

DOI: <https://doi.org/10.34069/AI/2022.56.08.0>

How to Cite:

Panchenko, O.I., Arbelález-Campillo, D.F., Kaminska, O.L., & Rojas-Bahamón, M.J. (2022). Editorial. *Amazonia Investiga*, 11(56), 6-8. <https://doi.org/10.34069/AI/2022.56.08.0>

## Editorial

**War in Ukraine and recession: Is new economic crisis threatening the world?**

**Guerra en Ucrania y recesión: ¿La nueva crisis económica amenaza al mundo?**

Received: September 15, 2022

Accepted: October 12, 2022

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The struggle between good and evil, light and dark, democracy and fascism, freedom of speech and dependence – all this in one way or another characterizes the confrontation that the Western world is observing – the Russian Federation’s war against Ukraine. But does the world community think about the consequences of this war, which are just beginning to gain momentum?

The President of the World Bank made a statement regarding the likely growth of the recession in Europe as a result of the war in Ukraine. He noted that “it will take years to diversify world production after the Russian invasion of Ukraine” (Shalal, 2022). This suggests that the war in Ukraine has a direct impact on the state of the world economy and the development of the global economic crisis.

The consequences will be seen in the increase in food and electricity prices, which will lead to inflation, a decrease in the value of income and a burden on demand. The economic policy of neighboring countries will face disruptions in trade, logistics, money transfers, and a surge in refugees. Lower investor confidence will affect the value of assets, and, as a consequence, the decline in capital in markets (Kammer, Azour, Selassie, Goldfajn & Rhee, 2022).

That is, in addition to the human suffering and humanitarian crisis occurring as a result of the war on the territory of Ukraine, the world will also experience a global economic downturn.

Recession is a state of the economy, which is characterized by a decline in production, a decrease in consumption costs, an increase in unemployment, bankruptcy of enterprises, etc.’ that is, it is an economic crisis. It is part of the economic cycle – economy grows, peaks, falls and grows again. Thus, it is impossible to avoid recession. But there is another side of the coin – when you emerge from a recession, you need to drive the economy, which is done by central banks. The consequences of such “schemes” are: high inflation, markets are oversaturated with “easy, cheap money”, but production is recovering. If such recovery (economy recharging) did not take place, then inflation becomes uncontrollable. And this causes new recession.

Sadly, the world had not yet recovered from the consequences caused by the Covid-19 pandemic, when Russia launched a full-scale invasion of the territory of Ukraine. That is, impact of the pandemic and the record inflation that arose as a result of the war in Ukraine lead to a new global economic crisis. But is it possible to avoid this inevitable economic disaster?

In early 2022, world GDP was projected to grow by 3.9%. Currently, this forecast is negative – 2.8% (The Economist, 2022). According to the experts, this is caused by stagflation – a situation where economic recession is combined with inflation. Frederick Neumann and Trevon Logan (2022) in their interview to Bloomberg noted that the cause of stagflation is the outbreak of war in Ukraine. The risk of stagflation is significant and destabilizing for low- and middle-income economies. Therefore, it will be difficult for many countries of the world to avoid recession.

Russia's invasion led to a sharp rise in food and energy prices, which creates a greater risk of global stagflation. That is, high prices have a stagflation effect – depress production and costs and raise inflation in around the world (Hussein, 2022).

The African Development Bank reports that African countries are also at risk of stagflation – a long period of slow economic growth accompanied by high inflation, as pricing policy and logistics failures resulting from war, suppress production (Dzawu, 2022).

According to data by the Organization for Economic Cooperation and Development, the world's leading economic systems are on the verge of recession, as the global energy and food crises and inflation caused by hostilities are growing faster than predicted (The Guardian, 2022). For example, dependence on gas for heavy industry will entail the entry of the world's leading economies into a long period of recession.

Thus, a representative of the Bank of England stated that Great Britain has faced the longest recession ever, and the economic decline will continue until 2024. GDP will fall by 0.75% as a result of the decline in real incomes due to the sharp rise in energy and market prices as a result of a reduction in real incomes due to a sharp increase in the prices of energy carriers and market goods (Gilchrist, 2022).

Government of Prime Minister Rishi plans to raise taxes and cut spending to help the Bank to take inflation under control and restore confidence among British investors. According to estate agents, the UK market is included in the sustained price slowdown, which is a negative phenomenon in the real estate market over the past 12 months (Tajitsu, 2022).

The British currency fell almost 3% against the dollar, which is the largest drop among major world currencies. Combined with a large current account deficit in World Bank, this could mean that investors consider further depreciation of the pound as inevitable consequence, which will happen very soon.

The chief business economist at S&P Global Market Intelligence is convinced that the speed of the economic downturn is accelerating after political and financial turmoil. Therefore, the economy will fall in the fourth quarter after likely contraction in the third one, that is, the World Bank is in recession (Romei, 2022). Thus, we are observing negative changes in the economic system of Great Britain, which arose as a result of the war in Ukraine.

We suggest also paying attention to digital assets. For example, despite the relevance and independence of the crypto currency, all digital coins fell – Bitcoin fell by 14 thousand dollars in one week by \$14,000 in one week. The Terra coin has dropped by more than 1,000 times, as a result of a withdrawal from the Anchor platform more than 2.2 billion digital dollars. The reasons for the fall of the crypto market are obvious - the war in Ukraine and the global inflation (Spivak, 2022).

As for Germany, the Minister of Economy, Robert Habeck (2022), said that the country is experiencing a serious energy crisis, which is slowly turning into an economic and social one.

According to the Bundesbank, Germany's economy is in danger of shrinking by almost 2% this year war in Ukraine continues and an embargo on Russian coal, oil and gas leads to restrictions on electricity suppliers and industry. The country's research institutes say that the ban on energy will cost the European economy about 220 billion Euros, which is equivalent to 6.5% of annual production over the next two years. According to the calculations of the Bundesbank, losses for this year already amount to 165 billion Euros. And the biggest damage will be caused by higher prices for goods (Randow, 2022).

But it is necessary to understand that these forecasts do not include individual problems in the financial markets, that is, the consequences may be much greater and tangible than now, if the war in Ukraine continues.

Thus, we can observe the deterioration of the prospects of the world economy of the leading countries over the last decades. According to the IMF, inflation will peak at the end of this year at an annual rate of 8.8%, will remain high longer than expected and will slow to 6.5% in 2023 and 4.1% in 2024 (Martin, 2022).

Clearly, the consequences of the war in Ukraine also have a negative impact on the economies of Latin America and the Caribbean. According to a report provided by ECLAC (2022), the region is facing an economic downturn, rising inflation, and a slow recovery of the labor force. This leads to the increase in the level of poverty or extreme poverty. The recession is associated with the accumulation

of the implications of previous crises: the international financial crisis, the economic tension between the United States and China, the Covid-19 pandemic, and the war in Ukraine.

Currently, there is a sharp increase in food prices. The level of extreme poverty grew to 14.9%, regional poverty – 33.7%. Inflation rose to 8.1%. The growth of commodity prices, transport costs, and disruptions in logistics have a negative impact on the export of goods in the region. The rise in prices for products, the region buys and sells, has increased by 23% compared to ECLAC forecasts to 10% (ECLAC, 2022).

Since China is a critical trading partner for Latin America and the Caribbean, trade disruptions between China and Russia will be felt in the form of changes in supply chains, shortages of consumer goods, and rising prices. Monetary policy interest rates will also grow in all countries of the region as a result of the fight against inflation.

Thus, the war in Ukraine is a vivid example of the fact that the world is on the brink of a global economic crisis that cannot be avoided. Increasing imbalances in the world economy, stagflation risks, and vagueness are the elements of the crisis – financial, food, social and economic ones, caused by the war in Ukraine. And while the world community says sympathetically that Ukraine needs support and aid, their economic systems will slow down. Thus, the world will pay a rather high price for Russia's war against Ukraine.

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