

ECONOMIC CONSEQUENCES OF THE CONFLICTS IN UKRAINE AND GAZA

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Review article

<https://doi.org/10.58952/nit20231102137>

Abstract

The outbreak of wars in Ukraine and Gaza, in addition to the hardships caused by the destruction and suffering for the inhabitants of these countries, also brings troubles to the economies and populations of other countries worldwide. The state of war leads to an increase in energy prices on the international market, upon which the growth and development of economic activities and the standard of living of the population directly or indirectly depend. In such conditions, the economy and population of underdeveloped and developing countries, such as Bosnia and Herzegovina and other Western Balkan countries, are most affected. Due to the reduced purchasing power of the population, there is less personal and production consumption, which directly affects the production of consumer goods. In this work, we will present the impact of rising energy prices on the prices of consumer goods in Bosnia and Herzegovina. We will also present the average income and expenditures of a four-member family in Bosnia and Herzegovina. We will list the financial remittances from our diaspora to their families in Bosnia and Herzegovina and conclude on how it is possible, under these conditions and with existing incomes, to meet all the needs and preserve dignity.

Keywords: *Economic crisis, rising prices, decline in the standard of living, remittances from the diaspora.*



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1 INTRODUCTION

The economic and financial crisis, as well as its consequences caused by the outbreak of the Covid-19 pandemic, has not yet been completely forgotten. A new economic and financial crisis began with the outbreak of wars in Ukraine and Gaza. The previous economic and financial crisis caused reduced economic activity, which directly or indirectly led to an increase in the prices of many consumer goods, which, among other things, led to an increase in inflation and a jump in the prices of goods that most threatened the livelihood of all people, especially the most vulnerable categories of residents such as which are pensioners, disabled persons, workers with the lowest incomes and all those whose monthly incomes are lower than the average, which in our country is the largest part of the population. Currently, we are interested in the data related to the total monetary income of the largest part of the population, which we consider to be below the statistical average in Bosnia and Herzegovina. The outbreak of wars in Ukraine and Gaza deepened this economic-financial crisis even more, which further impoverished the local population and economy, which are recovering very slowly from the previous economic crisis. We will try to present how much the purchasing power of the population has decreased in this paper, especially through the calculation of the average income and expenses of a family of four in Bosnia and Herzegovina. Companies also suffer from a worse environment and many legal deficiencies in the environment in which they operate. We will also refer to the importance of income that is an integral part of regular remittances sent by our citizens from the diaspora, which represent a significant foreign currency inflow that improves the current financial situation of our citizens living in Bosnia and Herzegovina. This is mainly about relatives and friends of our people from the diaspora who are permanently settled in our country,

and regularly receive foreign currency remittances from abroad, which significantly improve their financial situation.

2 Globalization and its impact on economic activities and living standards of the population

Often, the world through the process of globalization is called a "global village", because everything that happens in one country or in different parts of the world quickly spills over to all other parts of the world and each country individually. One such example is global warming, which is spreading very quickly from one to other parts of the world. The consequences of global warming are mostly not suffered by only one country that contributes the most to its accelerated emergence and expansion with the aim of faster economic development, (eg USA, China, etc.) but also their neighbors and all other countries of the world. Given that climate disturbances cannot be stopped at the borders of the countries that most contributed to their creation, the whole world suffers their consequences. It is necessary to act in symbiosis with other countries of the world on a global level in order to overcome or at least mitigate this global problem as easily as possible. In addition to climate change, there are other disturbances that arise in one or more countries, and which quickly spread to other countries of the world. One such example is the case of the latest Covid-19 pandemic, which originated in China and in a short time spread to the entire world, the consequences of which were suffered by all the inhabitants of the planet. Also, the emergence of the war in Ukraine and the outbreak of the latest war in Gaza directly affects all the countries of the world for several reasons, given that the international market of goods, services, capital and energy is interconnected. Any political, economic or climatic disturbance in one part of the world is transmitted in a short

time to other countries of the world, especially to underdeveloped and underdeveloped countries, which are energy dependent on the rest of the world.

Energy-dependent countries feel any disruption in the supply of energy products on the global market on world stock exchanges. The rise in energy prices relatively quickly contributes to the accelerated price growth of a large number of consumer goods whose production and distribution is directly or indirectly dependent on energy prices, especially oil, oil derivatives and gas on the international energy market. The rise in energy prices leads to an increase in the prices of inputs that participate in production, which automatically lead to an increase in the prices of output from production, which are the end products that are bought by the economy and population not in one country, but due to globalization, almost all the inhabitants of the planet. This disruption leads to an increase in food prices in most countries, which results in a decline in the living standards of the population in many countries. This disorder is also followed by price increases in other areas. This disruption in the economy often leads to the emergence and growth of inflation, which has a negative impact on the faster economic development of each country individually and the world as a whole.[5] Economic instability and crisis are esogenous disturbances because inflation does not occur as a consequence of disturbances in the real sector of the economy, but is a consequence of disruption of money circulation. Inflation always and everywhere arises as a consequence of an excess amount of money in relation to production. In the theory of inflation, the effective demand starts a priori from the position that a larger mass of money than the optimal (necessary) has been injected into the economy, and that the increased mass of money leads to a higher total effective demand.[6] With the reduced supply of goods on the market, inflation takes on even more importance, which is

directly reflected in the decline in the living standards of the population and their quality of life. These disturbances have a negative effect on the economy and the population, which can have disastrous consequences through the eventual dissatisfaction of the population and the appearance of demonstrations, strikes, and in the extreme case they can lead to riots on the streets of large cities, as has been the case so far in a large number of countries, the most familiar of which are demonstrations followed by riots in Paris, Brussels, London, New York and other big cities.

3 Economic and financial crises and the international movement of capital have contributed to the decline in the living standards of the population

Before the outbreak of the financial crisis in 2008, many countries solved their balance of payments imbalances by borrowing abroad. In some countries, this problem has taken on large proportions, which have had a negative impact on economic activity and the overall development of the country. The external indebtedness of the countries was constantly increasing.[4] Some of the countries that had high external indebtedness are Greece, Portugal and Spain, which in 2000 had external indebtedness at the level of 36% of their GDP, and the Baltic countries at 38% of their GDP. The average external indebtedness of Greece, Portugal and Spain at the end of 2007 was 87% of their GDP. While the Baltic countries had close to 70% of their GDP at the end of 2007. The difficult possibilities of further borrowing on the international capital market due to the outbreak of the crisis forced the opening of the process of adjusting the balance of payments.[3] A country's balance of payments represents a systematic overview of all economic transactions between residents of one country and residents of all other countries over a certain period of time,

usually a period of one year.[2] Such business conditions in these countries have led to a decline in the living standards of the population, which bore the brunt of the mitigation and recovery from the crisis. Due to the impoverishment of the population in the conditions of the economic and financial crisis, however, certain companies have the possibility of appropriating, in addition to regular profits, also extra profits. The best example for this claim is the business operations of companies during the Covid-19 pandemic, when pharmaceutical companies and companies that produce food, protective equipment, respirators and other products that were used the most during the pandemic, because they had a monopoly and the opportunity to do well, and in this way they make huge incomes at the expense of the population that had to use their products. There is a popular saying that says "economic crisis and war are mothers to some and stepmothers to others". Many companies took advantage of this opportunity and became rich overnight, while others went bankrupt or were brought to the brink of bankruptcy. The same is the case with the population that had a hard time going through this crisis period.

4 The impact of the global economic and financial crisis on the departure of young educated people from Bosnia and Herzegovina

A particularly large impact of major world economic and financial crises was reflected on countries in transition such as Bosnia and Herzegovina, which, in addition to war destruction in the 1990s, also suffered enormous suffering both in terms of human resources and in infrastructure and industrial facilities that were almost destroyed. completely devastated and put out of its function. A logical question arises, how to solve the problems of falling living standards of the population due to all the problems that have arisen and inherited?

The answer to this question is not at all simple, because in addition to all the shortcomings that have been inherited, it is necessary to tackle the lack of jobs, a large number of various categories of the population, almost the majority of which are in a state of social need. All these problems require urgent solutions that are not easy to solve quickly. A logical question arises, how to solve the lack of own financial resources? Due to the emergence of the great world economic and financial crisis in 2008, in the absence of own capital, the need for borrowing grew more and more, so that Bosnia and Herzegovina was forced to borrow on the international capital market. We should not lose sight of the fact that the efficiency of using foreign capital depends on its use and the quality of institutions in the country of use. Directing foreign capital into the production sector provides the opportunity for the country to achieve its development goals and satisfactory macroeconomic stability, and thus sustainable economic growth.[1] Nothing would be disputed when it comes to borrowing, if all funds were spent rationally and transparently. On the contrary, all the political turmoil in the country contributed to the fact that the political parties and their representatives who were in power generally did not spend these funds in a way known only to them, without greater investment in infrastructure facilities, industrial plants and the creation of new jobs, which would enable greater volume of production, higher employment and GDP growth, and finally growth in the population's standard of living. Such an unsettled political and economic situation in the country was favored by the emergence of the world economic and financial crisis in 2008, which impoverished the already poor population, which felt the consequences through a drop in living standards. This state of affairs in the country has contributed to the accelerated departure of young and educated people abroad in search of work and a better and safer existence. Perhaps all this would not be so

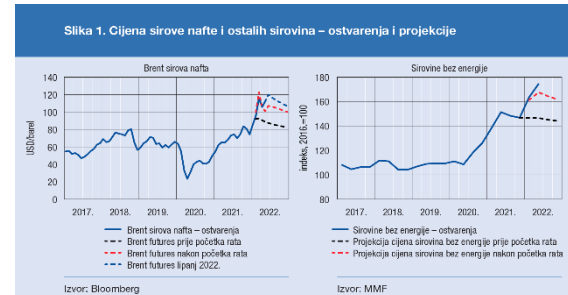
terrible and alarming if the young people did not take their entire families with them, with no desire to return in due time. We can freely confirm that the decline in living standards and the unsettled political and economic situation in the country is the biggest problem that has displaced young and educated people from Bosnia and Herzegovina all over the planet.

5 Russia's aggression against Ukraine led to an increase in inflation and consumer prices

Russia's aggression against Ukraine led to a reduced supply of certain raw materials on the world market, especially after the sanctions imposed by the international community on Russia. This war led to an increase in consumer price inflation, especially gas, whose prices rose on the European market a few months before the aggression due to less distribution from Russia as well as smaller stocks. In addition to the increase in oil and gas prices, there was also an increase in the prices of some food raw materials as well as some metals supplied to the world market from Ukraine and Russia. By maintaining the state of war in Ukraine longer, prices increase, and inflation also increases. The increase in the prices of energy and raw materials is deepening more and more due to the longer duration of the war, as well as due to market disturbances caused by the introduction of new sanctions against Russia by the international community.

At the end of February 2022, there was an increase in the price of a number of food raw materials that came from war-affected areas of Ukraine and from Russia. These two countries are among the largest suppliers of sunflowers, wheat, barley, and corn to the international market, as well as energy sources such as coal, oil, gas, and others. Other regional crises that have occurred in the meantime in the world have also contributed to a new increase in the prices of both energy and food. One of such

crises is the latest war in Gaza, which deepened the already difficult situation in the world, especially when it comes to the supply of food and energy to certain countries of the world that are dependent on imports from abroad, including Bosnia and Herzegovina.



Picture 1. Shows the prices of crude oil and other raw materials as well as their projections

<https://www.hnb.hr/javnost-rada/rat-u-ukrajini/html>(Preuzeto:02.11.2023.)

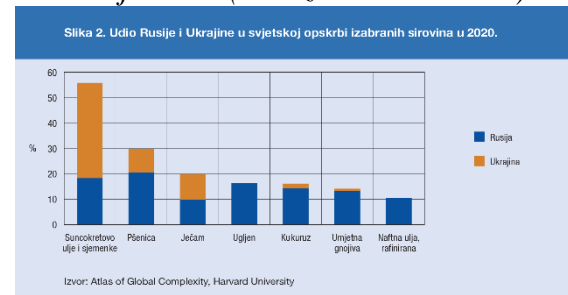


Figure 2. Shows the participation of Ukraine and Russia in the world supply of certain raw materials in 2020

<https://www.hnb.hr/javnost-rada/rat-u-ukrajini/html>(Preuzeto:02.11.2023.)

The reduced supply of certain raw materials on the world market due to the ban on the export of Russian raw materials and the introduction of international sanctions automatically reflected in the rise in prices of other raw materials such as steel and non-ferrous metals on the world market, given that Russia participated in a large percentage in supplying the world market with these raw materials.

6 Continued growth in the prices of energy, food and services on the Bosnian market

Based on the latest reports of the Agency for Statistics of Bosnia and Herzegovina, price growth continued for all categories of products and services measured by the Agency. Wages in Bosnia and Herzegovina have been stagnant for a long time, and the prices of basic foodstuffs are rapidly increasing from month to month. Thus, in July of this year, salaries were nominally lower by 0.4%, and in real terms lower by 0.2%. In August this year, food prices grew by 7.7% compared to August last year. Compared to July, prices increased by 0.4%. If we analyze the growth in prices of basic foodstuffs in relation to footwear or clothing, we can come to the conclusion that footwear prices fell by half a percent compared to July this year, while they fell by 7.5% compared to last year. This data tells us that there is less demand for footwear this year, and the demand for basic food items has remained the same, but their prices have increased. The population has mostly decided to provide energy and food for this year's winter, so the consumption of other products on which life's existence does not depend is lower. When it comes to electricity and gas costs, they have also seen growth. In the period from July to August, they grew by 1.5%. If you compare the prices of these energy products with last year, there was a growth of 7.1%. When it comes to fuel prices, they showed the greatest turbulence and instability, as they increased by 4.7% compared to July this year. If we compare fuel prices with prices in August last year, we can see that they experienced a drop of 9.9%. Despite the lower prices in August of this year, a new price increase occurred at the end of September and the beginning of October, so we can say that fuel is the energy source that has the largest price fluctuations in Bosnia and Herzegovina.[8]

7 How much money is needed for the average consumer basket for a family of four in Bosnia and Herzegovina

For a normal life in Bosnia and Herzegovina, a family of four in July 2023 needed a minimum income of 3,800 convertible marks. The value of the consumer basket and the additional costs incurred in order to create the conditions for a normal life for a family of four with two children. The value of the union consumer basket is 2,500 convertible marks. This basket contains only the costs of food, housing, communal services, clothing, footwear, current household maintenance, education. In addition to the mentioned expenses, minimum annual expenses such as a seven-day trip to the sea or the mountains, extracurricular activities for children should be added to the union basket. Also, monthly loan installments for previously taken loans for the purchase of an apartment, car or other consumer loan should be added. Based on the additional costs, we arrive at the amount of 3,800 convertible marks. The stated amount is sufficient provided that care is taken to ensure that the available funds are spent rationally, without luxury and extravagance such as, for example, consumption of tobacco and tobacco products, alcohol or some other unnecessary expenses. All those who can provide monthly income to the family in the specified amount are considered to be working class because they are families that can easily cover the monthly expenses of the consumer basket. There are also families who, with this income, still manage to save something, but are unable to provide funds for the purchase of some expensive things such as luxury cars, yachts, apartments on the sea or in the mountains, and others. The most common families that manage to provide the stated amount of funds are those families where both spouses are employed with a university degree and have individual monthly incomes of 1,800 to 2,000

convertible marks. In addition to the above mentioned families, there are also families where one of the spouses is a politician, the director of a company, a private entrepreneur or is employed in a well-to-do company. Unfortunately, in Bosnia and Herzegovina there is a small number of families with a monthly income of 3,800 convertible marks. The current average salary in Bosnia and Herzegovina is in the amount of 1,270 convertible marks. More devastating data than this is that almost 50% of the total number of employees are paid below 1,000 convertible marks. In the event that both spouses work in these families, they still lack a minimum of 1,500 to 2,000 convertible marks to have a normal life according to middle class standards. We can conclude that the data that shows us that we have a small percentage of the middle class, which should be the bearer of society's development, is worrying. In the last two years, the consumer basket has grown by at least 500 convertible marks or by 30% in percentage terms, while at the same time wages have grown by 15 to 20%. This information tells us that from 2021 until today, the living standard of the population is additionally threatened.[9]

8 Remittances from our citizens living abroad to their families and relatives are greater than foreign investments in Bosnia and Herzegovina

The previous point served us to present the income of an average four-member family in Bosnia and Herzegovina, where both spouses are employed. Through this analysis, we came to the data that showed us how much it is necessary for both spouses to have average monthly incomes in order to meet the needs of the consumer basket for a family of four with two children. In addition to these families, we did not consider other families from other categories of the population whose members are pensioners, disabled persons,

families with several members, families whose members are unemployed or engaged in some jobs that do not provide high enough income to meet basic life needs. Other families have incomes many times lower than required. How do these families survive when we know how much they need for a decent life? It is extremely difficult to answer this question, as it is a complex question. They say, "our people are resourceful", so they manage in various ways to meet their basic needs despite such low incomes. When it comes to the amount of minimum and average pensions and other incomes of other categories of the population in our country, we will not deal with this issue now, because we know that they are insufficiently high, so we should deal with this problem in another paper. Knowing the mentality of our population, which is resourceful, as well as the fact that almost every family has at least one of its members somewhere abroad, whether they are on temporary work or live there permanently with their immediate families.

These citizens, knowing the economic situation in Bosnia and Herzegovina, mostly materially and financially help their relatives in the country either through regular or occasional financial remittances, thereby materially helping their parents, relatives, friends and others who are related to them in some way. According to the latest statistical indicators, the remittances of our citizens from the diaspora to their own in the country were higher on an annual level than the foreign investments that Bosnia and Herzegovina had in the same observed period.

8.1 The Bosnian diaspora sends significant financial resources to their relatives in Bosnia and Herzegovina

The inflow of funds from the diaspora is measured in billions of convertible marks. The Central Bank of Bosnia and Herzegovina produces data on money transfers that include amounts from the

diaspora. Using various sources of information, we obtained data on the total amount of financial resources that our diaspora sent to their families, friends and acquaintances in Bosnia and Herzegovina in the previous nine months of last year.[10] One of the figures is 2.616 billion convertible marks in remittances alone. If this amount is compared to the same period in 2021, it is 376 million convertible marks more. The Central Bank of Bosnia and Herzegovina presented official data for the year 2021 in which we can see that the diaspora sent about 3,043 billion marks to Bosnia and Herzegovina. A year earlier in 2020, that amount was slightly lower and amounted to 2.522 billion convertible marks. The money that comes from the diaspora is very important for our country, so it represents a significant amount in the GDP. Given that the GDP in 2022 amounted to 35 billion convertible marks, remittances from abroad accounted for slightly less than 10% of GDP.[11] The lower monthly incomes of our citizens in Bosnia and Herzegovina in the form of salaries, pensions, disability benefits, various types of social and other assistance are compensated by our citizens who are in the diaspora and in this way contribute to the normal life of our population living in Bosnia and Herzegovina and thereby maintain as much such a decent standard of living. Mostly those families who did not have the opportunity to keep some of their members, especially younger members in the country, due to lack of work or the inability to earn an average or slightly higher income that would enable them to live decently in Bosnia and Herzegovina, sent them abroad where they are the same they got a job, managed and started helping their families in the country through remittances in the form of financial aid, which contributed to a decent life in Bosnia and Herzegovina. Everyone benefits from financial remittances from the diaspora, the families of our citizens from the diaspora living in Bosnia and Herzegovina, then the state through the payment of taxes, fees,

excise duties and contributions, the economy of Bosnia and Herzegovina due to higher consumption and many others.

CONCLUSION

They say that the population of Bosnia and Herzegovina is quite resourceful and finds a solution in every life situation. Through processing the topic of this paper, we have come to significant data that confirm this hypothesis. Regardless of the fact that the citizens of Bosnia and Herzegovina have gone through various challenges and many crisis periods, they still preserved their dignity and behave in accordance with the norms that apply to a civilized person in the current global world. However, we cannot claim that all the crises that have occurred so far and are still occurring anywhere in the world do not affect our economy and population. In addition to the wars that engulfed our territory in the 1990s, which rapidly contributed to the impoverishment of the economy and the population and led to major social changes. Also, recent crises such as the Covid-19 pandemic, the war in Ukraine and Gaza, as well as other political crises in the world, have accelerated the rise in the prices of energy, food and other goods that are important for the life of the population. The recent wars and the Covid-19 pandemic have had a particular impact on the decline in living standards in the last three years. Regardless of all the crises that have gripped both the world and Bosnia and Herzegovina in recent times, thanks to the knowledge, resourcefulness and other qualities possessed by our residents, we were able to endure them and even overcome them. One way is to use available human resources located abroad. The human resources that we have abroad proved to be very important in this period, because with their help a fairly large number of citizens successfully overcame a number of problems that befell them. The current authorities in Bosnia and Herzegovina have done almost nothing since the last war in this region to make life

easier for their citizens, as is the case in other countries. There was no major aid to the economy and the population through grants or any relief to mitigate the crisis. If they were, they can be measured in small percentages. The abolition of excise duties on oil and oil derivatives and lower VAT rates for some products important for the living standards of the population were also not introduced to enable the most vulnerable categories of the population to overcome this crisis. Due to all of the above, we can conclude that the state did not take enough care of its population in any segment, which nevertheless managed in its own way to survive in these areas and to preserve its dignity due to corruption, nepotism, theft and other misfortunes that befell it. Survival in these areas mainly depends on the resourcefulness of our people, and by no means on the contribution of the authorities, regardless of which political party their representatives come from. We believe that the survival of people in these areas mainly depends on their ability to adapt to new life circumstances, as well as on patience, empathy, knowledge and other good qualities.

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