

# Intelligence MEMOS



From: Dan Ciuriak  
To: Canadians Concerned about Ukraine  
Date: August 11, 2022  
Re: COUNTING THE COST (II)

Yesterday we [looked](#) at the physical damage inflicted on Ukraine by Russia's invasion. Today we estimate the forgone future economic output of the combatant countries.

Compared to an IMF forecast of October 2021, Ukraine will realize a loss of GDP of about US\$100 billion in 2022 and a similar amount in 2023, under optimistic assumptions about an early end to open hostilities. However, given the scale of the material destruction caused by the war, rebuilding the economy will take years. For the foreseeable future, real output will remain well below pre-war levels. Over the period 2022-2027 alone, the cumulative loss in terms of forgone output will likely amount to close to US\$600 billion compared to pre-war projected growth or about US\$520 billion in present value terms.

Russia also faces a steep short-term contraction given supply chain disruptions from border closures, the disruption of shipping into the Russian market even for non-sanctioned goods – shipping giant Maersk pulled out of the Russian market completely – and the shutdown of airspace, interrupting the supply of high-value, time-sensitive airborne cargo from the West.

Added to this are a collapse of business and consumer confidence, an exodus of foreign investment – more than 1,000 international firms have closed shop or suspended operations in Russia according to a Yale University database – and an exodus of young people, many of them closing up technology businesses and moving abroad to start over.

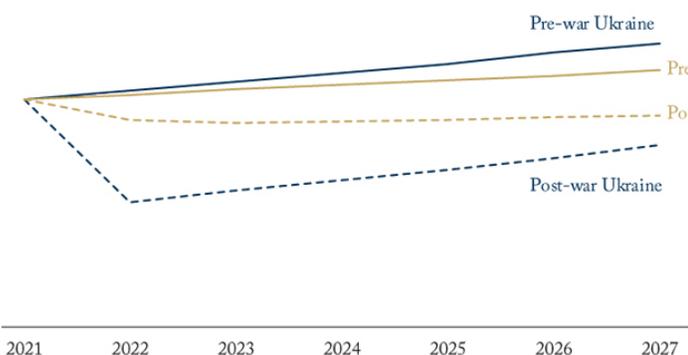
Before it began its war, Russia was projected by the IMF to have trend real growth over the medium term of about 1.7 percent. This is likely significantly reduced in any post-war scenario. [As a recent Italian think tank assessment](#) puts it, the Russian economy "... is trying to stabilize in a new equilibrium, looking for points of equilibrium between the models of Iran and North Korea." Assuming the growth rate is cut in half, Russia's economy in 2027 will remain well below its 2021 level in constant 2022 US dollar terms. The forgone output in Russia's economy would amount to US\$1.9 trillion.

Russia's invasion was predicated on much lower costs, with an optimistic forecast of a three-day war with minimum cost to Russia's military. Further, the experience of prior assaults on Chechnya, Georgia and Crimea suggested there would only be a desultory expansion of Western sanctions that could be absorbed and offset with increased trade with China and India.

Russia's recovery from the economic crisis that followed the collapse of the Soviet Union was based on trade integration, as it imported machinery and equipment paid for by petrodollars and welcome foreign investment. This culminated in its 2012 accession to the World Trade Organization.

Russia's weaponization of that interdependence during this invasion is a sword that cuts two ways: it has imposed costs on the world and on Europe in particular but, at the same time, it has made it a critical priority for Europe to cut that interdependence for its own economic and military security. The costs outlined above, which in good measure stem from the shutdown of Russia's trade with the west due to trade costs and sanctions are thus inevitable and from the perspective of Europe and its allies necessary.

## War Impact on Growth in Ukraine and Russia, Real GDP in 2021=1



Source: Author's calculations.

Dan Ciuriak is Fellow-in-Residence with the C.D. Howe Institute, Senior Fellow with the Centre for International Governance Innovation, and Director and Principal, Ciuriak Consulting Inc.

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