

ECONOMIC CONSEQUENCES OF THE CORONAVIRUS PANDEMIC OUTBREAK AND THE RUSSIAN – UKRAINIAN WAR

Alexandru-Mihai BUGHEANU^{a}, Carmen Nadia CIOCOIU^b*

^{a, b} Bucharest University of Economic Studies, Romania

ABSTRACT

Nowadays, the economy, along with other types of sectors and industries is seriously impacted by a number of factors. Among the most prominent: the fears of other possible coronavirus outbreaks, which will force imposing new restrictions, along with the current Russian-Ukrainian war. Russia's invasion of Ukraine in February 2022 fuelled a rise in global inflation and prompted warnings of social and economic unrest as the world moves away from cheap energy and flexible global supply chains. For this reason, the current research develops investigations into the field of economic consequences both at the international level, as well as on the Romanian economy. In addition, the study will analyze the macroeconomic shocks, the behaviour of developed states in order to protect the final consumers, as well as their strategies for adapting to the new economic realities. The study reveals that the global economy is still dominated by serious negative risks and the Euro zone may enter into an economic recession at the end of 2022, which will significantly increase the cost of living for individuals.

KEYWORDS: *economy, financial stability, pandemic, Russian – Ukraine war.*

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1. INTRODUCTION

At this moment in time, the economic environment has been subjected to multiple challenges, which, in addition to their high intensity, have also benefited from a temporal overlap. The previous years, starting with 2020 were marked by significant events on the economy from several directions, which was reflected in markets volatility and low financial liquidity for 2021 and 2022.

With survey data suggesting that the Omicron version of the coronavirus (COVID-19) may only have a transient impact on industrialized economies (European Parliament, 2021), the world economy remained resilient at the beginning of 2022. Nonetheless, the Russia - Ukraine conflict and the recent pandemic-related actions in Asia are anticipated to have a negative impact on the global economy and are causing new shortages of inputs and supplies. In particular, the war in Ukraine is taking its toll on Eastern Europe as economies are slowing as inflation and high interest rates hits hard. Indicators from (European Central Bank, 2022) were pointing to a moderate growth rate at the beginning of 2022 before Russia invaded Ukraine.

At the same time, in the war context, a possible interruption of the supply of Russian gas to the entire European Union (EU) or the majority of the member states, combined with a possible EU decision to impose an embargo on the import of gas would lead us to a black-out scenario, and the risks are clearly increasing. Governments and decision-makers need to raise public awareness of the

* Corresponding author. E-mail address: *mihai.bugheanu@man.ase.ro*.

very high and growing risk of a "black" scenario in order to gain people's support. Therefore, public authorities should invest much more effort in raising awareness of how households can save energy. In these conditions, the EU member states which are more dependent on gas imports from Russia are more vulnerable. Likewise, the entire Union will suffer if a single economy falls into a deep and prolonged recession. Thus, in order to support the vulnerable economies to sustain a gas embargo and to reduce disruptions to individual economies, the EU should try to balance this potential gas shortage through a more evenly distributed cost balancing plan with gas saving targets for each country.

Equally important, the pandemic and the geopolitical environment are also inhibiting commerce and trade. In addition, the war's economic effects are anticipated to worsen global inflationary pressures as supply chain disruptions take longer to resolve. For instance, the global composite output Purchasing Managers' Index (PMI) recovered in February after experiencing a significant decline in January, indicating that the advanced economies' experience of the Omicron wave would be transient. Higher commodity prices, volatility, especially for oil and gas, along with limited availability of agricultural commodities (wheat, corn, canola, sunflower seeds and oil), for which Russia and Ukraine account for more than 10% of global exports, as well as raw materials and materials (nickel, palladium) led to a significant negative supply shock, especially for European economies.

In terms of commerce, in addition to the short-term loss of export markets, the current crisis has delayed the regularization of supply chains. Therefore, this aspect is likely to influence potential output due to the defensive, resilience-oriented reallocation of resources. As container ships are diverted to less direct and more expensive routes to avoid the Black Sea, congestion may increase in other European ports. Not to mention, air cargo is affected by airspace closures by both Russia and Europe. Higher energy costs are likely to extend delivery times and shipping rates, and tightening health restrictions in China in response to new Covid-19 outbreaks could raise input prices and lead to increased port congestion. As has been noted, the recent economic volatility has affected both individuals, as well as companies. Specifically, organizations in sectors that are susceptible to economic shocks requires stability for their operations on the energy market. For this reason, different types of investors, including banks, investments funds and manufacturers, are leaving several markets due to the high volatility.

The geopolitical risks are also evident in other areas. (Saâdaoui, et al., 2002) argued that the geopolitical issues are having a substantial impact worldwide through a number of different channels, such as trade, financial movements, population displacement or stock market investments. As (Santorsola, et al., 2022) pointed out, the Russo-Ukrainian on-going war is both a humanitarian, as well as a financial resiliency test.

On the other hand, (Uwishema, et al., August 2022) found that the armed conflict in eastern Ukraine has a considerably impact on the healthcare industry since the current COVID-19 pandemic restrictions are not prioritized.

To sum up, the effects of the exacerbating conflict has long-term effects not only on the economy in general, but also on a social level.

In terms of form, the paper is structured as follows: the first section of the study after the introduction presents the main objective of the article along with the research methodology. In the following section, a comprehensive analysis upon the global economy is performed to identify the key economical trends around the world. Part threeiu discusses the economic and social situation in Romania: overview, research data, economic variables. The last chapter of the article consist in the conclusion and final remarks section, which presents the main findings of the study.

2. OBJECTIVE AND METHODOLOGY OF RESEARCH

In this paper our main objective was to analyze the impact of the Russian-Ukrainian impact on the global economy. Secondly, the study also evaluates the influence of the current events upon the Euro-zone economy, and more specifically on Romania's financial infrastructure.

First, this article uses an observational study. Specifically, the research sources included official comprehensive statistical information for EU countries, along with data sources used globally.

To conduct our research we proceeded in the following stages:

- Established the research topic: the effects of the Russian-Ukrainian conflict upon the world economy, alongside the coronavirus disease outbreak;
- Select the observation technique: quantitative research – observational study
- Data collection and documentations;
- Data analysis and statistics investigation;
- Discussion and conclusion.

Our findings confirms that the confrontation between Russia and Ukraine has caused turbulence in the financial markets and sharply raised doubts about the future of the world economy. The conflict is posing a threat to the growth of the global economy by escalating supply and demand problems.

3. GLOBAL ECONOMIC SITUATION AND PROSPECTS IN 2022

At the present time, the high cost of living has forced consumers to cut back on spending and give up non-essential purchases, causing the decline of acquisitions in the service sector. In general, recessions usually bring a decrease in terms of individual consumption. This could generate risks for companies, such as sales and profits decline. From the organizations point of view, this leads to various attempts to costs cuts, such us: layoffs, or reducing the capital expenditures, investments, marketing and research budgets. Secondly, a recession could reduce individuals access to credit, along with a downtrend in collections, creating a chain reaction that could ultimately lead to boost the bankruptcies.

As an illustration, economic markets around the world have started to recover after entering the post-COVID 19 period, but the risk of recession remains high in economies around the world. For example, The United States is technically in recession after two quarters of declining GDP, but the labor market is showing strong signs of additional employment offers. The country officially entered into a recession after registering the second consecutive quarter of economic decline, with the gross domestic product (GDP) decreasing by 0.9% in Q2 and 1.6% in Q1 compared to the same periods last year (U.S. Bureau of Economic Analysis, 2022).

On the other hand, when analyzing the markets in European Union July 2022 saw a 4.89 percent increase in the core consumer prices index (CPI) compared to the same month in the prior year. The CPI excludes food and energy while measuring changes in prices for products and services. The data are displayed in Figure 1.

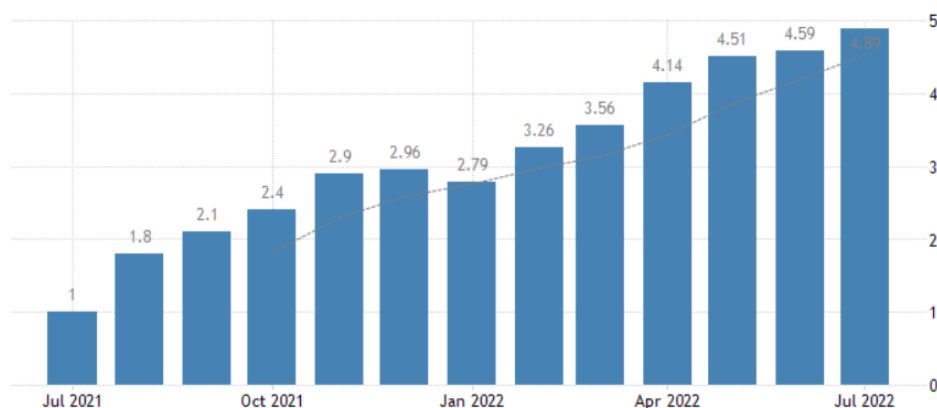
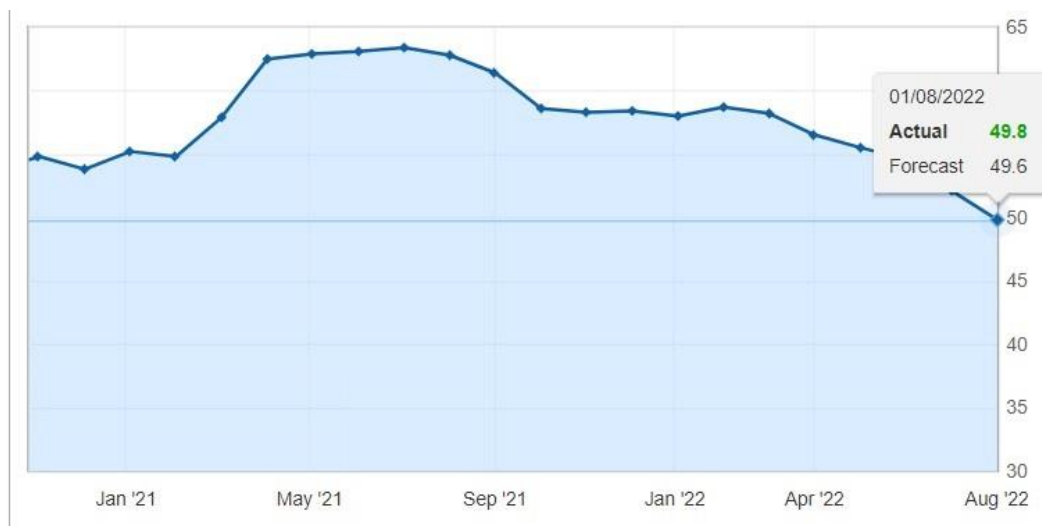


Figure 1. European Union Core Inflation Rate July 2021 – July 2022
 Source: authors calculation from (Trading Economics, 2022) and (Eurostat, 2022)

With this in mind, as shown by the (S&P Global Ratings, 2022) the economic activity in the Euro zone contracted in August 2022 for a second consecutive month as rising prices forced consumers to cut back on spending, while supply chain disruptions disturb factories activity. Notably, the Purchasing Managers Index (PMI) in the Euro area, which measures activity in industry and the services sector, as well as the direction of economic trends in manufacturing, fell to 49.2 points in August from 49.9 points in July, while analysts had expected a decline of up to 49 points. The preliminary data from August represent the lowest level, starting from February 2021 as can be seen in Figure 2.



**Figure 2. Euro zone Manufacturing Purchasing Managers Index (PMI)
 Jan 2021 – August 2022**

Source: authors calculation from (Investing.com, 2022)

Generally speaking, a PMI indicator above 50 points shows an expansion of the economy, and below the value of 50 points the indicator reflects a contraction of the economy.

On the positive side, Germany - Europe's largest economy, recorded a growth in the second quarter of 2022, exceeding the analysts' estimates, thanks to government and household spending, despite the energy crisis, as shown by the report published by the (Federal Statistical Office of Germany, 2022). In the initial estimate for July, The Federal Statistical Office predicted a stagnation of the

economy in the second quarter of 2022, after an advance of 0.8% in the first three months of this year. However, in the period April-June 2022, according to the seasonally adjusted data, Germany's gross domestic product increased by 0.1% compared to the previous quarter, and by 1.7% compared to the same period in 2021, while analysts expected a zero increase.

On this topic, most compelling evidence, at global level private equity firms announced \$486 billion in deals in the first half of 2022, down 18% from the same period last year and a decline of 9% from the second half of 2021 (Ernst & Young Global Limited, 2022). Must be remembered that 2021 was a record year for private equity deals with \$1.2 trillion in combined activity. Therefore, a moderation from the year was expected even before the new geopolitical context along with the inflationary pressures from the first quarter of the year. Among the reasons for the decline are the widening discrepancy in expectations between sellers and buyers, a common phenomenon during periods of increased volatility. Added to this is the reduced visibility into companies' forecasts, which affects the ability of consumers to evaluate and estimate the assets price effectively. It is worth noting that domains such as: technology, healthcare and real estate remains the most active sectors, together accounting for almost half of the value of private equity deals.

As a result, Euro zone annual inflation hit a new record high of 9.1% in August, mainly due to energy prices, according to the preliminary data from the European statistics office - (Eurostat, 2022). The inflation rate was above expectations. By comparison, consumer prices increased by 8.9% in July. This is the ninth consecutive month in which inflation in the euro zone has reached a record. Energy prices saw the fastest increase, at 38.3%, followed by food, alcohol and tobacco, which rose by 10.6%. The data are represented graphically in Figure 3.



Figure 3. Euro zone annual inflation – August 2022

Source: authors adaptation from (Eurostat, 2022)

Another key point, the euro fell back below the symbolic one-dollar mark in August 2022, hitting a two-decade low, on fears that the energy shock will keep inflation high and increase the chances of a recession in Europe. As an illustration, on 24th August morning, the euro traded for 0.9927 dollars, below the threshold of one dollar (Deutsche Welle, 2022). According to the latest report of (European Central Bank, 2022) on financial and monetary conditions along with the economic activity in the Euro area, bank lending rates to companies continued to rise in July, overcoming analysts' estimates, who had expected a slowdown due to recession fears and creditors plans to tighten access to new loans.

4. ECONOMIC SITUATION AND PROSPECTS – ROMANIA 2022

In the first quarter of 2022, Romania's economy experienced a positive trend, with an increase in real GDP of 5.2%. According to provisional data, this favorable result is explained by a significant

increase in gross fixed capital formation and private consumption, while net exports had a negative contribution. This robust growth has been supported by higher wages, which have kept pace with inflation, and the gradual lifting of COVID-related restrictions. As a result of this first quarter's exceptional performance, the GDP growth estimate for the entire year 2022 has been raised to 3.9%. However, a downward revision to 2.9% is anticipated for 2023, in line with the outlook for a slower global and EU economic growth. Private consumption and investment will be the main drivers of growth for the current and next year. In agreement to the official forecast from (European Commission, 2022) the EU economy will grow by 2.7% in 2022 and by 1.5% in 2023. In the euro area, a growth of 2.6% in 2022 is expected, with a more moderate pace of 1.4% in 2023. Secondly, the average annual inflation is expected to reach historical highs in 2022, respectively 7.6% in the euro area and 8.3% in the EU, before declining in 2023 to 4.0% in the euro-zone and 4.6% in the EU.

In regard to the current situation in Romania, the newest inflation report from (National Bank of Romania, 2022) forecasts an inflation of 13.9% in December 2022, 7.5% in December 2023 and 2.3% in June 2024. According to the Central Bank, the annual rate of inflation peaks during the third quarter, and from the fourth quarter it is on a downward trajectory under the assumption of the gradual de-tensioning of the wholesale energy and agricultural-food markets. In addition, the gradual dissipation of syncope in the global added value chains, along with the implementation of support schemes for domestic consumers will influence the decrease of inflation rates. The graphical representation of the inflation rate in Romania and in the Euro-zone between 2011 – 2022 can be seen in Figure 4.

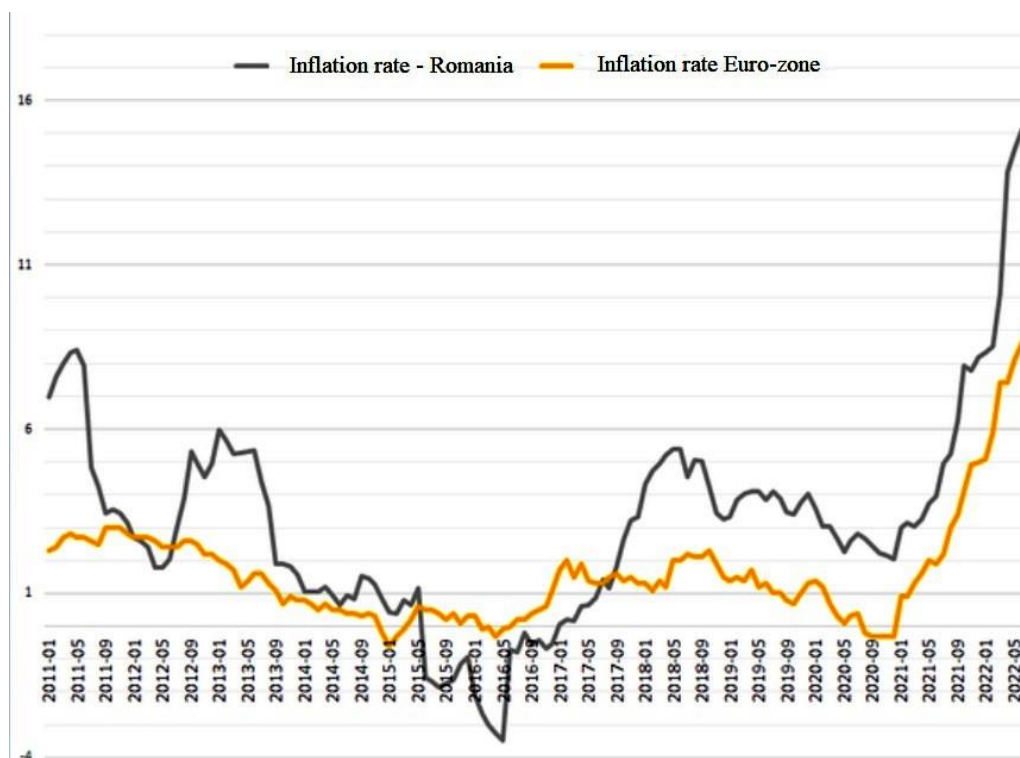


Figure 4. Comparison Euro zone annual inflation vs Romania– 2011 - 2022
 Source: authors adaptation from (Romania National Institute of Statistics, 2022)

On the positive side, the Romanian capital market, which is considered an emerging market was much better positioned than other developed markets to cope with the negative events. Market volatility, inflationary pressures and rising interest rates makes the investment environment much more challenging than in the previous years. Therefore, in many cases investment corporation are

looking for new strategies and long-term projects to ensure an increased resilience in a demanding and complex macroeconomic context.

The latest data show that inflation has already reached its peak in some countries of the European Union, including Romania, the situation being similar in the United States. Inflation decreasing is good news for financial markets which expect a slowdown in interest rate hikes by central banks, while economies are threatened by a possible recession.

5. CONCLUSIONS

All things considered, the post pandemic context, along with the war in Ukraine is having a negative impact on the economy of the euro zone and has considerably increased the uncertainty level.

The way the war develops, the effect of the current sanctions and potential new measures will all have a strong influence on the economy. Consequently, the sharp rise in energy prices is the key reason why inflation has significantly increased and will continue to be high over the upcoming months.

In the long run, a particularly important aspect is the fact that in the current market consumers and companies will focus more on genuine operational added value. Specifically, in the context of increasingly expensive credit and an environment favoring the decline of investment performance indicators, an active approach to supply chain management, price optimization and digital transformation, will likely represent the main vector of profitability.

Thus, fiscal and monetary policy decisions from governments will be essential during this period. Most EU countries have extended (and continue to adopt) fiscal measures to help vulnerable households and companies to cope with energy inflation. After all, fiscal policies are expected to continue to play a key role in the near term and partially mitigate the impact of rising energy prices on inflation and consumer income.

Accordingly, countries may be forced to intervene to control prices or, in a more extreme case, to manage limited supplies. Despite the continued shift in the monetary stance in the US and the Euro area, the standardization of monetary policy in advanced economies will be slightly delayed if central banks become increasingly concerned about a slowing economic growth. In emerging markets, governments will continue to struggle with inflation and currency depreciation which will further dampen the growth cycle.

Given these points, in a worst-case scenario, the powerful energy supply shock could force the Euro area into an economic recession in the second half of 2022 as aggregate demand adjusts to rising energy prices, leading to energy rationing.

In conclusion, the European Union economy remains particularly vulnerable to developments in energy markets, due to its high dependence on Russian fossil fuels, while the slowing global growth has the effect of reducing external demand. The momentum gained from last year's recovery and a slightly stronger-than-expected first quarter should support the annual growth rate for 2022. However, economic activity for the rest of the year is expected to be modest. Overall, the EU economy will continue to expand, but at a much slower pace than the forecast.

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