European Parliament

Economic impact of Russia's war on Ukraine: European Council response

SUMMARY

Thursday, 24 February 2022 was a turning point in European history. Overnight, Russia launched a brutal war of aggression on Ukraine, an independent European nation. Two years after the start of the war, its negative effects have been far-reaching. In addition to the harrowing human cost of the war, the economic impact has been devastating in Ukraine itself, but also substantial for the European Union and the world more widely.

In the EU, the economic recovery following the COVID-19 pandemic has been slower than expected because of the war in Ukraine. The European Commission's 2021 Autumn Forecast predicted 4.3 % growth in gross domestic product (GDP) for the EU for 2022, and 2.5 % for 2023, but growth finally registered at 3.5 % for 2022 and an estimated 0.5 % for 2023. The EU also experienced a severe energy and a cost-of-living crisis in 2022, with ripple effects that are still being felt today. The increasing price of energy resulted in exceptionally high inflation figures in autumn 2022, especially in October 2022. This created difficult framework conditions for both EU citizens and companies. Furthermore, to bring inflation down to the 2 % target level, the European Central Bank began to raise its interest rates, with considerable impact, particularly on citizens and companies with large variable-rate loans.

This briefing looks at the economic impact Russia's war of aggression on Ukraine has had on the European Union over the last 24 months, and analyses how the European Council has responded to limit the negative economic effects of the war. EU leaders followed the developing situation closely and reacted immediately to the Russian attack in February 2022. In addition to sanctions prepared in coordination with EU allies, the EU leaders also tasked the European Commission to prepare contingency measures. At an informal meeting in Versailles, EU leaders adopted a declaration in which they stressed the need to strengthen the EU economic base and the single market. They also took steps towards encouraging open strategic autonomy, aimed at allowing the EU to stand on its own two feet in the new and rapidly changing geopolitical situation. Since then, Russia's war of aggression in Ukraine and its impact have been rolling agenda items at European Council meetings.

Furthermore, the EU and its Member States have supported Ukraine and Ukrainians with almost €88 billion (figures from January 2024), including financial, economic, diplomatic, humanitarian and military aid. At its December 2023 meeting, the European Council decided to open accession talks with Ukraine.

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PE 757.783 – February 2024

Introduction

The months and weeks leading to Russia's attack on Ukraine in February 2024 saw a build-up of Russian troops on the Ukrainian border. These moves were viewed with growing concern by Ukrainians and its allies alike, but 'significant uncertainty' remained on whether the attack would finally take place, despite a number of intelligence agencies warning of the imminence of the threat.

Russia's attack was the second, even more severe, stage in hostilities that had already begun in 2014, with Russia taking control of the Crimean Peninsula and supporting separatist forces controlling parts of Ukraine's Donetsk and Luhansk regions. The two regions were in the spotlight during the week leading up to the February 2022 attack, as Russian President Vladimir Putin decided to recognise them as independent entities, in violation of international law, and sign cooperation agreements with them. A few days later, in the early hours of 24 February 2022, President Putin addressed the Russian people in a televised speech, making his case for war, without using the word 'war', but instead referring to a 'special military operation' to demilitarise Ukraine and remove 'neo-nazis' (as he called the Ukrainian leadership) from power. Later the same morning, the Russian full-scale attack on Ukraine began.

The European Council had been closely monitoring the situation for several months. In December 2021, it pointed to the tensions generated by the increasing Russian military presence along the Ukrainian border and the aggressive rhetoric, and reiterated its support for Ukraine's sovereignty and territorial integrity. Furthermore, it met on 17 February 2022, on the sidelines of the EU-African Union Summit, urging Russia to de-escalate and calling for a diplomatic solution. On 23 February, a sanctions package was prepared in response to Russia's recognition of the Donetsk and Luhansk regions and deployment of troops to the area. Following the 24 February invasion, the EU rapidly entered into crisis-management mode.

EU leaders reacted swiftly by condemning the attack on the 'strongest possible terms' and demanding that Russia stopped its military campaign. An additional sanctions package was prepared in close cooperation with like-minded countries, with the aim of weakening the Russian economic base and limiting revenues generated by Russian energy sales to support its war effort. The European Commission was tasked with the preparation of contingency measures, notably with regard to energy, for which Europe was still heavily reliant on Russia. Two weeks after the attack, EU Heads of State or Government gathered in Versailles, France, for an informal meeting under the French rotating Presidency of the Council of the European Union, to discuss the 'tectonic shift in European history' and to chart the road ahead. One of the key points for EU leaders has been to ensure that the EU single market functions in crises.

Since its early days, the war has had a profound impact, not only on European security, but also on its economy and on the world economy as a whole. 'The world is a risky place again', experts state, explaining that such levels of uncertainty have not been felt since the Cold War. The world has grown more polarised during these two years of war, with many countries supporting Ukraine, some trying to maintain working relations with both sides, and some countries – such as Belarus, Iran and North Korea – openly supporting Russia. In Africa, Russia's influence seems to be growing.

These developments have disrupted supply chains and trade between Europe and Russia has fallen significantly largely due to sanctions. This new geopolitical and economic situation has once again highlighted the EU's dependence on strategic goods and critical raw materials. In that context, the European Council has underlined the need for open strategic autonomy, meaning that the EU should be more autonomous, while also open to cooperation with partners. Enhancing economic security, a concept not often discussed before Russia's war, has risen to the top of political agendas. The world and Europe have changed, and even if Russia's war ended today, repairing broken trust and connections may take decades.

The European Council on the day Russia's war began

The EU Heads of State or Government quickly responded to Russia's attack on Ukraine, condemning it and announcing solidarity with the Ukrainian people. President European Council President, Charles Michel reacted to the aggression in the early hours of the morning sending out a tweet taking a strong stance in support of Ukraine and the Ukrainian people, whilst deploring the Russian hostilities. A joint statement by the EU leaders was released at midday, and an extraordinary European Council meeting, earlier announced by President Michel as a response to the mounting tensions, was convened on that same day to discuss the next steps.

Tweet by European Council President Charles Michel on 24 February 2022

Source: Charles Michel, @eucopresident, Twitter/X, February 2022.

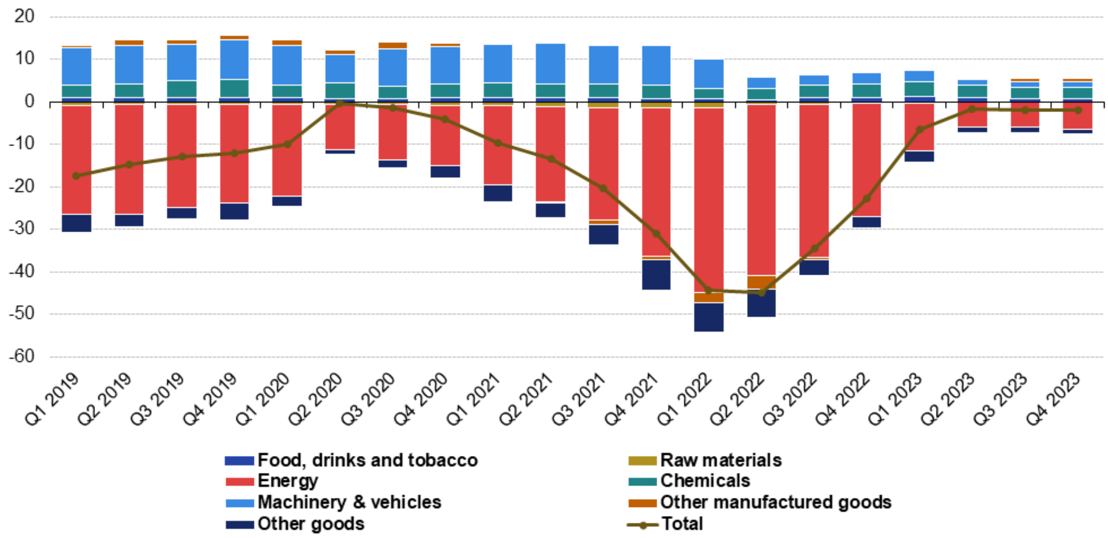
In the midday statement, EU leaders said: 'We will meet later today to discuss this blatant aggression and agree in principle on further restrictive measures that will impose massive and severe consequences on Russia for its action, in close coordination with our transatlantic partners.'

At the special meeting of the European Council on 24 February, EU leaders, expressed their unwavering support to Ukraine, condemned the unprovoked aggression in the strongest possible terms, and demanded that Russia immediately stop its military actions. They also agreed a new set of sanctions, in addition to those decided on 23 February, covering the financial, energy and transport sectors, dual-use goods, export control and export financing and visa policy. The aim was to weaken the Russian economic base, to block access to key technologies and markets and to freeze Russian assets in Europe. EU leaders also condemned Belarussian involvement in the Russian aggression and called to include Belarus in the sanctions.

From an economic perspective, a key conclusion of the meeting was that asking the European Commission to prepare contingency measures: 'The European Council calls for taking forward the work on preparedness and readiness at all levels and invites the Commission, in particular, to put forward contingency measures, including on energy'. This meant that, acknowledging the crisis was going to have multiple impacts on the EU, EU leaders tasked the Commission to immediately assess the situation and prepare for different scenarios.

As mentioned earlier, the EU was heavily reliant on energy imports from Russia at the start of the war. As an example, some 45 % of EU gas imports came from Russia in 2021 (but it is worth noting that the different Member States' dependency ratios varied greatly – see Future Shocks 2022 and 2023). The Commission and the Member States set to work, and two years later, EU dependency on Russian energy, especially for gas, has fallen significantly. Moreover, according to Eurostat, 'the value of exports to Russia fell by 62 % between February 2022 and September 2023, while imports from Russia fell by 81 % in this period'. This development is illustrated in Figure 1.

Figure 1 – EU-Russia trade balance by product group, Q1 2019 to Q3 2023 (€ billion)



Source: Eurostat.

Informal European Council meeting in Versailles

The Russian aggression had been ongoing for two weeks when the European Council convened for an informal meeting in Versailles, France, on 10-11 March 2022, hosted by the French Presidency of the Council of the European Union. In his invitation letter, President Michel stated: 'In the light of recent events, it is more urgent than ever that we take decisive steps towards building our sovereignty, reducing our dependencies and designing a new growth and investment model'. In the weeks since Russia's invasion, it had become increasingly clear that the economic impact of the war would be significant for Europe, and EU leaders therefore decided to work proactively on the forthcoming challenges.

The outcome of the meeting, the Versailles Declaration, looked more specifically at three topics: i) defence, ii) energy, and iii) the EU economic base.

Taking an economic perspective on defence, EU leaders agreed to increase investment as well as to strengthen and develop the EU's defence industry. On energy, EU leaders agreed to work 'as soon as possible' on reducing dependence on Russian oil, gas and coal imports and outlined concrete actions to take that objective forward, including the RePowerEU proposal.

Regarding the economic base, the Heads of State or Government reiterated their objective of completing the single market – removing remaining obstacles in the EU market is a long-standing objective of EU leaders. As a further key initiative, EU leaders stated their will to reduce strategic dependencies, especially in five areas: i) critical raw materials, ii) semiconductors, and in the iii) digital, iv) health and v) food sectors.

Concerning the first two areas, the EU has addressed both the need for raw materials and for semiconductors with legislative proposals. The European Chips Act, published in February 2022, is now in force, and a political agreement reached on the critical raw materials act in November 2023, is now waiting for Council's formal approval.

Important Projects of Common European Interest (IPCEIs) as well as industrial initiatives and alliances were also highlighted in the declaration as means to strengthen the EU economic base. EU leaders also stressed the need for an 'ambitious and robust' trade policy, as well as the urgent necessity of attracting private investment to fund key objectives.

The objective of strengthening the EU economic base was however nothing new, since it had already been mentioned in the European Council's strategic agenda for 2019-2024. Likewise, the concept 'strategic autonomy' – meaning that Europe has to aim at standing firmly on its own two feet, had been widely discussed for several years. However, the war in Ukraine brought a new sense of urgency to the deliberations.

At the press conference after the informal meeting, President Michel stated that the declaration 'will go down in the history of the European project because we have for some time understood and believed that we should embark on an agenda for sovereignty, an agenda for strategic autonomy for the European Union, which is reflected in our ambition to take into account the strengths, the assets and the bonds that unite Europeans, but also to identify the weak points that we must try to address and build up'. Thus, the objectives of the Versailles Declaration were intended to become rolling agenda items at the European Council meetings, the implementation of which EU leaders would monitor systematically. Indeed, these topics have since appeared regularly on the European Council's agenda.

Sanctions on Russia

Since the Russian attack on Ukraine, the EU has adopted 12 unprecedentedly tough sanction packages on Russia, which it implemented in coordination with its like-minded allies. According to some reports, a 13th package is in preparation as the war enters its third year. In response, Russia has also posed counter-measures.

The European Council has played a key role in the sanctions process, setting overall political direction and priorities, although it has no role in the technical adoption process. The sanctions targeted sectors such as financial, trade, energy, transport, technology and defence. The main goal of the sanctions has been to hinder the Russian war effort by targeting the Russian economic base through financial, economic and trade measures. There are also sanctions targeting Belarus for its involvement in the war of aggression, and Iran for its role in supplying Russia with attack drones.

This is however not the first time Russia has been sanctioned for its actions in Ukraine. Restrictive measures on Russia were already implemented following Russia's occupation of Crimea in 2014. In the early days of the 2014 conflict, the sanctions were mainly targeted against individuals and entities directly involved in Russian activities in Crimea, but when Russia continued its hostile activities and the Malaysian Airlines plane was shot down over East Ukraine, the scope of economic sanctions was widened. It is, however, a topic of some debate whether those sanctions were impactful enough.

According to World Bank data, Russian GDP shrank by 2.1 % in 2022. However, according to a recent World Bank estimate (see Table 1.1), the country returned to positive growth in 2023, with GDP up 2.6 %. This development has given new momentum to the debate on the efficiency of sanctions. However, the European Parliament noted that 'measuring the impact of sanctions presents numerous challenges, including the lack of reliable figures and statistics'. According to some experts, the initial predictions of poor Russian economic performance following the sanctions were not entirely correct – this was mainly due to high oil prices, narrow sanction regimes and aggressive Russian fiscal expansion. Furthermore, experts also state that Russia used 2022 to adjust to the sanctions. The 2023 economic results were therefore related to these adjustment policies, including the development of new markets, especially in China and India, as well as increased military spending. In 2024, Russian GDP is estimated to grow by 1.3 % and in 2025 by 0.9 %.

The European Council has repeatedly (notably in March, May, and June 2022) asked all countries to align with EU sanctions, and also stressed that EU candidate countries must follow suit. However, while Serbia has supported Ukraine's territorial integrity, it has not applied EU sanctions. In October 2023, EU leaders urged all countries, notably North Korea, 'not to provide material or other support for Russia's war of aggression'. Furthermore, as recently as December 2023, EU leaders stressed the need for 'full and effective implementation' of the sanctions, and the prevention of sanction circumvention. Avoidance of EU sanctions has been a problem, and according to experts, Russia has used, for example, third countries to gain key goods and products.

EU energy and cost-of-living crises

Before the war, Russia provided 24.4 % of the EU's gross available energy, which meant that Europe was heavily reliant on Russian energy and that Russia had the potential to use this situation to its advantage. It was clear to the EU leaders from the beginning of the Russian war of aggression on Ukraine that energy was going to be a key issue to be addressed immediately – both because Russia was using the energy revenues to finance its war effort and because the attack had shown that Russia could no longer be considered a reliable trading partner.

With sanctions in place and work to diversify the energy supply ongoing, the share of energy imported from Russia started to decline – in some cases sharply – such for natural gas. In the early days of the crisis, EU leaders tasked the Commission with the preparation of contingency measures on energy and asked it to ensure sufficient supply of energy at affordable prices for EU citizens and businesses, especially for winter 2022-2023. The Member States followed suit and responded, for example with 'renewable support schemes, grants and preferential loans for housing retrofits and heat pump installations'. EU leaders also stressed the need to accelerate the use of renewable energy sources, to improve energy efficiency, to save energy and to make sure EU energy networks were interconnected.

However, several issues contributed to rising energy prices and generated an energy crisis in 2022. The energy situation was already a concern for EU leaders in 2021. The impact of the war was an important component in the crisis, but increasing demand after COVID-19 lockdowns for example, as well as an exceptionally hot and dry summer 2022 both played a part. Consequently, annual energy inflation reached a record level and the price of energy rose sharply. As a result, businesses and households without a fixed-price contract struggled to pay their energy bills. High energy prices also drove up the price of food and other goods, leading to record inflation figures in October 2022.

EU leaders agreed that protecting citizens and businesses was 'a matter of urgency' and stated: 'In light of the ongoing crisis, efforts to reduce demand, to ensure security of supply, to avoid rationing, and to lower energy prices for households and businesses across the Union need to be accelerated and intensified, and the integrity of the single market has to be preserved'.

As the wages and government support were unable to compensate such high price increases in essential goods and services, the situation resulted in a cost-of-living crisis. According to reports, 'in January 2023, almost half (47.1%) of average household expenditure in the EU went towards the three expenses seeing the steepest increases, namely household, transport and food bills'. Thus, in January 2023, 93 % of Europeans named rising cost of living as their greatest concern.

Even though inflation figures have since fallen and annual inflation stood at 2.8 % in January 2024, looming recession and slow growth, especially in the euro area, hinder economic prospects.

Food security

As Ukraine is a major producer and exporter of many key food supplies, notably wheat, maize and oilseeds, global food supply chains faced major disruption as a result of Russia's war on Ukraine. Before the war, the EU also imported a great deal of food and fertilizers from Ukraine. Since the start of the war, EU leaders have stressed, most notably in their Versailles Declaration, the need to ensure food security and to reduce strategic dependencies on food.

At the beginning of the war, a Russian blockade of Ukrainian ports on the Black Sea hampered exports. Russia also deliberately attacked silos and warehouses where agricultural products were stored. From July 2022 to July 2023, a multilateral agreement between the United Nations, Russia and Türkiye – the Black Sea grain initiative – alleviated this situation. However, in July 2023, Russia announced that it no longer supported the initiative, leading to a rise in grain prices. World leaders have urged Russia to rejoin the scheme, but this has not yet happened. Currently, Ukraine exports grain and other agricultural products through Romanian and Bulgarian territorial waters, as well as the solidarity lanes (inland waterways, road and rail routes). EU leaders have consistently supported solidarity lanes in their meeting conclusions.

Moreover, the war has destroyed farms, soils and crops in Ukraine, often described as the breadbasket of Europe. According to the Ukrainian Ministry of Agriculture, approximately 20 % of the land used for crops in 2021 is now unavailable. Some of the fields are now packed with mines, and efforts are being made to demine to return them to agriculture. Destruction of the Kakhovka Dam also caused damage, pollution and irrigation problems in surrounding farming areas.

The war has also impacted EU farmers, through high energy and fertiliser prices, for example. Europe's food producer organisations recently expressed concern that Ukrainian imports might disrupt the EU single market by undercutting prices and threatening local production of items such as sugar, eggs and poultry. The difficult overall circumstances that farmers are facing, combined with the negative effects of the war, led to farmer protests in 2024.

Impact on EU companies and industry

At the start of the war, the full impact on EU companies and industry was hard to predict. Analysis suggested, correctly, that the impact would differ from one Member State to another, according to, for example, direct trade connections with Russia and the amount of Russian energy used in the country.

The European Investment Bank estimated in June 2022 that the war would hit EU companies in three ways: i) reduced exports, ii) lower profits because of high energy prices, and iii) difficulty to obtain loans due to banks' risk avoidance. To ensure funding is available and to have 'integrated, attractive and competitive European financial markets', as stated in the Versailles Declaration, EU leaders have highlighted the need to deepen the capital markets union, as recently as during the October 2023 Euro Summit, and to complete the banking union.

Supply chains, which were already under strain due to the COVID-19 pandemic, have also suffered from the effects of Russia's war. In addition to energy and food discussed earlier, many raw materials and goods such as fertilisers and chemicals have been impacted. Furthermore, manufacturing of semiconductors for instance, which are essential for the green and digital transition, is affected, as Ukraine is a key provider of neon, a vital ingredient in making chips.

According to Yale University, as many as 1 000 western companies which had operations in Russia have withdrawn from the market or reduced operations since Russia's war began. According to Russian sources, the figure might be as high as nearly 10 000 companies. This has often come at a cost, but reasons such as sanctions or political risk, as well as public and investor opinion, often play a significant role in decision-making.

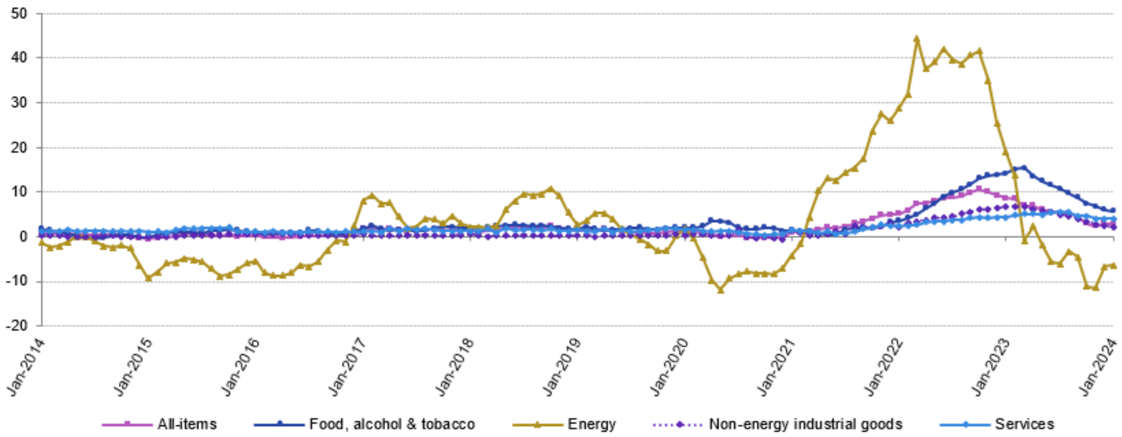
Defence spending has increased significantly in many EU Member States since the start of the war. In line with the Versailles Declaration, the EU is working on its defence readiness, and a core initiative, the defence industrial strategy, is expected in March 2024.

Furthermore, in December 2022, EU leaders called for an EU-level strategy to boost competitiveness and productivity, published ahead of the March 2023 European Council meeting. In the same vein, two key reports are in preparation: one on the future of the single market, led by the former Italian prime minister, Enrico Letta; and the second on the future of EU competitiveness, prepared by the former European Central Bank president, Mario Draghi. The first stems from a June 2023 European Council request and the latter was announced in the 2023 State of the Union speech.

Fighting inflation

Inflation had already started to rise in 2021, but there was an exceptionally sharp rise in 2022, mainly because of the energy situation, which caused difficulties for both European citizens and businesses. As a response, the European Central Bank Governing Council began a series of interest rate increases. The 10 consecutive increases made gradually over a year, bringing key interest rates to record levels, have returned inflation closer to the 2 % target. In January 2024, euro area inflation was at 2.8 %, according to estimates.

Figure 2 – Euro area annual inflation and its main components, January 2014-January 2024 (estimated)



Source: Eurostat

The Governing Council of the European Central Bank (ECB) has now paused the rate hikes, and markets have expected rates to start falling as early as April 2024. However, at the October 2023 Euro Summit, which took place in inclusive format, EU leaders said that 'inflation remains a key concern and it is essential that the disinflation process continues'. In January 2024, an ECB Governing Council member stated that a rate decrease before summer was unlikely, and another said it was too early to discuss rate cuts.

EU leaders are focused on getting EU economies back on a solid and sustainable growth track after the shock of the COVID-19 pandemic and Russia's war on Ukraine, stating 'we remain united in our steadfast determination to increase the resilience and competitiveness of our economies'.

Economic security strategy

With a view to pursuing open strategic autonomy and countering some of the negative economic effects of Russia's war on Ukraine, the Commission and the High Representative jointly published an EU economic security strategy ahead of the June 2023 European Council. Commissioner Thierry Breton has explained the concept by stating: 'In short, economic security is the antonym of naivety.'

The strategy aims at strengthening the EU economic base, a long-standing European Council objective, already mentioned in its 2019-2024 strategic agenda, as well as to minimising risks for economic flows and maximising, to the extent possible, economic openness. The concrete measures notably include the establishment of a list of key technologies, critical to EU economic security, and initiatives aimed at evaluating and mitigating risks related to them. The Commission is also going to make thorough assessments of economic security risks in four areas: i) supply chains, ii) critical infrastructure, iii) technology security and leakage, and iv) economic dependencies and coercion.

In their June 2023 conclusions, EU leaders stressed 'the need to enhance the Union's economic resilience and security in order to defend the Union's interests globally while preserving an open economy'. They called for 'an approach that provides proportionate, precise and targeted answers to security challenges on the basis of a risk assessment'. According to experts, economic security will have a growing role in global politics. As highlighted in a recent publication, the concept of geoeconomics is here to stay, and the EU, often characterised as a 'herbivorous power' is at risk of being 'devoured by carnivorous powers' if it does not adapt to the new realities. Some experts advocate the creation of a European economic security mechanism to ensure that Europe sets the norms on economic security, not merely follows rules set by others.

In October 2023, stemming from the economic security strategy discussions, the Commission recommended risk assessments in four critical technology areas: advanced semiconductors, quantum technologies, artificial intelligence and biotechnologies. The Commission published an economic security package including three white papers (on export controls, outbound investment, and supporting dual-use technology research and development), and two proposals (on screening foreign investments and on enhancing research security) on 24 January 2024.

European Council's role in building resilience

Businesses and investors generally prefer to operate in a stable low-risk environment, in which conditions economic growth is also often strongest. In recent years, the world has become a more uncertain place, not least because of the COVID-19 pandemic and Russia's war on Ukraine. The International Monetary Fund stated in January 2023 that 'global economic uncertainty remains elevated, weighing on growth', and certainty has not increased, but rather the opposite, since.

In December 2021, EU leaders 'took stock of work to enhance our collective preparedness, response capability and resilience to future crises, which is a major cross-cutting political priority for the Union'. They also called for 'strengthening the EU's crisis response and preparedness in an all-hazards approach'. Even though strategic foresight was already important before the war in Ukraine, it has become a more significant part of policy-making in the EU, with activities such as horizon scanning, megatrends analysis, scenario planning and visioning. The European Parliament's work on 'future shocks' and '10 things to watch' contributes to such evidence-based policymaking.

A recent EU Council secretariat publication states: 'The future is always uncertain, but 2024 is set to bring more than its fair share of uncertainties. How these uncertainties play out over the next twelve months will be key to determining the longer-term political context both within and outside Europe and will therefore be critical for the work of the Council and European Council.' One of the key characteristics of 2024 is that over half of the world's population heads to the polls, making it one of the most significant election years in history.

Two years of war

At the two-year mark in the war, the situation seems to be stabilising in terms of energy prices and inflation. However, new crises and uncertainties have occurred in 2023 and early 2024 that can have economic impact, even the severe 'black swan' type.

Economic support for Ukraine has faced difficulties on both sides of the Atlantic – among Ukraine's biggest financial contributors. The United States has so far supported Ukraine with approximately €70 billion in terms of financial, humanitarian and military support. However, public opinion, especially among Republican voters, has increasingly turned against the war effort. Ukraine President Volodymyr Zelenskyy's December 2023 trip to Washington DC resulted in a stalemate, with no guarantees for continuing support beyond what was already promised. As 2024 is an election year in the US, the question of support for Ukraine may become a key issue in the campaign.

EU leaders met on 14-15 December 2023 to discuss the revision of the EU multiannual financial framework and the commitments to Ukraine, among other things. However, the Hungarian Prime Minister threatened to derail the talks. As only 26 Member States supported the proposal, and Hungary opposed, EU leaders did not agree the €50 billion aid package in December. However, a historic agreement to open EU accession negotiations with Ukraine was reached.

After the December European Council, Charles Michel announced that EU leaders would meet on 1 February 2024 to continue discussion on the aid package to Ukraine. Ahead of the meeting, Belgian Prime Minister Alexander De Croo underlined that 'the EU will further scale up its support to Ukraine' and that 'we will stand with you, now and in the future'. At their special meeting, EU leaders agreed a €50 billion support package, comprising grants worth €17 billion and loans of €33 billion for 2024-2027.

EU leaders also called for a solution to be found, in compliance with international law, to support Ukraine's recovery and reconstruction through the use of the extraordinary revenue resulting from seized Russian assets.

Outlook

Two years after Russia launched its full-scale invasion of Ukraine, the country's war of aggression shows no immediate signs of ending, even if possible exit scenarios have been discussed. Ukraine is supported by its Western allies, but some indications of 'war fatigue' are noticeable both in Europe (for instance in its usually strong ally Poland in the context of its autumn 2023 elections, and in the United States, where the ousting of House speaker Kevin McCarthy and the looming 2024 elections have led to uncertainty around aid delivery). On the Russian side, the country has forged closer ties with countries such as Iran and North Korea.

The EU and the European Council are strong supporters of Ukraine. Echoing the Granada Declaration, made following the October 2023 informal European Council meeting, in November Charles Michel stated: 'Since day one of Russia's war, the EU has stood by Ukraine, united and determined. This will continue for as long as it takes. I repeat, this will continue for as long as it takes'. Following agreement on an aid package, a political agreement on the Ukraine Facility was reached on 6 February 2024. According to a recent European Commission, Government of Ukraine, World Bank Group and United Nations estimate, 'the total cost of reconstruction and recovery in Ukraine is US$486 billion (€452.8 billion) over the next decade, up from US$411 billion (€383 billion) estimated one year ago'.

Although recent figures show an estimated 2.8 % inflation for January 2024, the fight against inflation is likely to remain an issue in the EU in 2024. ECB experts indicate that a rate cut is premature and probably not possible before summer 2024.

According to Commission winter estimates, modest growth is to be expected for EU for 2024 and 2025. GDP growth for the euro area is predicted at 0.8 % for 2024 and 1.5 % for 2025 (and 0.9 % and 1.7 % for EU-27 respectively). For Ukraine, the Commission sees 'remarkable resilience' and growth figures of 3.7 % in 2024 and 6.1 % in 2025. According to the World Bank's January 2024 Global Economic Prospects, Russia's economy will grow by 1.3 % in 2024 and 0.9 % in 2025.

The 'polycrisis' has moved the topic of critical raw materials and their supply chains up the political agenda, particularly for their use in technologies supporting the green and digital transition. Some of these raw materials come from Africa, where Russia and China have increased influence. There is growing concern that supply of these critical materials might be compromised in the new geopolitical reality. Russia and China themselves are also important raw materials producers.

To conclude, the economic impact of the war in Ukraine will remain an important issue in 2024. Initiatives aimed at strengthening the EU economic base and at hedging against current and future risks are likely to remain on the political agenda for the foreseeable future. These efforts are expected to constitute an important political priority in the new Strategic Agenda for 2024-2029, on which the European Council is currently working. Strengthening EU competitiveness, the single market and economic security are themes, along with open strategic autonomy, which will probably feature prominently in the deliberations.

EUROPEAN PARLIAMENT SUPPORTING ANALYSIS

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Annex – Main European Council messages on the economic impact of Russia's war of aggression on Ukraine

European Council meeting	Topics relating to the economic impact of the war	Ukraine in conclusions
16 December 2021 (invitation letter, conclusions)	Possible restrictive measures, stock-taking on preparedness	Mentioned
17 February 2022 (remarks by President Michel)	EU unity, commitment to diplomacy, assistance to Ukraine	Main point
24 February 2022 (joint statement) (invitation letter, conclusions)	Sanctions, support to Ukraine, contingency measures (including on energy)	Main point
10-11 March 2022, Versailles France (invitation letter, declaration)	Support to Ukraine, sanctions, energy, economic base, single market, investing in defence capabilities and innovative technologies, preparedness, reducing strategic dependencies, fostering investment	Main point
24-25 March 2022 (invitation letter, conclusions)	Sanctions, European defence industrial and technological base, economic impact of the war, energy, single market, support measures for Ukraine	Main point
30-31 May 2022 (invitation letter, conclusions)	Sanctions, single market, using frozen Russian assets, reconstruction, suspending import duties on Ukrainian products, food security, European industrial and technological base, energy	Main point
23-24 June 2022 (invitation letter, conclusions)	Support to Ukraine, sanctions, macrofinancial assistance, food security, energy	Mentioned
6 October 2022, Prague, Czechia (invitation letter, remarks by President Michel)	Support to Ukraine, reaching out to third countries, food security, energy	Main point
20-21 October 2022 (invitation letter, conclusions)	Sanctions, support to Ukraine, using frozen assets to support Ukraine's reconstruction, food security, energy, Nord Stream	Main point

15 December 2022 (invitation letter, conclusions)	Support to Ukraine, contingency planning, restrictive measures, using frozen assets to support Ukraine's reconstruction, food security, energy, a strategy at EU level to boost competitiveness and productivity in early 2023	Main point
3 February 2022, EU-Ukraine summit in Kiev, Ukraine (joint statement, remarks by President Michel)	Support to Ukraine, macro-financial assistance, sanctions, using frozen Russian assets, association agreement, including the deep and comprehensive free trade area (AA/DCFTA), food security	Main point
9 February 2023 (invitation letter, conclusions)	Support to Ukraine, association agreement, including the deep and comprehensive free trade area, macro-financial stability, reconstruction, single market, long-term EU competitiveness and productivity	Main point
23 March 2023 (invitation letter, conclusions)	Support to Ukraine, sanctions, using Russia's frozen and immobilised assets for Ukraine's reconstruction, food security, future-proof economy (communication on long-term competitiveness of the EU - looking beyond 2030), single market, investment, energy	Main point
29-30 June 2023 (invitation letter, conclusions)	Support to Ukraine, reconstruction, sanctions, food security, long-term competitiveness and productivity	Main point
6 October 2023, Granada, Spain (invitation letter, declaration)	Support to Ukraine, Versailles declaration, economic base, energy, EU resilience, global long-term competitiveness, single market	Mentioned
17 October 2023 (invitation letter, remarks by President Michel)	Continuing to support Ukraine as long as needed	Mentioned, but briefly
26-27 October 2023 (invitation letter, conclusions)	Support to Ukraine, sanctions, food security, strong economic base, single market, risk assessments, investment	Main point
14-15 December 2023 (invitation letter, conclusions)	Support to Ukraine, sanctions, food security, opening accession negotiations with Ukraine	Main point
1 February 2024 (invitation letter, conclusions)	Financial support for Ukraine for the period 2024-2027	Mentioned

Regular meeting, Special meeting, Informal meeting, Video-conference, Other