply chain and infrastructure challenges (UN Women 10/10/2022; NYT 31/01/23). These challenges mean that supply chain disruptions may place women and LGBTQ+ people in Ukraine at heightened risk of negative health outcomes.

Supply chain disruptions affect small community responders not integrated into the logistics chain of the international humanitarian community. Since they often purchase goods locally, disruptions to availability and price increases affect them just as much as the general population.

Mines and unexploded ordnance

Displaced populations from contaminated areas will face protracted displacement if their places of origin are not cleared of contamination. On the other hand, protracted displacement and difficulty finding work in host communities could lead to increased risk tolerance, meaning that populations would become more inclined to return to unsafe areas and risk physical harm.

Longer-term support for rehabilitation and health services will be necessary to address the injuries that mine and UXO incidents will cause.

The areas of most concern are NGCAs and frontline areas (Donetsk, Kharkiv, Kherson, Luhansk, and Zaporizhzhia oblasts) and newly accessible areas (Chernihiv, Kharkiv, Kyiv, and Sumy oblasts). Donetsk, Kharkiv, Kherson, and Zaporizhzhia oblasts had the most reported mine and UXO incidents between July–December 2022 (ACLED accessed 27/01/2023).

Martial law

Martial law restrictions on men ages 18–60 and societal expectations for them to participate in defence efforts may lead some to be unable or unwilling to seek assistance, especially if they are not properly registered with military authorities.

Businesses and supply chains relying on imported products from Russia have been experiencing disruptions since February 2022, when trade with Russia stopped. These disruptions would lead to the loss of jobs and livelihoods for people employed in firms that could not pivot towards imports from other countries.

Restrictions on principal repayment for business loans may leave businesses with a sudden increase in expenses at the end of martial law, when they have to start making larger repayments to compensate. Businesses unable to absorb the increase in expenses or renegotiate loan terms may have to cut costs by, for example, firing employees.

Banking and cash in NGCAs

Because of the cut-off from the physical Ukrainian banking system, cash assistance and cash transfers from GCAs are not available for those living in NGCAs, especially if they do not have the devices or connectivity required for online banking. People in NGCAs face the additional hurdle of converting their funds from hryvnias to roubles, as local authorities are increasingly pressuring businesses to only conduct operations in roubles.

There is insufficient information on whether or not pensions and other social assistance set up by de facto authorities are sufficient to cover the gap for those whom GCA assistance no longer reaches or those newly requiring assistance because of the impacts of the conflict.

With no alternative, many are forced to rely on assistance from Russian and local authorities. This assistance may not meet all needs and may be tied to additional requirements, such as acquiring a Russian passport. If these areas become accessible, Ukrainian authorities may perceive owning a Russian passport as collaboration (Politico 01/01/2023). As the local population has to rely on Russian banks for their banking needs, they also face the consequences of sanctions, especially not being able to receive certain bank cards and being cut off from the SWIFT network. These sanctions limit their ability to make and receive international payments, affecting potential financial support from family members.

Sanctions

The sanctions on Russia, and potentially on various enterprises and activities within NGCAs, raise compliance concerns that may make international organisations wary of operating or funding operations in those areas. Making sure that compliance is respected would lead to extra time and cost even for responders who can navigate that context, although many will simply not be able to meet the requirements to apply for funding. As a result, people in need of humanitarian assistance in remote conflict-affected areas and throughout the NGCAs, especially those who rely entirely on community responders for aid and service delivery, may face further marginalisation and suffering.

In newly accessible areas, community responders who have begun or continued to operate and have been integrated into the Russian system may lack the trust of international organisations wishing to operate there. Such dilemmas increase pressure on community responders already struggling with fatigue and severely limited capacity (ACAPS 17/11/2022 and 25/05/2022).

Rising inflation and cash assistance

As inflation continues to affect the population, the money required for minimum subsistence also increases. The minimum income required to meet basic needs increased from UAH 4,666 (USD 127.60) in February 2022 to an estimated UAH 5,400 (USD 147.66) in August[2] (Ministry of Social Policy 01/2022; CWG 24/08/2022). Humanitarian cash assistance has remained at UAH 2,200 (USD 60.16) per person per month since February 2022 (STAAR 06/01/2023). As a result, the amount that previously covered 47% of the actual subsistence minimum at the start of the 2022 Russian invasion covered only 40% by August and even less by January 2023, as prices continued to increase. If cash assistance remains the same, this will result in a growing gap between the needs for cash assistance and the amount of cash people in need receive. The decrease in purchasing power will also drive increased needs for cash assistance as households become increasingly unable to meet their basic needs.

2 The Ministry of Social Policy has not publicly updated the actual subsistence minimum since February 2022. In August, the Cash Working Group used the National Bank of Ukraine's inflation data and Joint Market Monitoring initiative data to estimate an updated actual subsistence minimum.

High unemployment rate

Unemployment affects households alongside rising inflation, as households face the dual shocks of rising prices and decreased incomes. The inability to afford necessities, such as food, shelter, and healthcare, will lead to increased needs. This is likely to most heavily affect rural and agricultural workers, as well as women who may engage in more unpaid care work (FAO 24/11/2022).

Psychological impacts may also manifest themselves, including hopelessness and social isolation. Research in Poltava oblast showed that unemployed men ages 18–60 are particularly vulnerable to these psychological impacts as a result of both the loss of the role of breadwinner, as dictated by traditional gender roles, and expectations of mobilisation (CESVI et al. 28/09/2022). Experience from other humanitarian contexts shows that the inability to meet the traditional gender role of providing for the household can create psychological impacts that result in increased risks of gender-based violence (ACAPS 19/10/2021; IFPRI 02/12/2019).

Displacement compounds these effects, which can cause people to lose their livelihoods. Because conflict and displacement have disrupted community-based support networks, it has become more difficult for people to know which sources of support and assistance to turn to so they can find new jobs.

Importance of remittances

The proportion of remittances that Ukrainian refugees abroad are sending back compared to that sent back by labour migrants already abroad before February 2022 is not known. It is likely to be high because of the scale of displacement. Households receiving remittances from abroad are likely seeing their ability to meet their needs increase, and their increased consumption also benefits the wider Ukrainian economy. This valuable support will end when those people return. Aside from the household losing a form of financial support, those who return will have to reintegrate into the Ukrainian workforce during a period of high unemployment. These considerations could lead to some refugees choosing to remain in their place of displacement.

The vast majority of Ukrainian refugees abroad are women, and this support from female family members shifts the traditional gender roles on income provision for the household (UNHCR 21/12/2022). This is especially true in cases where the men staying in Ukraine cannot find work and are not mobilised. These tensions can lead to family units breaking up (CESVI et al. 28/09/2022).

Uncertain global economic outlook

Within the context of global inflation and potential economic downturn, foreign governments may look for ways to cut down on their spending. While cuts in military support and direct grants to the GOU are not likely at the moment, overall cuts in foreign aid programmes may affect governments' financial support towards humanitarian operations in Ukraine. These changes could also be accompanied by a shift, as populations turn their priorities from providing humanitarian assistance for Ukraine towards their own economic problems. As conflict fatigue sets in, countries may become unwilling to provide unconditional aid. One example of conditionality is that EUR 15 billion out of the EUR 18 billion EU aid package planned for Ukraine is subject to specific reforms in law, energy, governance reforms, and macrofinancial stability (European Pravda 16/01/2023).