

The Price of War: The Impact of the Russia-Ukraine Crisis in 2024

2024 has seen major developments in the Russia-Ukraine conflict. This includes Ukraine's unexpected incursion into Russian territory, 10,000 North Korean troops entering the conflict and Putin's increasing nuclear rhetoric. These events have contributed to the 150,000 deaths, 300,000 injuries and 11 million displaced as a result of the ongoing war. This article will focus on the economic impacts of the conflict, focusing on 2024 and will speculate how it may evolve in 2025.

Since Russia's full-scale invasion of Ukraine, Russia's economy has outperformed forecasts, defying predictions of double-digit contractions. In actuality, GDP grew by 3.6% in 2023 and 4% in 2024. However, viewing this as a depiction of economic health is inaccurate. Prior to the war, the Russian economy was heavily reliant on oil exports, with its economic stability tied to global oil price volatility. Although oil exports are still a large source of demand for the Russian economy the main driver of growth has been the rapid expansion of government spending, and this is beginning to place strain on Russia's fiscal resources, threatening future economic stability. From 2022 to 2024, fiscal spending accounted for over 10% of GDP. This trend is expected to continue into 2025, with the Kremlin continuing to place a strong focus on the war. Even if the conflict was to end this year, military spending will remain elevated as Russia will have to replenish depleted arsenals. This will likely worsen the struggles the Russian economy is already facing.

Aggressive state spending, coupled with war-induced labour shortages has significantly boosted Russian imports in 2024, as the domestic economy is unable to satisfy demand. This has undermined the Ruble, which has depreciated by 16% against the dollar in 2024, and has fuelled inflation. Official statistics from Russia suggest an inflation rate of 9% but real inflation for many households is substantially higher (potentially exceeding 20%), despite a 21% interest rate, which has failed to curb inflation. Russia's military-industrial complex may be growing for now, but cracks in the Russian economy have started to appear.

The Ukrainian economy has suffered immensely as a result of the war. The country experienced a GDP contraction of 29% in the first year of the conflict but growth has since recovered with the economy expanding 4% in 2024. This was supported by defence spending and agricultural exports. However, similarly to the Russian economy, emigration and mobilisation of troops has led to severe labour shortages, significantly impacting firms. This has meant employers have had to increase wages significantly to attract labour, but this has contributed to rising costs, with inflation reaching 11.2% in November (its highest level in 2024). The economy is expected to suffer in future due to substantial infrastructure damage and extensive electricity disruption due to attacks, with economic growth forecast to slow to 2% in 2025. This along with Ukraine needing \$486 billion over the next decade for reconstruction, highlights the crucial role international aid must play in supporting Ukraine's economy and its people.

The costs of the Russia-Ukraine crisis have not just been confined to these two countries. The conflict has enacted a heavy toll on the global economy. Commodity markets in particular have faced greater volatility since the war began. In developing nations, food and energy crises fuelled by the war have pushed over 75 million people into extreme poverty since 2022. This is partly due to Ukraine and Russia accounting for 30% of global wheat exports prior to the war. Therefore, the collapse of the Black Sea grain initiative in 2023 (which previously allowed Ukraine to export grain through the Black Sea) caused wheat prices to spike by 15%, disproportionately affecting low-income countries reliant on imports. Europe

has been especially impacted by changes in natural gas prices. The cutoff of gas supplies via Ukraine, which historically transited 40% of Russian gas to Europe has forced the EU to rely on liquified natural gas (LNG). Gas prices have soared 44% in 2024 and with Ukraine recently having closed its final remaining pipeline carrying Russian gas to Europe, the price rises are likely to continue into 2025. This will be driven by Europe competing more with Asia over supplies of LNG. This illustrates how Europe's attempts to cut off dependence on supplies of Russian gas have failed (as Russian LNG exports to the EU hit record highs this year) which has exacerbated the impacts of the conflict to EU nations.

Looking forward into 2025, a peace treaty appears to be a likely scenario. Since President-elect Donald Trump has repeatedly stated that he will end the war within a day of his inauguration on January 20th, a resolution to the conflict may be on the horizon. Although Trump is very unlikely to achieve peace between Russia and Ukraine in his envisioned timeline of a day, he will likely threaten tougher sanctions on Russia to persuade Moscow to seriously consider peace. However, Trump's campaign rhetoric suggests he could try to force Ukraine to accept a peace deal that is highly favourable to Moscow or abandon Ukraine altogether. On the other hand, there does appear to have been a shift from election rhetoric to more serious policy talks with Keith Kellogg, Trump's Ukraine envoy, welcoming Biden's green light for Ukraine to use long-range weapons and his recent decision to provide Ukraine with \$6 billion in fresh military and budget assistance. Despite this, scepticism still remains over the US's future commitment to Ukraine's defence under Trump. Trump's team has stated that the president-elect plans to continue supplying military aid to Ukraine but NATO member states must increase defence spending to 5% of GDP (a target which no members currently meet with only 23 of the 32 member states meeting the alliance's current 2% target). Russia will want guarantees that Ukraine will not join NATO. US allies will take a stance to not remove NATO membership from consideration. The future of the conflict is highly uncertain but a lot is at stake. It is not only Ukraine's sovereignty and independence that is contingent on a favourable peace deal, but the long-term security of Europe.