

Communication

Russia's War in Ukraine: Consequences for European Countries' Businesses and Economies

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Abstract: Companies and countries have needed to adapt their activities to the consequences of the Russian war in Ukraine. The analysis in this article shows that both the Russian war in Ukraine and the subsequent trade restrictions have become a powerful trigger, significantly increasing the level of inflation and exacerbating the existing issues of economies. As a result, the confrontation between the West and Russia has greatly escalated, which will have a long-term, large-scale negative impact on most European companies and economies. There could also be a lasting restructuring of world trade. The article notes that not only the end date of the war in Ukraine may be important for business and economies, but also which of the trade and financial restrictions can be lifted from Russia, and when. The article also makes recommendations that may help company leaders plan, in a timelier and more accurate fashion, the changes necessary to maintain company sustainability.

Keywords: war in Ukraine; Europe; consequences; economy; business; companies; embargo

JEL Classification: G12; G14; G15



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1. Introduction

A little more than two years have passed since the beginning of the COVID-19 pandemic, and it is not clear whether it has finally ended. However, companies and countries face an unexpected new challenge: the need to adapt their activities to the consequences of the war in Ukraine.

To do this, company leaders, entrepreneurs, and policymakers need to know and take into account the possible consequences of the ongoing hostilities on business and the economy.

Yet, as a rule, the studies we found on the possible consequences of the war in Ukraine for the economy constitute “mono-analysis”, that is, they do not include the results of various sources of information and are often based on the data from recent months, rather than weeks and days, which can significantly affect the accuracy of the predictions.

As of the beginning of May, only [Lim et al. \(2022\)](#) have stated that the war in Ukraine could have a negative impact on business through limited access to funds, reduced purchasing power, an increasing inflation rate, and a threat to sustainable growth and restrictions on trade as a result of sanctions. It was also noted that the recent COVID-19 crisis, also caused by non-economic factors, has particularly affected small businesses, which have experienced a rapid decline in profitability, combined with difficulties in adjusting costs quickly enough ([ECB 2022d](#)).

However, we did not find any publications addressing the main risks that could have a negative impact on the activities of the majority of companies.

Therefore, in this article, based mainly on data from late April to mid-June 2022, we will consider the already occurring and expected consequences of the economic shocks and their possible duration, which will allow company leaders, stakeholders and policymakers to make better decisions.

Our analysis will contribute to a deeper understanding of the economic and business issues that have occurred and may continue to arise as a result of the war in Ukraine, and how long such consequences will continue. The recommendations made may help company leaders, stakeholders, and policymakers to plan and implement, in a timelier and more accurate fashion, the changes necessary to adapt and increase sustainability and competitiveness, in order to respond effectively to the emerging challenges, now and in the future.

The article is structured as follows: in the first section, an analysis of supply, price and supply chain shocks is made; in the second section, the growth prospects and the duration of high inflation are discussed; in the third section, the growth prospects for the economy are addressed; the fourth section analyses the prospects for employment and unemployment; and the fifth section looks at the possible consequences of confrontation between the West and Russia; this is followed by a conclusion and recommendations for companies.

2. Shocks of Price, Supplies, and Supply Chain

As a result of the war in Ukraine, there will be supply and commodity price shocks with wide-ranging long-term consequences. Production, consumption, and trade in commodities will change as countries move towards greater self-sufficiency, creating opportunities for new suppliers. The war is leading to costlier trading patterns and a major diversion in energy trade, and the outlook for commodity markets is highly dependent on the length of the war and the disruption it causes in supply chains (World Bank 2022a). A war in Ukraine will trigger a massive negative supply shock in the global economy (Roubini 2022). The price shocks will have global consequences. In addition, the war in Ukraine will exacerbate the structural problems of post-pandemic Europe (International Monetary Fund 2022a). Georg Zachmann of the Bruegel think tank notes that the sanctions on Russia will have dramatic long-term effects on prices, starting with energy but then spreading to the entire economy. In his opinion, Lithuania, Latvia, and Estonia remain more vulnerable than many other European countries and may be among the first whose economies will feel the blow (Washington Post 2022). Vulnerability can be explained by the share in and structure of EU countries' international trade with Russia. For example, in 2021, Latvian exports to Russia accounted for 7.3% of total exports, while imports accounted for 9.1% (CSB 2022). This is significantly higher than the EU average of 4.1% and 7.5%, respectively (Eurostat 2022b).

A war between Russia and Ukraine will exacerbate the supply chain problems and drive up commodity prices further. The sectors with long global production–supply chains and high reliance on energy and metal supplies will face the strongest hurdles (S&P Global 2022).

The energy-dependent sectors, especially oil refining and power generation, transportation services, metallurgy, and chemicals, will be the first to suffer, as Europe uses Russia as a resource supplier (S&P Global 2022). An embargo on Russian energy resources could lead not only to higher prices, but also to the rationing of energy consumption (Bundesbank 2022a).

According to the world's leading oil and gas analytics agency, Rystad Energy, global LNG demand in 2022 is expected to be 436 million tons and supply is expected to be 410 million tons (GWN 2022). This means that the demand will exceed supply by 6.3%, meaning there is not enough LNG to meet demand. For a specific example, consider how supply shocks can affect prices.

Austria receives about 80% of its gas supplies from Russia and has warned that a shutdown from its largest supplier will lead to a recession in the country; it has begun holding tenders to replenish its storage facilities. In the first tender, Austria paid a 45% premium on European base prices to create a strategic gas reserve before the start of the heating season (Bloomberg 2022b).

Rystad Energy notes that LNG may not be enough to replace Russian gas in freezing weather. They predict that the price of gas in the EU will rise to \$3500 per 1000 cubic meters, almost 300% higher than a year ago (GWN 2022). Rystad Energy notes that “replacing a significant part of Russian gas will be extremely difficult, with far-reaching consequences for the population, the economy and the role of gas in the region’s energy transition” and that the supply-balanced demand for LNG will only be possible after 2024 (GWN 2022). This means that, as a result of the supply shock, if Russian gas is phased out, LNG prices in Europe will remain high for several years.

Note that the high gas prices will contribute to a significant increase in prices for other energy sources, including affordable ones. For example, this year, firewood prices in Latvia, which is a major exporter of various wood products, have risen from 120 to 200 euros (TVNET 2022), although the heating season is still far away.

Due to the heavy dependence on raw material imports from Russia and Ukraine, Europe is more vulnerable than the other major economies in the world (RaboResearch 2022).

The war is already severely disrupting the narrow food, energy, and financial markets. Persistent disruptions and elongations in the global supply chains and burgeoning transport costs further complicate the situation (United Nations 2022).

To summarize this section, economies and companies will experience price shocks and supply constraints on key commodities, with wide-ranging long-term effects. There will be an increase in the cost of supply chains, and it will also be necessary to reconfigure supply chains to be shorter and more reliable.

3. Inflation

One of the main reasons for the increase in inflation is the increasing demand for natural resources since the economy started to recover in 2021 (Elbahnasawy and Ellis 2022). A supply shock will reduce growth and further increase inflation, at a time when inflation expectations are already unsustainable (Roubini 2022). A surge in oil and food prices will raise an inflation rate that is already too high (Krugman 2022).

According to the forecast of one of the world’s largest investment companies, BlackRock, in 2022 the EU countries will spend more than 9% of their GDP on energy. This is the highest share in 40 years and more than double the rate predicted in the US, although, two years ago, the figure for both economies was about 2% (Bloomberg News 2022a). Higher commodity prices exacerbate the already high inflationary pressures around the world (World Bank 2022a). According to the European Central Bank, half of the recent rise in inflation has been driven by higher energy prices (ECB 2022a).

As a result of a sharp increase in commodity prices, the industrial production price growth index in Germany in March 2022 was 30.9%, and in April increased to 33.5% (DeStatis 2022). At the end of March 2022, inflation increased for another month in a row, amounting to 7.8% in the EU, 15.6% in Lithuania, 14.8% in Estonia, 11.5% in Latvia, and 7.6% in Germany (Statista 2022). Consumer prices in Germany in March 2022, compared to February, seasonally adjusted, increased by 2.5%. Such a level of inflation in Germany was last seen in 1981, during the First Gulf War (Bundesbank 2022b).

However, despite already being high and increasing in March 2022, the inflation rate continued to rise in April—to 8.1% (by 0.3 percentage points) in the EU, to 16.6% (by 1 point) in Lithuania, to 19.1% (by 4.3 points) in Estonia, to 13.1% (by 1.6 points) in Latvia, and to 7.8% (by 0.2 points) in Germany (Eurostat 2022a).

Among the Eurozone countries, Estonia, Lithuania, the Czech Republic and Latvia have significantly higher inflation rates than the other EU countries.

However, for policymakers, entrepreneurs, and the upper management of companies, it is important when planning to know not only the current inflation rate, but also what it might be at the end of 2022. Therefore, using the forecast of the Bank of Latvia as an example, we will consider whether the inflation forecasts presented for 2022 are optimistic or realistic.

According to the Bank of Latvia's forecast of 30 March 2022, the inflation rate in Latvia will rise to 9.5% in 2022 and decrease to 3.7% in 2023 (Latvijas Banka 2022a). The commentary to this forecast states that it is based on the fact that energy prices will decline in the second half of the year.

Note that, according to the World Bank (2022b) forecast, the natural gas prices in Europe in 2022 will be twice as high as in 2021, while the coal prices will be 80 percent higher, and will remain at historically high levels until the end of 2024. Taking into account this forecast and other indicators, including the prices for raw materials, the Bank of Latvia forecast for the inflation indicator for 2022–2023 seems too optimistic. It should be noted that on 12 June, the Bank of Latvia raised the inflation forecast to 14.8% for 2022 and to 7% for 2023 (Latvijas Banka 2022b). However, the gas prices for households for the second half of 2022 increased by 60–89% (Latvijas gāze 2022). Although half of the increase in gas prices for households will be compensated by the state (Delfi 2022), the updated inflation forecast of the Bank of Latvia still seems too optimistic, both based on the arguments listed in this section, and based on the fact that inflation in May 2022 in the annual terms in Latvia increased by 3.8 percentage points and amounted to 16.9% (Latvijas Banka 2022c). It is possible that the publication of more optimistic forecasts is justified by the monetary authorities' desire to maintain consumer activity.

The war in Ukraine has exacerbated the dilemma faced by central banks on both sides of the Atlantic, namely, how to tighten financial conditions quickly and intensively in an environment of inflation that can no longer be seen as simply temporary and reversible, and at the same time not reduce the pace of economic activity and not provoke financial turmoil (Canuto 2022). Although the interest rate in America was 0.25 percentage points higher than in the EU, on May 4 the Federal Reserve raised the rate by another 0.5 percentage points to counter inflation (Wall Street Journal 2022). As of 16 June 2022, the rate in America was raised to 1.5% and became 1.5 percentage points higher than in the euro area (Countryeconomy 2022). The transition to a green economy and a possible slowdown in globalization are likely to increase inflation in the medium term (ECB 2022a). It will then have to be decided how high to raise the rate to fight inflation, as this may deepen a possible recession (ECB 2022a). However, in today's environment, with inflation rising, and as central banks are already behind schedule, slower policy tightening could accelerate the weakening of inflation expectations, further exacerbating stagflation (Roubini 2022). High inflation is forcing the region's central banks to prioritize efforts to curb price pressures over growth-supporting policies. The currencies of the countries of Central and Eastern Europe, especially the Hungarian forint, have entered a period of heightened geopolitical instability and are in a precarious position (Oxford Analytica 2022). Although Goldman Sachs notes that the Eurozone economy is shrinking and that inflation is approaching 8%, a rate hike by the European Central Bank in 2022 is unlikely (Bloomberg 2022a), even if the ECB has tentatively authorized a minimum (0.25 percentage point) rate hike in July (ECB 2022b).

Agustin Carstens, CEO of the Bank for International Settlements, says we should not expect inflationary pressures to ease anytime soon, as many of the factors behind high inflation remain in place and new ones are emerging. Moreover, the structural factors that have kept inflation low in recent decades may weaken as globalization retreats, and the inflationary paradigm may change accordingly (Carstens 2022).

It should be noted that increasing inflation may be of a structural nature, and, in this case, its decline will mainly depend not on an increase in the interest rate, but on a significant reduction in energy prices; accordingly, the monetary authorities' ability to reduce inflation may be very limited.

We should also note that the increase in interest rates is leading to an increase in the cost of servicing the debt of both companies and countries.

Corporate debt has been growing worldwide for more than a decade and high levels of corporate debt can make restrictive monetary policy less effective in curbing inflation (Goodhart et al. 2022).

Thus, the ECB notes that the increased level of corporate debt since the COVID-19 pandemic makes firms more vulnerable to increased risks, higher interest rates, or falling profits, while weaker corporate balance sheets pose a risk to banks (ECB 2022d). Some developed countries, as well as a number of low-income countries, are already at high risk or are in a debt crisis (United Nations 2022). For example, Italy's yield on ten-year bonds increased to 3% per annum, although it was less than 0.5% in the summer of 2021 (Tradingeconomics 2022a). Italy's debt/GDP ratio exceeded 150%, and the amount of debt reached 2.75 trillion euros (Tradingeconomics 2022b, 2022c). Since 2008, the amount of Italy's debt has been growing continuously (Tradingeconomics 2022c), but Italy, unlike the US and Japan, cannot "print" money on its own. Therefore, the situation of rising rates and weakening economic growth may pose a threat to countries with high levels of debt, such as Italy, Portugal, Spain, and especially Greece, whose debt is close to 200% of GDP and exceeds the levels of the period when Greece needed financial assistance from the IMF (Tradingeconomics 2022d; International Monetary Fund 2019). Accordingly, under the worst-case scenario, some of the countries with high levels of public debt, high interest rates, and an unwillingness of investors to take on increased risks may require certain financing instruments from the EU; as was the case, for the first time, to finance the reduction in the negative impact of the COVID-19 pandemic on the economies of the EU countries. It should be noted that the design and structure of EU funding, which was first used to reduce the negative impact of the COVID-19 pandemic, is quite complicated and, accordingly, impossible to agree on quickly, since such decisions require the consensus of all countries. Based on this, it should be taken into account that, if decisions on the allocation of financing at the EU level are required to solve the problems of the debt crisis of some countries in the euro area, certain risks will arise for the economies of some countries. The adoption of such decisions will become a new challenge and a test of the strength of both the common European currency (the euro) and the EU as a whole. It should also be taken into account that such decisions may be related to loose monetary policy and, accordingly, not help to reduce inflation.

Summing up this section, we note that the increase in inflation in 2021 and 2022 has mainly been due to an increase in demand and, accordingly, an increase in energy prices. The main factors that can influence the persistence of high inflation, or even its increase, include shocks in the price and supply of energy and other commodities and basic goods. The inflation rate in the EU and a number of other countries may remain high for several years or more and be a significant threat both to the economies of the countries and to companies.

4. Employment and Unemployment Rate

The consequences of the Russian war in Ukraine may complicate and slow down the recovery of the labor market in Europe after the COVID-19 pandemic (International Monetary Fund 2022d). The recovery of the labor market will be negatively affected by a slowdown in the economy and, for some countries, by significant migration flows as well (International Monetary Fund 2022d). Due to economic sanctions, disruption of supply chains and resource flows, as well as the inevitable inflationary consequences, European companies will face a decline in employment (Eurofound 2022). Research carried out by Central Bank of Ireland economist, Reamonn Lydon, notes that job postings in the 21 countries of Europe slowed down after the start of Russia's war in Ukraine (Bloomberg 2022c). Employment was hardest hit in the countries that are most dependent on Russian imports, and energy-intensive sectors, such as manufacturing and transport. The impact could spill over to other sectors if high inflation continues to impact on consumer spending (Bloomberg 2022c).

A slowdown in manufacturing growth will negatively impact hiring activity in Germany, according to a business survey conducted by S&P Global (The Business Times 2022). However, according to Indeed, the number of job postings remains 45% higher than before the COVID-19 pandemic (Bloomberg 2022c).

Since unemployment is one of the most important macroeconomic indicators, it seems appropriate to discuss the possible methods for forecasting employment and the factors that may affect it as a result of the continuation of Russia's war in Ukraine.

Let us consider which of the last two economic crises is more suitable for predicting the level of employment as a result of the war in Ukraine, if we apply the extrapolation method for this purpose.

The COVID-19 pandemic led to the sharpest contraction on record in employment and total hours worked in the second quarter of 2020. There were 5.2 million fewer persons employed in the second quarter of 2020 than at the end of 2019, a fall of 3.2% (ECB 2020). The unemployment rate increased by 1.2 percentage points in half a year and has not risen again (Eurostat 2022c). There has been no increase in the unemployment rate in the EU for almost four months, since the start of the war in Ukraine (Eurostat 2022c). The literature reviewed in this article notes that the war in Ukraine may be protracted and continue to have a negative impact on the economy and business, and, accordingly, on the level of employment, for not months, but years. In addition, the increase in unemployment during the COVID-19 pandemic was significantly affected by the introduction of a number of restrictions, which was especially true for the service and retail sectors, as well as for unvaccinated workers.

Next, let us consider how the unemployment rate changed after the 2008–2009 Global Financial Crisis.

The unemployment rate, which measures the proportion of persons unemployed to the total labor force, rose from 7.2% in March 2008 to 9.5% in May 2009 in the euro area. In the same period, the rate in the EU surged from 6.7% to 8.9% (Eurostat 2009). Unemployment rose in all of the countries of the EU, but the increase was very uneven, ranging from over 10 percentage points in Estonia, Spain, Latvia, and Lithuania to less than one percentage point in the Netherlands and Denmark (Eurostat 2009).

In 2013, the unemployment rate in the euro area reached its highest level in over four years, rising to 12.2%, i.e., by five percentage points (Eurostat 2022c). The growth of unemployment during the years of the Global Financial Crisis was uneven. In the first year, unemployment increased by 2.2 percentage points; after that, for more than a year, the unemployment rate remained at the same level and even decreased slightly, and, over the course of another year and a half, it increased to 11% in the EU and to 12.2% in the euro area (Eurostat 2013). The average annual increase in unemployment since the Global Financial Crisis has been 1.2 percentage points.

Based on a brief analysis of the unemployment rates during the last two crises, in applying the extrapolation method to predict the level of employment in the EU as a result of the war in Ukraine, it is more suitable to analyze the change in the level of employment after the Global Financial Crisis.

There are a number of factors to consider when extrapolating post-Global Financial Crisis unemployment rates to the rise in unemployment as a result of the war in Ukraine.

The main factors that could hold back the increase in the unemployment rate in the EU include the following. Firstly, before the Global Financial Crisis, the unemployment rate in the EU was higher, at 7.1%, and in April 2022 the unemployment rate in the EU reached its lowest level—6.2%. That is, a greater increase in unemployment will be hampered by a record number of vacancies for the EU, which reached 3.1% in the first quarter of 2022 (Eurostat 2022c) due to high demand for labor and the early retirement of older workers (International Monetary Fund 2022d). Secondly, the COVID-19 pandemic has accelerated structural transformations, including through digitalization and automation, and these transformations entail a significant redistribution of workers among sectors and professions (International Monetary Fund 2022d). Thirdly, the experience of remote work gained in recent years allows employees not only to move between sectors and professions, but also to get a job in other countries without changing their place of residence (Prohorovs and Bistrova 2022). In addition, a significant number of migrants requires the creation of additional jobs in the host country in order to provide the migrants with necessary services,

which leads to a small increase in employment (and also increases the demand for goods and services in the host country).

Let us consider the main factors that may have an impact on the decline in employment. The first is a higher inflation rate. Thus, in 2008, the highest ever average annual inflation rate, of 3.3%, was recorded for the euro area (Eurostat 2009), while the average annual inflation rate in the euro area was 8.1% in May 2022 (Eurostat 2022a), which is almost 2.5 times higher than in 2008. The second comprises the problems related to economic sanctions, disruption of supply chains, and resource flows (Eurofound 2022). The third is the high level of migrants from Ukraine, especially given the protracted nature of the war in Ukraine. The increase in the hostilities is forcing refugees to stay in their host countries longer than expected and, accordingly, they may seek employment in the labor market of these countries (ILO 2022). Approximately 2.75 million refugees from Ukraine are of working age, of whom 1.2 million worked before the start of the war in Ukraine and, accordingly, could enter the EU labor market. The refugees from Ukraine will have the highest impact on the growth of unemployment in Moldova—unemployment growth may increase from 2.5 to 6.9 percent. In Poland, it may increase from 3 to 5.3 percent, and in Slovakia, Romania, Hungary, and the Czech Republic, unemployment may increase by more than one percentage point, while in other countries, the increase in unemployment will not exceed one percentage point (ILO 2022).

The Polish economist, Sobolewski, notes that in addition to the 185,000 Ukrainian refugees already legally working in Poland, there may be another 100,000 who work in the shadow economy, for example, helping their Polish hosts around the house or in small businesses (BIRN 2022). Based on the data presented by Sobolewski, two conclusions can follow. Firstly, the reception of refugees from Ukraine has an impact on the growth of the shadow economy in the host country. Secondly, in countries with high levels of refugees from Ukraine, the real employment rate will be higher than reflected in the statistics.

The following conclusions can be drawn from this section. It is most likely that the unemployment rate in the EU will grow unevenly both over time and across countries within two to four years. The highest pressure on employment will occur in countries that have had a higher volume of trade relations with Russia and the greatest dependence on Russian resources, that is, through price and supply shocks. In most cases, these are the countries of Central and Eastern Europe and, first and foremost, the Baltic countries, as well as energy-intensive sectors, such as manufacturing and transport.

Unless other countries become directly involved in the war in Ukraine and extremely negative scenarios are realized, for example, a complete cut-off of gas supplies from Russia, it is very unlikely that the unemployment rate in the EU will approach the maximum unemployment rates that were experienced after the Global Financial Crisis in 2013.

5. The Economy Growth Prospects

The JPMorgan Chase CEO, Jamie Dimon, said on 4 May that it is very, very unlikely that the Federal Reserve can tame inflation without triggering a recession (CNN Business 2022). Historical experience shows that once the inflationary genie is out of the bottle, regardless of the policy response, a recession would already be hard to avoid (RaboResearch 2022). The slowdown in business activity is due to the fact that its surge after two years of lockdowns led to a shortage of energy, food, and transport at the end of 2021. This caused disruptions in world trade and accelerated inflation. Consumption is falling because life is becoming more expensive and people are saving, while investment is decreasing as lending rates rise with prices, uncertainty increases, and company profits fall (International Monetary Fund 2022a). The war and the total embargo only exacerbate these problems, since Russia is the largest exporter of oil and gas, and, together with Ukraine, it is also the leading supplier of food (BBC News 2022). According to experts, the Introduction of fiscal support measures in Germany compensates for only a small part of the losses of households and companies (Bundesbank 2022a).

Both America and the Eurozone will face recession in 2022 and 2023 (McKinsey 2022). The recession forecasts have already begun to come true. Thus, in the first quarter of 2022, America's GDP decreased by 1.4 percent year-on-year, while personal income, adjusted for taxes and inflation, decreased by 2.0 percent (Bureau of Economic Analysis U.S. 2022). The Eurozone economy grew by 0.2 percent QOQ in the first quarter of 2022, below the forecasts and the lowest indicator since the EU emerged from recession last year (Trading Economics 2022). There is also a risk that some EU countries may enter a technical recession in 2022 (International Monetary Fund 2022a). Thus, at the end of April, the Bundesbank warned that, in the event of an embargo on Russian gas, Germany's real GDP would fall by almost 2% this year (The Guardian 2022). The researchers of the Institute for Monetary and Financial Stability gave a more radical assessment of a possible fall in Germany's GDP in the event of a suspension of energy supplies from Russia—3–6%. At the same time, they note that the impact on GDP of a complete cessation of Russian energy supplies to Germany may be comparable to the impact of the Global Financial Crisis or the COVID-19 crisis, but neither the overall consequences nor the political recipes that follow from them can be compared with the consequences of the cessation of energy imports from Russia (Berger et al. 2022).

Under unfavorable scenarios, the decline in the Eurozone economy in 2022 could range from 1.2 to 1.4%, and the recession could continue into 2023 (ECB 2022c).

The decline in economic growth in Western and Eastern Europe will also be affected by the fact that many companies of these countries have stopped or restricted international trade and other operations in Russia (Canuto 2022). According to Eurostat (2022b), in 2021, Russia was the EU's fifth largest merchandise export partner (4.1%), and third largest merchandise import partner (7.5%). Accordingly, the countries whose companies had a higher level of international trade with Russia may suffer more if the companies fail to reorient themselves to other markets. In addition, it must be taken into account that sanctions also exist for Belarus, and trade with Ukrainian companies is limited by the circumstances related to the war. If companies fail to reorient themselves to other markets, the above restrictions on trade will lead to a decrease in net turnover, income, and, respectively, the profits of numerous companies. This will negatively affect economic growth indicators and will have a negative impact on countries' budget revenues, which will also limit their ability to support households and businesses, which is especially important in the context of both an economic downturn and high inflation.

There is a risk that persistently high commodity prices, which are likely to continue until the end of 2024, will lead to stagflation—sluggish economic activity combined with strong pressure on the cost of living (World Bank 2022c). According to BlackRock researchers, there is a risk of stagflation in Europe (Bloomberg News 2022a). The European Central Bank is facing such a crisis and potential stagflation for the first time. Given the nature of the supply shock, tightening policy will not reduce inflation. Conversely, additional stimulus will not be able to prevent an economic downturn if it is caused by a lack of supply (RaboResearch 2022).

As a result of the Russian war in Ukraine, the impact on countries' economies will be heterogeneous and asymmetric and will also differ greatly depending on the economies' gas intensity (International Monetary Fund 2022b). The blow to Europe will be one and a half times more tangible than to the United States, and the energy war will cause the greatest damage to the European economy (BBC News 2022). The economic and financial impact of the war and the associated stagflation shock will be greatest in Russia and Ukraine, followed by the European Union, due to its heavy dependence on Russian gas (Roubini 2022). Europe and the fragile emerging markets will be hit hardest (Oxford Analytica 2022). The head of the Center for Macroeconomics and Development, former Executive Director of the World Bank (Canuto 2022), has the same opinion. The economies of European countries are the most negatively affected, of which the countries of Central and Eastern Europe will be the most negatively affected (Coface 2022).

Summing up this section, we can state that there is a significant likelihood that in 2022–2023, a recession or even stagflation could begin in a number of EU countries.

6. Possible Consequences of Confrontation between the West and Russia

Due to the Russian war in Ukraine and the subsequent economic sanctions against Russia, a process of transformation of the architecture of the world economy has begun, according to [Papava \(2022\)](#). In his opinion, the hallmark of this process is the relative fragmentation of the world economy into countries that adhere to the economic sanctions against Russia and countries that are allies of Russia or maintain a certain neutrality in this confrontational economic scheme.

The Russian–Ukrainian conflict will reshape international trade and redefine global value chains, leading to decentralized value chains and improved trade efficiency ([Estrada and Koutronas 2022](#)).

The S&P Chief Economist, Paul Gruenwald, notes that there could be a strong realignment of global trade and that the global economy is becoming more regionalized—shorter supply chains with reliable partners ([CNBC 2022](#)). The director of research at global consulting firm Wood Mackenzie, Peter Martin, notes that the global economy may be undergoing more constant change, thereby increasing the importance of reliable trading partners ([CNBC 2022](#)). As a result of the war in Ukraine, a geopolitical division will occur, fragmenting the world economy ([Oxford Analytica 2022](#)). The push for deglobalization, started during the pandemic, will intensify and one can expect an increase in the influence of geopolitics in international payments and in access to certain types of commodities ([Canuto 2022](#)). If energy trade changes, the supply chains reconfigure, payment networks fragment, and countries rethink their reserve currency holdings; this could fundamentally change the global economic and geopolitical order in the long term ([International Monetary Fund 2022c](#)). Growing geopolitical tensions further increase the risks of economic fragmentation, especially in trade and technology. War between Russia and Ukraine could be a prelude to a new geopolitical era, in which businesses may need to be able navigate an altered map of globalization ([KPMG 2022](#)). The consequences of the Ukrainian crisis and the wider geopolitical depression it portends could be anything, but there is no going back to the original state of things ([Roubini 2022](#)). However, Paul Krugman (2022) finds that, although the consequences of the Russian war in Ukraine for the global economy will be bad, they will not be catastrophic. In his opinion, the shock of the confrontation between Russia and the West is unlikely to be as serious as the oil shock that shook the world economy in the 1970s.

Ukraine's location has drawn more attention to it compared with other conflicts, making the prospect of a protracted war more likely, not least because the EU and NATO have a strong interest in maintaining Ukraine's sovereignty ([Serhan 2022](#)). Thus, the British Foreign Secretary, Liz Truss, has said that the war in Ukraine could last up to 10 years ([NDTV 2022](#)). US and European officials increasingly believe that the war will not end in the short term ([CNN 2022](#)). European countries need to prepare for the fact that the war will last for a long time ([Gressel 2022](#)). The U.S. National Security Adviser, Jake Sullivan, has also said that the fighting in Ukraine is likely to be protracted ([CNN 2022](#)). According to NATO Secretary, General Jens Stoltenberg, the war could last for years, and the military alliance should not stop supporting Ukraine ([Bloomberg News 2022b](#)).

The periodical literature reports that Russia's war in Ukraine could end in a relatively short time, due to the very significant restrictions on Russian exports, but [Pestova et al. \(2022\)](#) find that the Russian economy is difficult to undermine through oil and gas embargoes.

For business, however, not only will the end date of the war in Ukraine be important, but also what trade and financial restrictions can be lifted from Russia and Belarus and within what time frame. Sanctions are usually imposed much faster than they are lifted ([Blinken 2015](#); [Grauvogel and Attia 2019](#)). The rapid lifting of economic sanctions and a return to the pre-war situation seems completely illusory, even if a peace agreement is signed between Russia and Ukraine ([Coface 2022](#)). The possible duration of the sanctions

imposed against Russia may be influenced by a number of factors, some of which are difficult to predict. For example, at what rate will there be a sustainable increase in the capacity of alternative energy sources and its storage, what will be the cost of these processes, and what will be the price and availability of some raw materials. In addition, it should be taken into account that both within the European Union and in other countries that have imposed sanctions, there may be different economic and geopolitical goals and priorities, which may complicate and therefore lengthen the period for lifting sanctions. We should keep in mind that adverse economic shocks may lead to a wider dissemination of ideological politics (Ash et al. 2021); therefore, the parties to the conflict may consider the imposed sanctions for geopolitical purposes, as well as for the purposes of economic and/or technological dominance, which may increase the timing of the lifting of some of the sanctions. As Roubini (2022) points out, one must bear in mind that sanctions against Russia, no matter how large or necessary for the future containment of Russia, will inevitably hurt not only Russia, but also the US, the West, and the emerging markets.

From the analysis carried out in this section, we can conclude that, firstly, the war in Ukraine has transformed into a confrontation between the West and Russia and will have wide-ranging long-term consequences for the countries' economies and for business. Secondly, one can expect an increase in the influence of geopolitics in the banking and financial sphere and in international trade.

Thirdly, there could be a lasting realignment of world trade: the global economy is becoming more regionalized—shorter supply chains with reliable partners.

Fourthly, the world economy may be subject to more constant change, which in the long run could change the global economic and geopolitical order.

7. Conclusions and Recommendations

Russia's war in Ukraine has further exacerbated the economic problems arising from the American–Chinese trade confrontation, the impact on the economy of the COVID-19 pandemic, and 14 years of loose monetary policy. The trade restrictions imposed against Russia and Belarus and the countersanctions became a powerful trigger which has significantly raised the inflation rate and negatively impacted economic growth, creating the threat of stagflation. Among Western countries, European countries will be the hardest hit. Among the European countries, the countries of Central and Eastern Europe, especially those that had closer trade relations with Russia, will suffer more severely.

The war in Ukraine has greatly increased the level of uncertainty in the economy and business. Thus, almost half of British firms identified the war in Ukraine as the most important source of uncertainty for their business. A survey of UK firms shows that energy use, demand, trade, and ownership are the most important determinants of business uncertainty (Anayi et al. 2022).

As a result of the war in Ukraine, the confrontation between the West and Russia has greatly escalated, which will have a long-term negative impact on most European companies and economies. The negative impact of the consequences that have already occurred cannot be fully measured yet, and some of the consequences are not yet known. This means that companies and countries will have to make and implement decisions in the face of a very high degree of uncertainty, adjusting action plans in a timely manner if the changing circumstances require it.

In our opinion, as a result of the shocks taking place in the economy, the majority of companies have faced or will face at least two big problems at once, that will put pressure on profits. Firstly, there is a decrease in sales volumes and marginality, which in itself will lead to a decrease in income. Secondly, for the reasons stated in our article, there will be an increase in costs. A significant decline in revenues, along with a significant increase in expenses, will lead to a large decrease in profits and/or increased losses for many companies.

The negative pressure on companies' profitability will also influence the projected increase in central bank rates and, accordingly, an increase in the price of credit resources,

as well as the fact that, due to a decrease in companies' performance, their ability to attract financing may be limited. Based on the above factors, many companies will not be able to maintain the ratio of income and expenses necessary to continue business without restructuring and/or changing their business models.

Therefore, company management needs to assess how much income their companies will be able to receive in a few months, six months, or maybe a year, and bring expenses to a level that corresponds to current and forecasted circumstances and updated company development plans. In the case of restructuring planning, the company's management should take into account that there is a risk of a further decline in demand in many sectors, and the risk of rising prices for raw materials and logistics also remains. If costs are reduced without taking this factor into account, companies will have a fairly high risk of re-restructuring. The companies that resume operations with a profit will find it easier to negotiate with banks to continue lending beyond certain covenants, for example, tying the lending limit to EBITDA.

When planning restructuring, it should be taken into account that, due to the loss of the Russian and Belarusian markets, and, in some cases, the logistical and other complications of working with companies from Ukraine, exporting companies will have to look for opportunities to enter new markets. To maintain sales volume, this will need to be completed by almost all of the export companies of all of the countries that have exported their products to the aforementioned countries. Therefore, it can be expected that competition will increase both in the foreign and domestic markets, and because of this, marginality may decrease significantly. In addition, if the company has plans to enter new markets, restructuring must take into account that such entry will incur additional costs.

According to a survey of 2300 IT directors by the American consulting company, Gartner, destruction is the new normal (Gartner 2022). Specialists of the Boston Consulting Group (BCG) believe that resilience is at the core of a company's ability to absorb stress, recover critical functions, and thrive in changing circumstances (Reeves et al. 2020).

After a very long break, and with a two-year interval, two crises occurred in the world economy, caused by non-economic factors. Based on this, the companies that want to prosper in the future need to organize their activities so that they are ready for the fact that destruction is the new normal, and that resilience is the ability to absorb stress, as stated in the aforementioned BCG and Gartner theses.

Therefore, in order to maintain and, better yet, strengthen their competitiveness, entrepreneurs, companies, and countries need to adjust their strategies, business models, and management models in such a way as to be ready for an effective response to crises, including the shocks caused by non-economic matters.

8. Suggestions for Future Research

In future research, it would be advisable to develop a quantitative econometric model that could be used to quantify the consequences of Russia's war in Ukraine. The restoration of the Ukrainian economy and sources of its financing might also be a relevant topic for future research.

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