

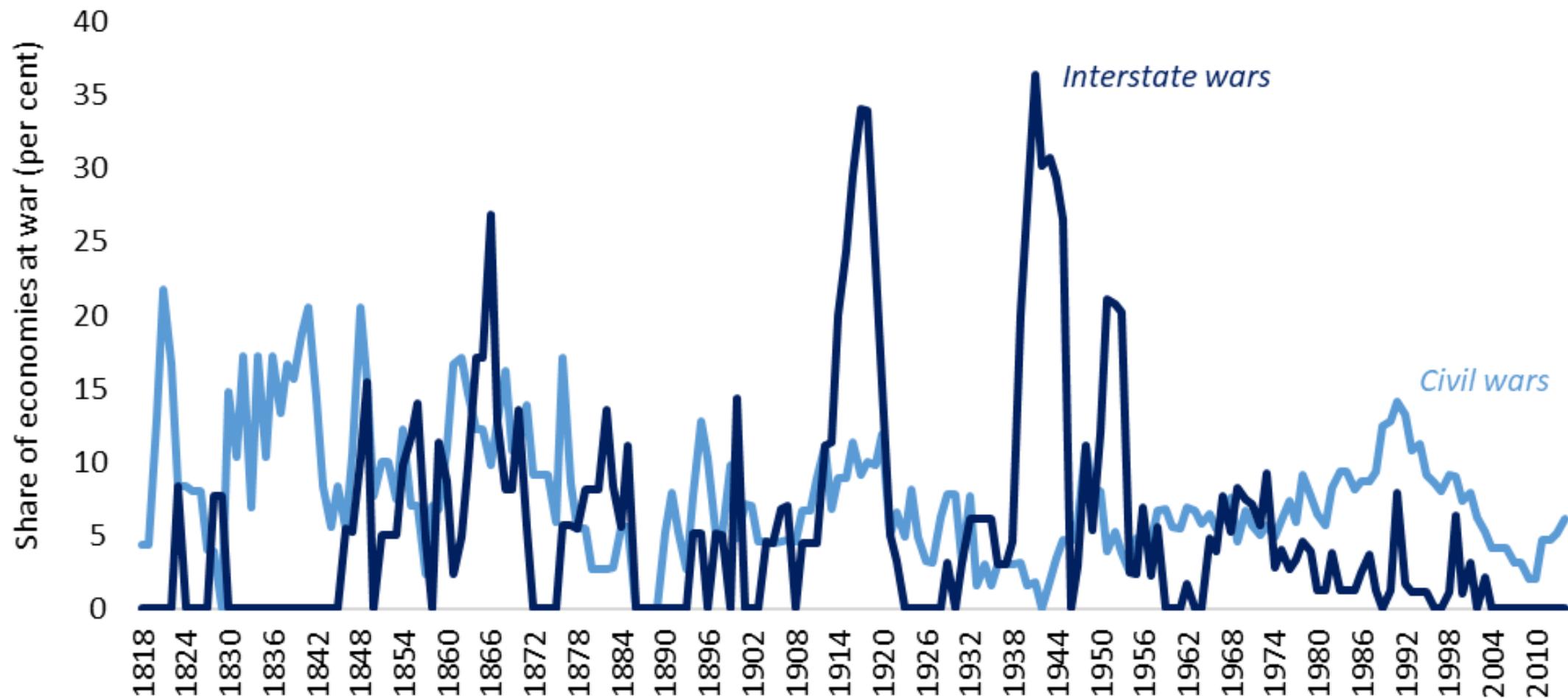


The economic consequences of war:

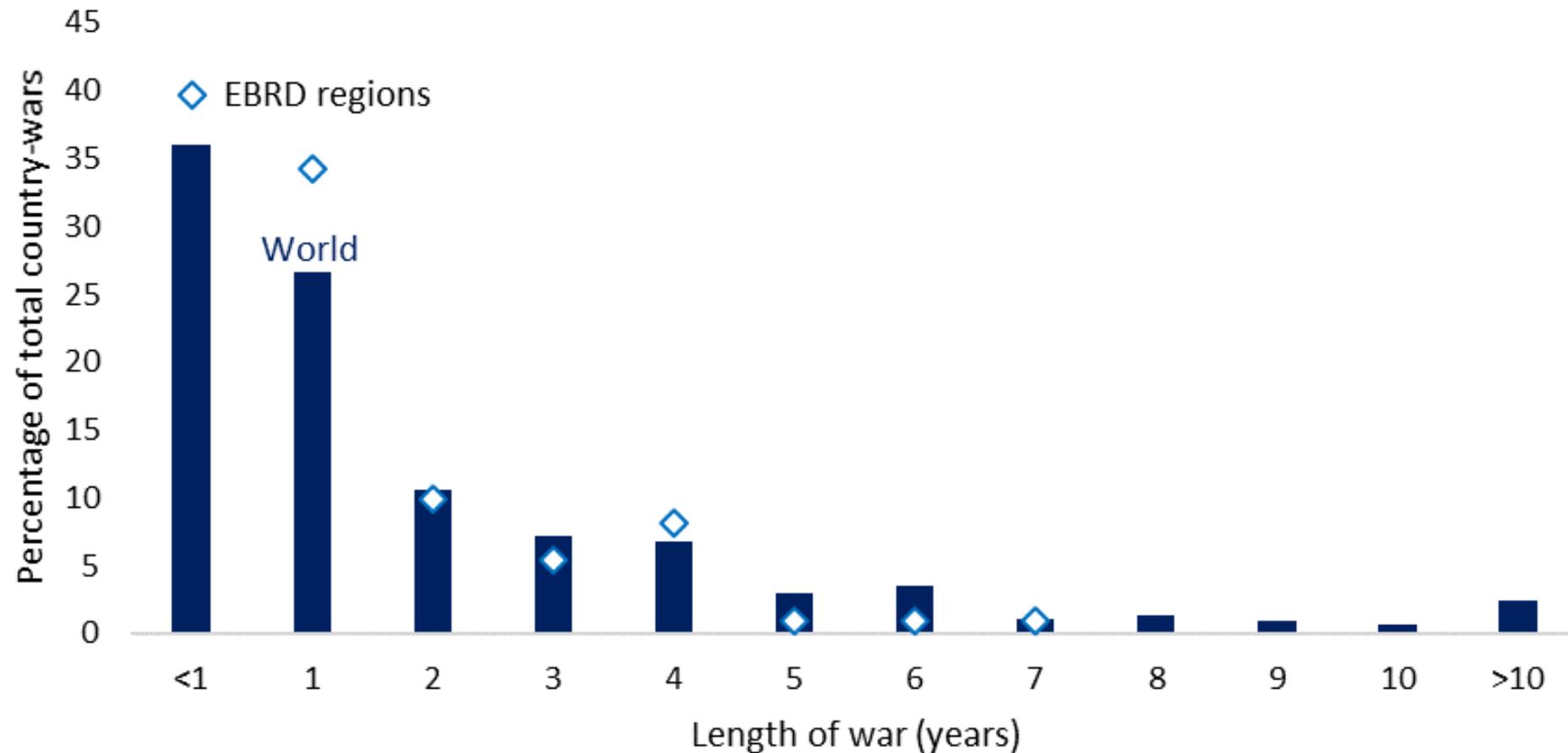
Estimates using synthetic controls

Zsoka Koczan, European Bank for Reconstruction and Development

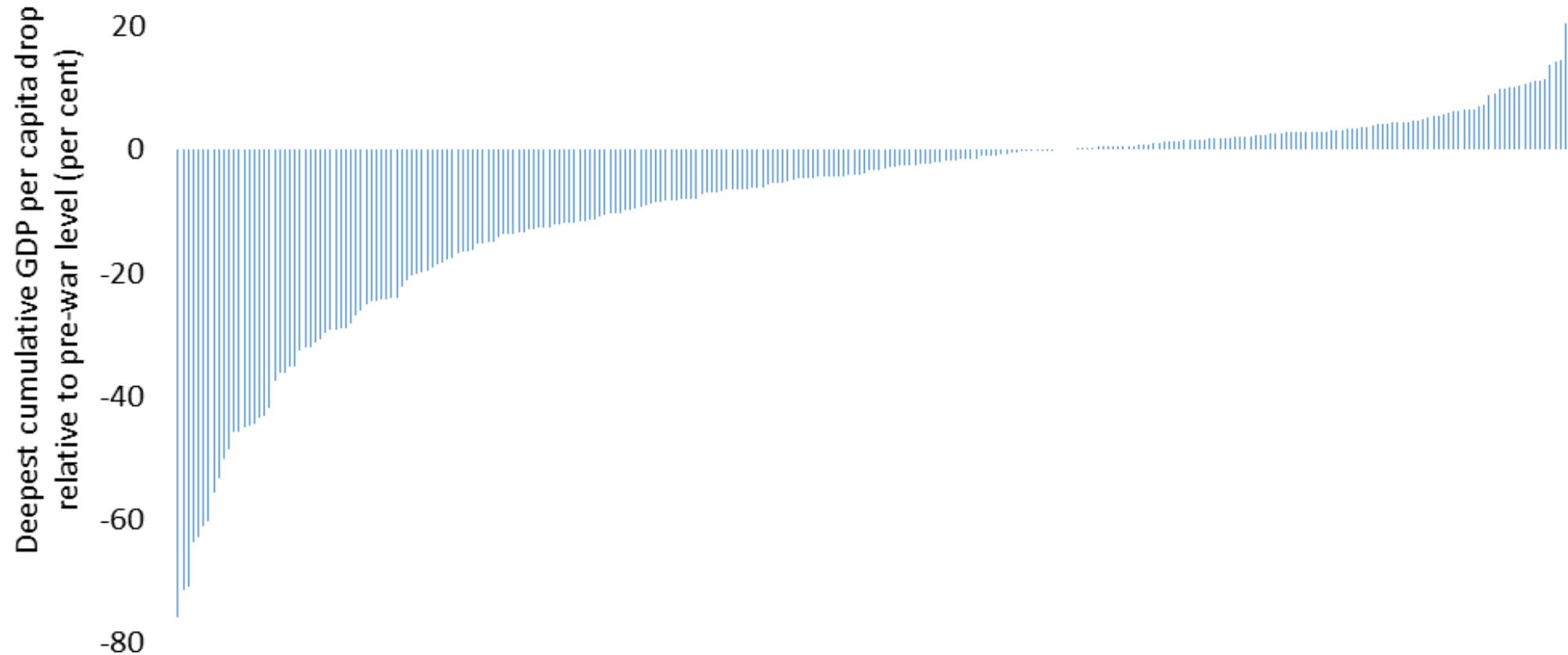
Wars have become less common since the 1990s, but the share of civil wars increased



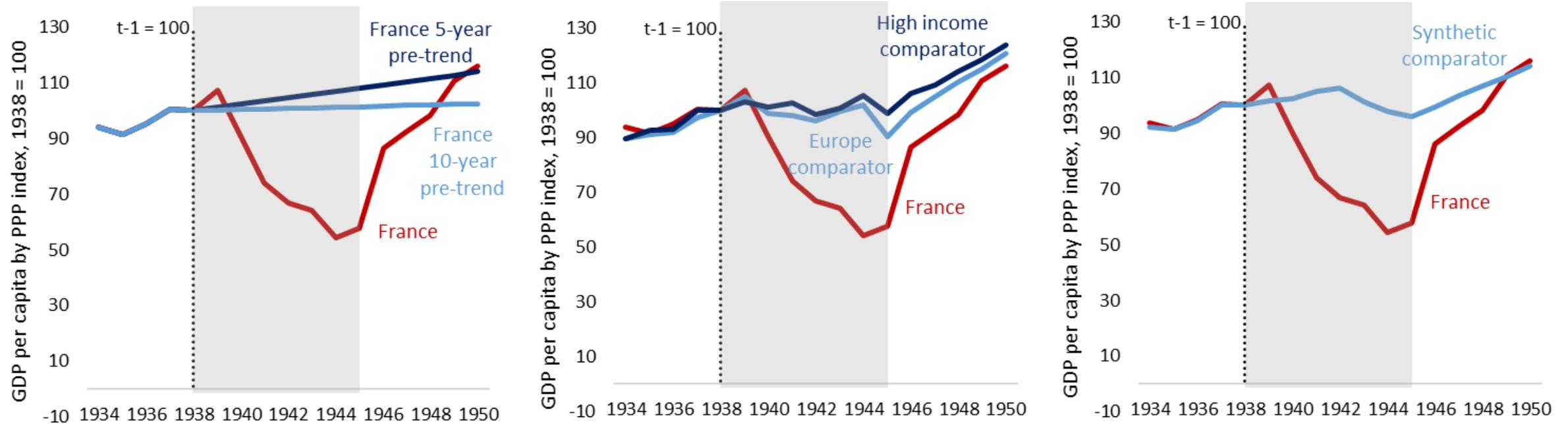
The median war in the dataset last one year



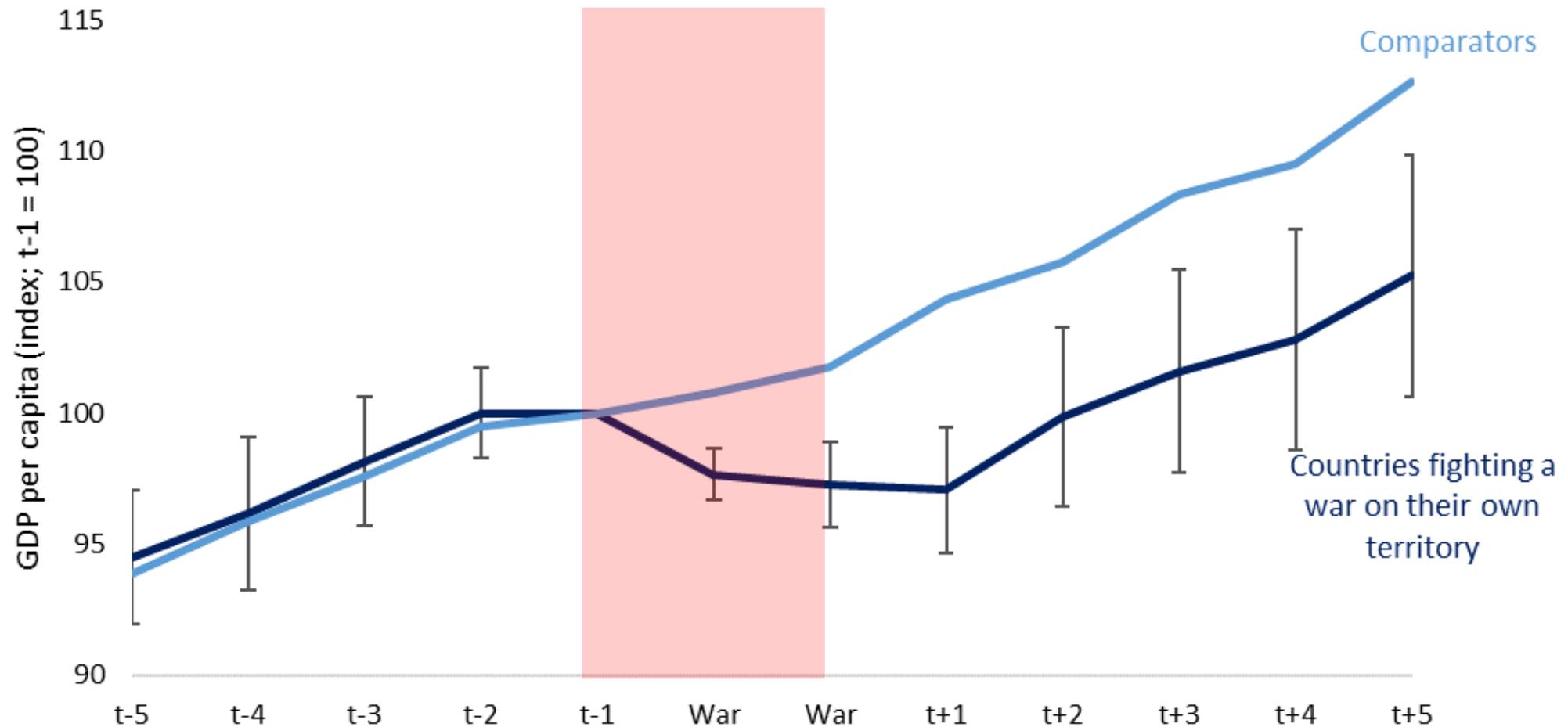
There is considerable variation in the economic impact of wars



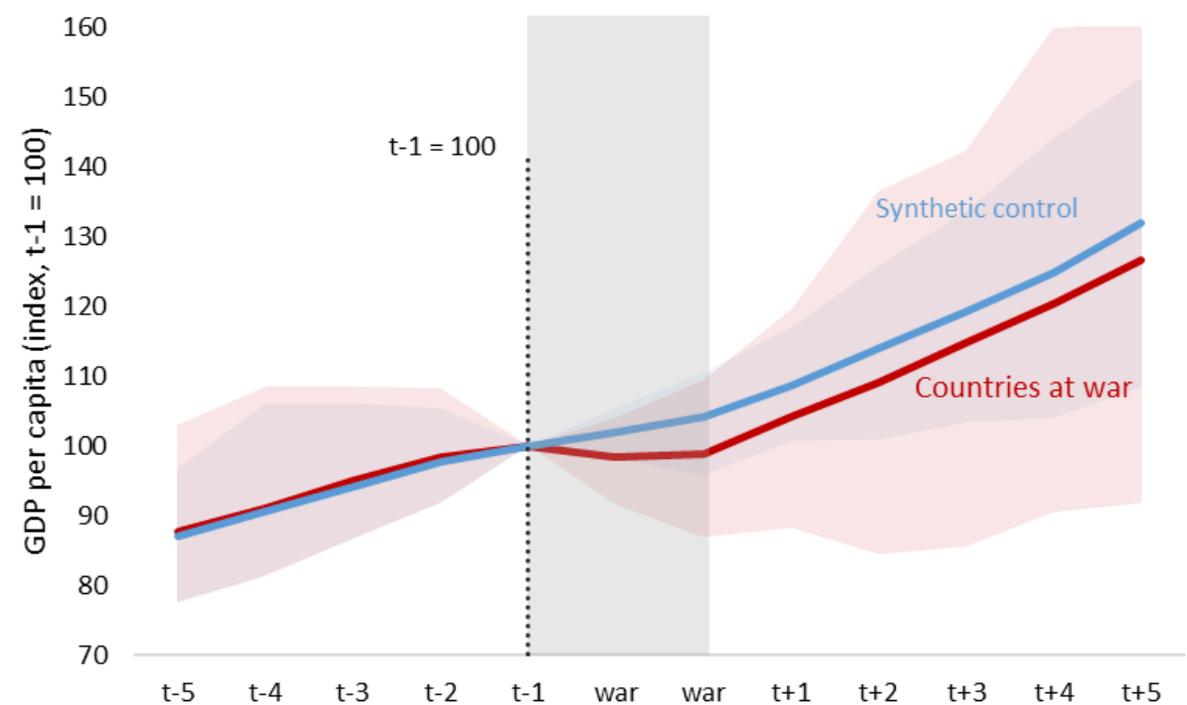
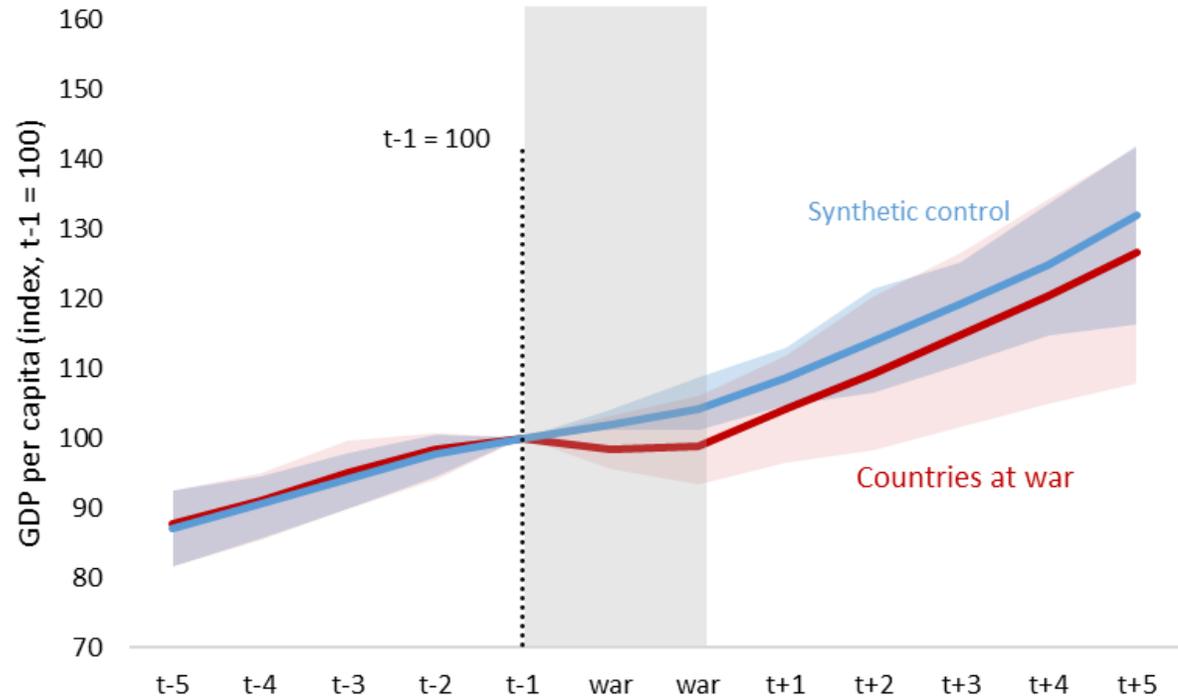
Estimate effects of wars using synthetic control approach



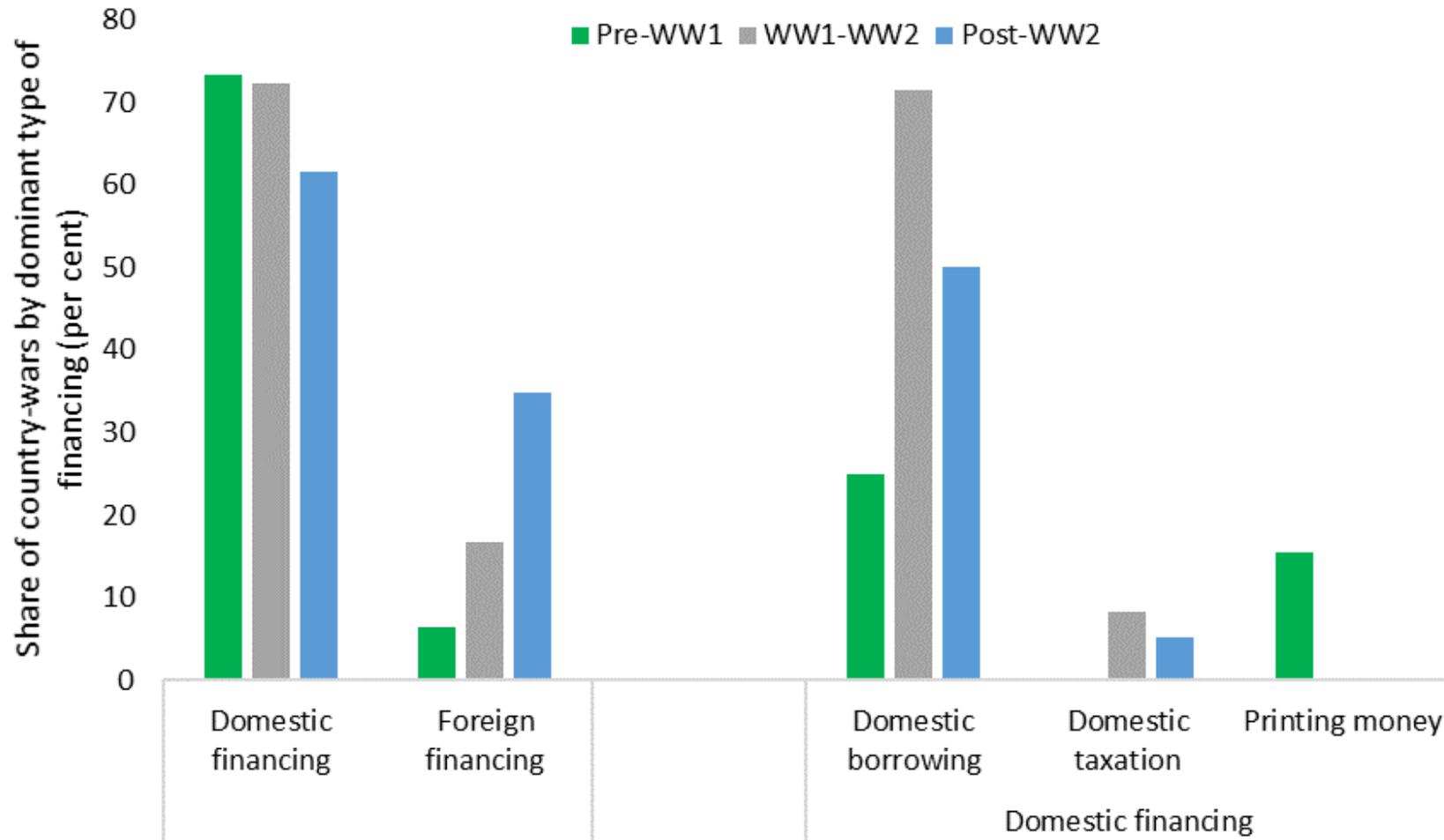
On average, countries fighting a war on their own territory see their GDP pc fall 7 ppt below that of comparator countries by the end of the war



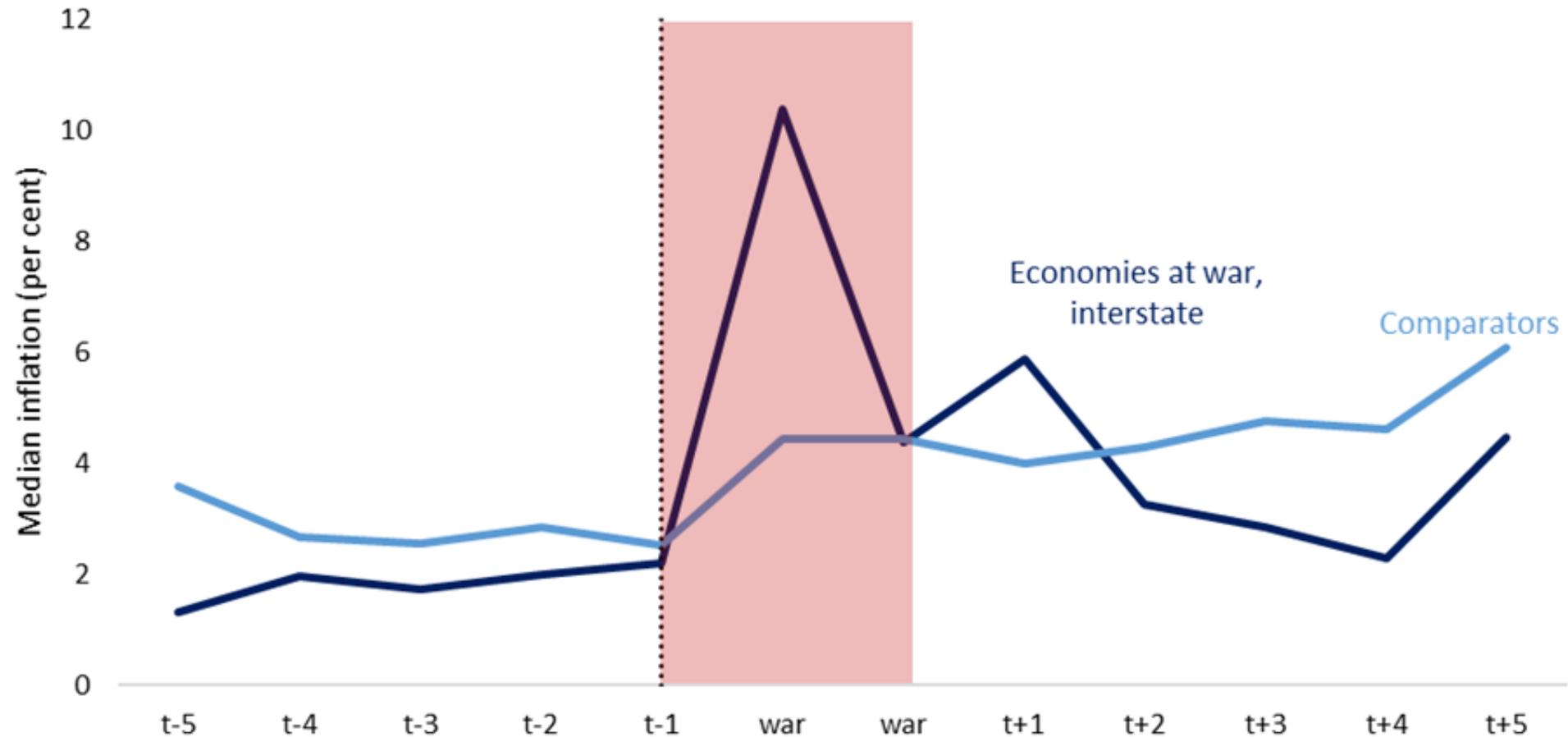
Considerable variation in the effects of wars



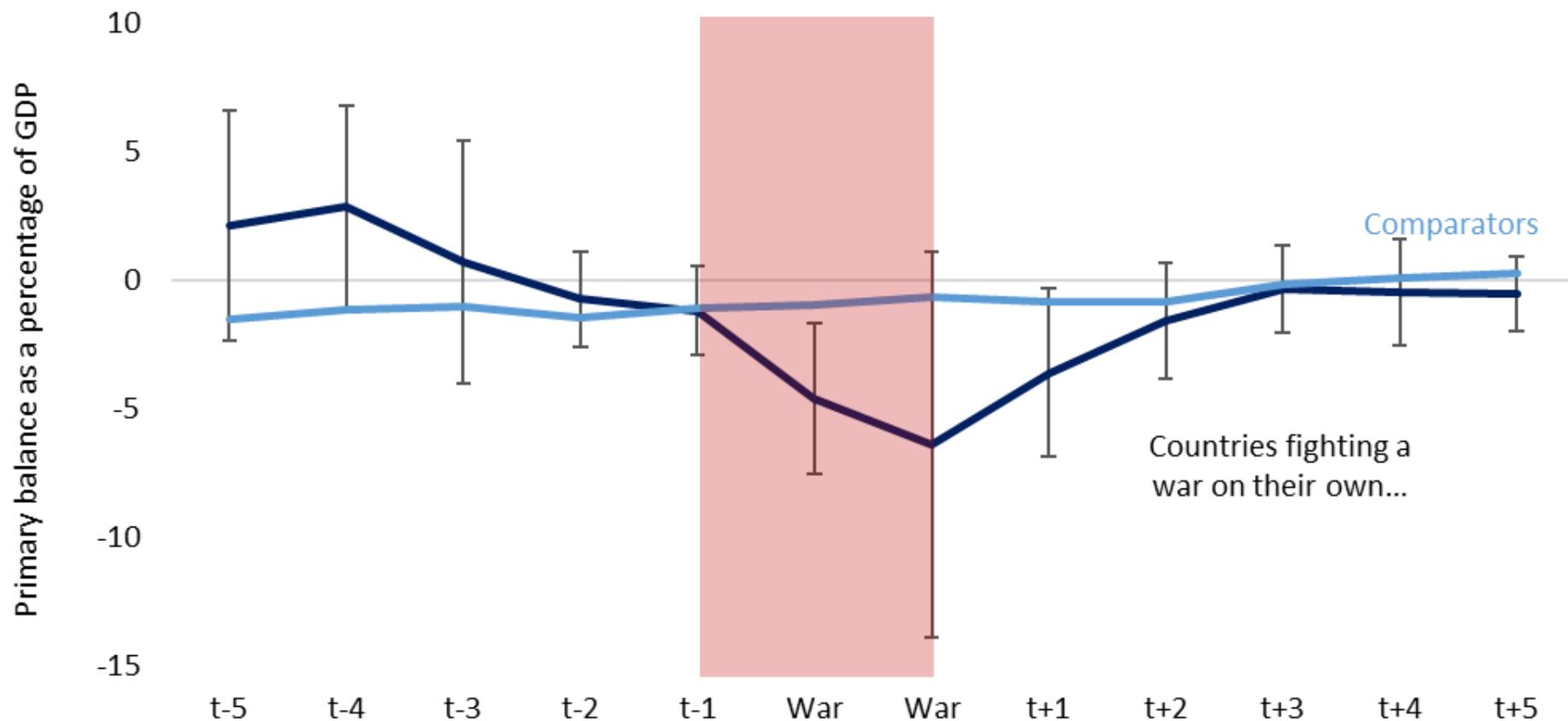
Most interstate wars are financed through domestic borrowing, though the role of foreign finance has increased



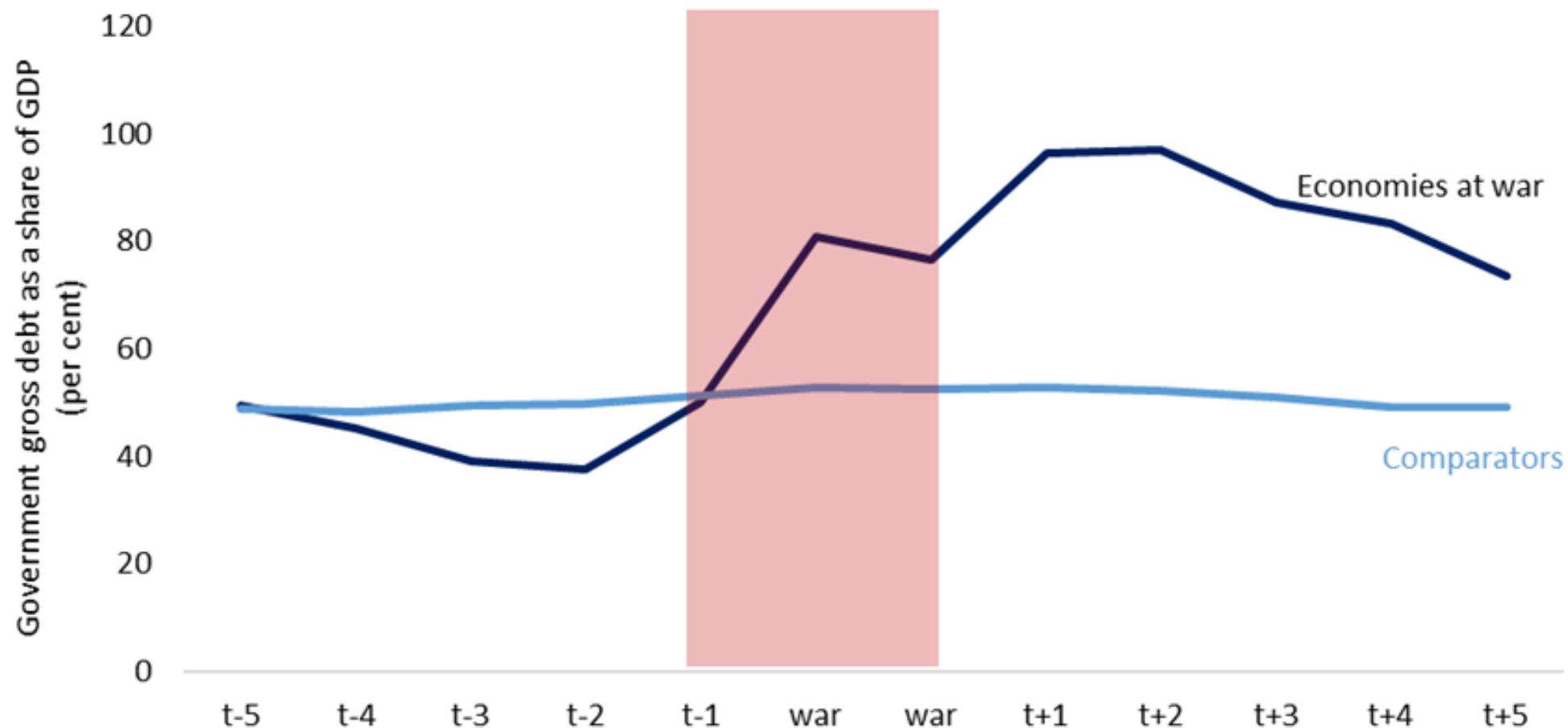
In a typical interstate war fought on a country's own territory, inflation rises by 8 ppt relative to its pre-war level



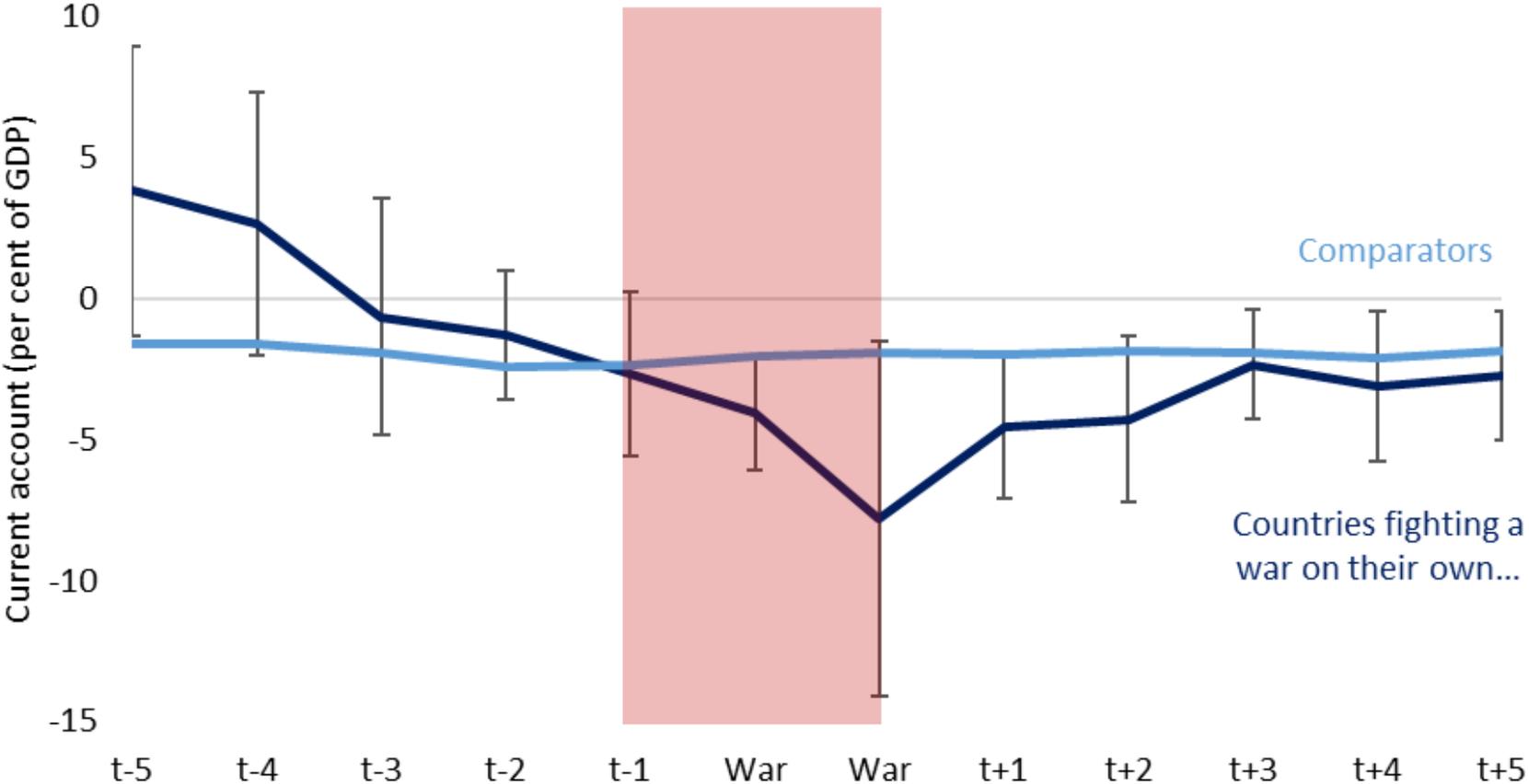
Fiscal balances worsen during wars



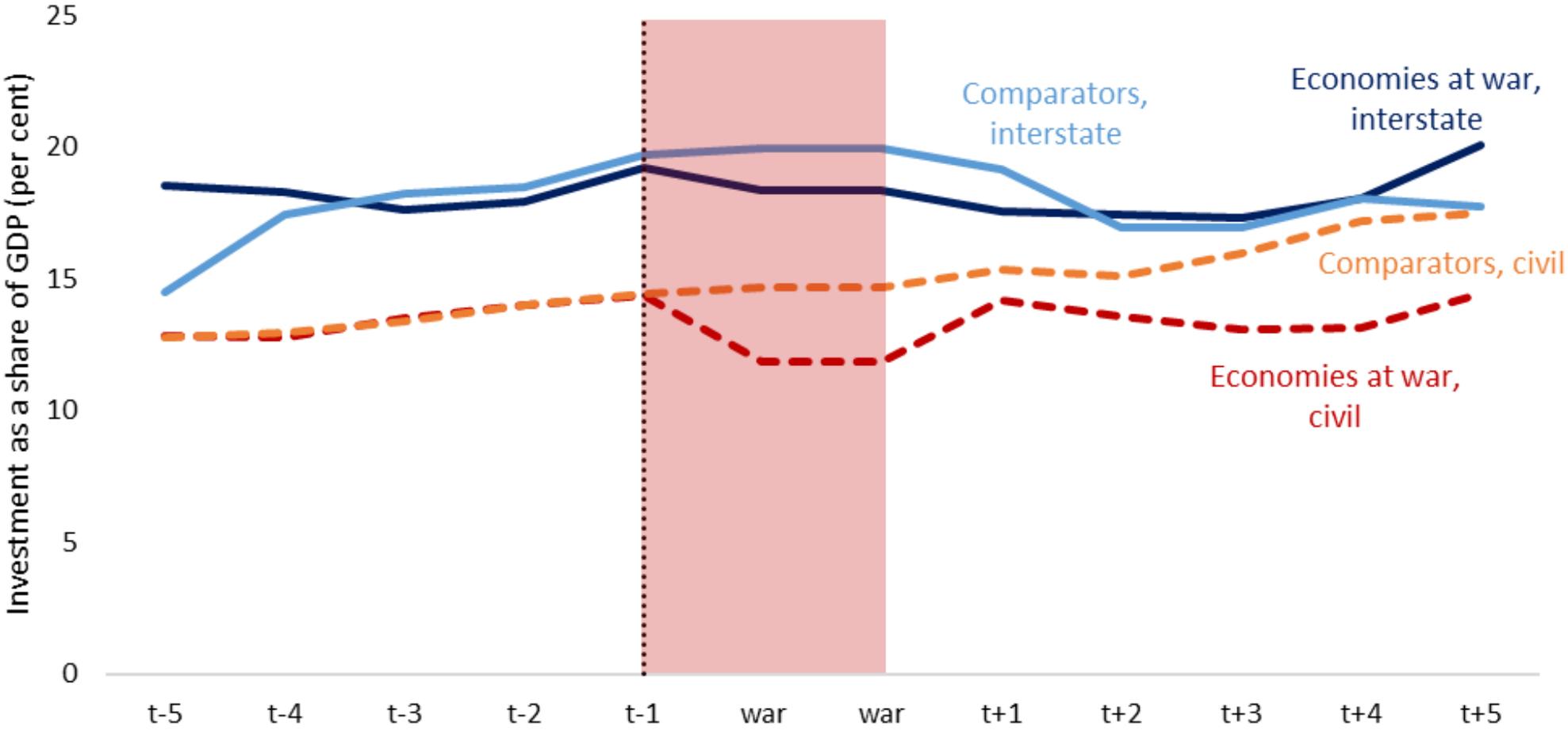
General government debt peaks at 47ppt of GDP above its pre-war level



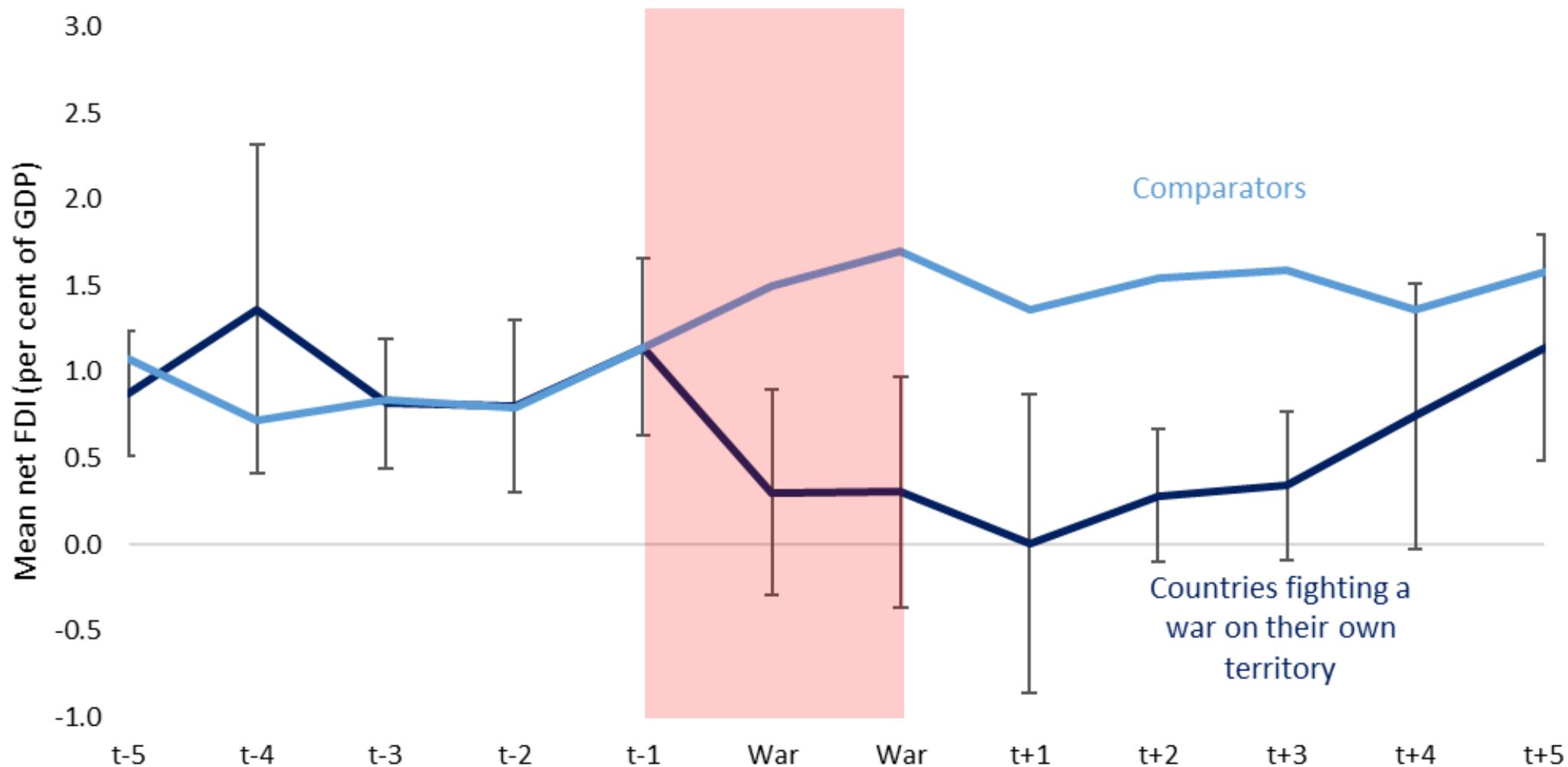
External deficits widen by 5 ppt on average during wars



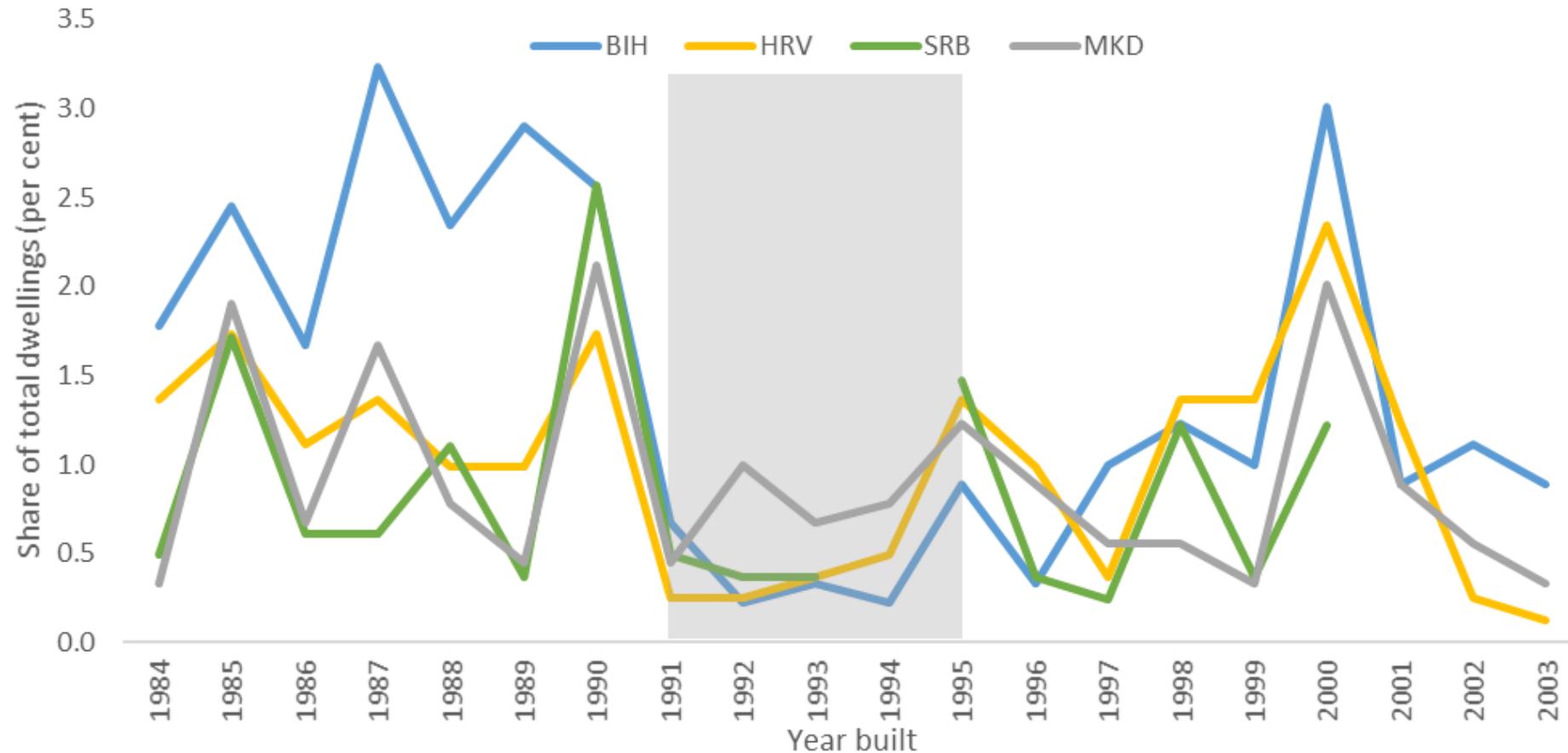
Investment falls during wars and remains subdued after civil wars



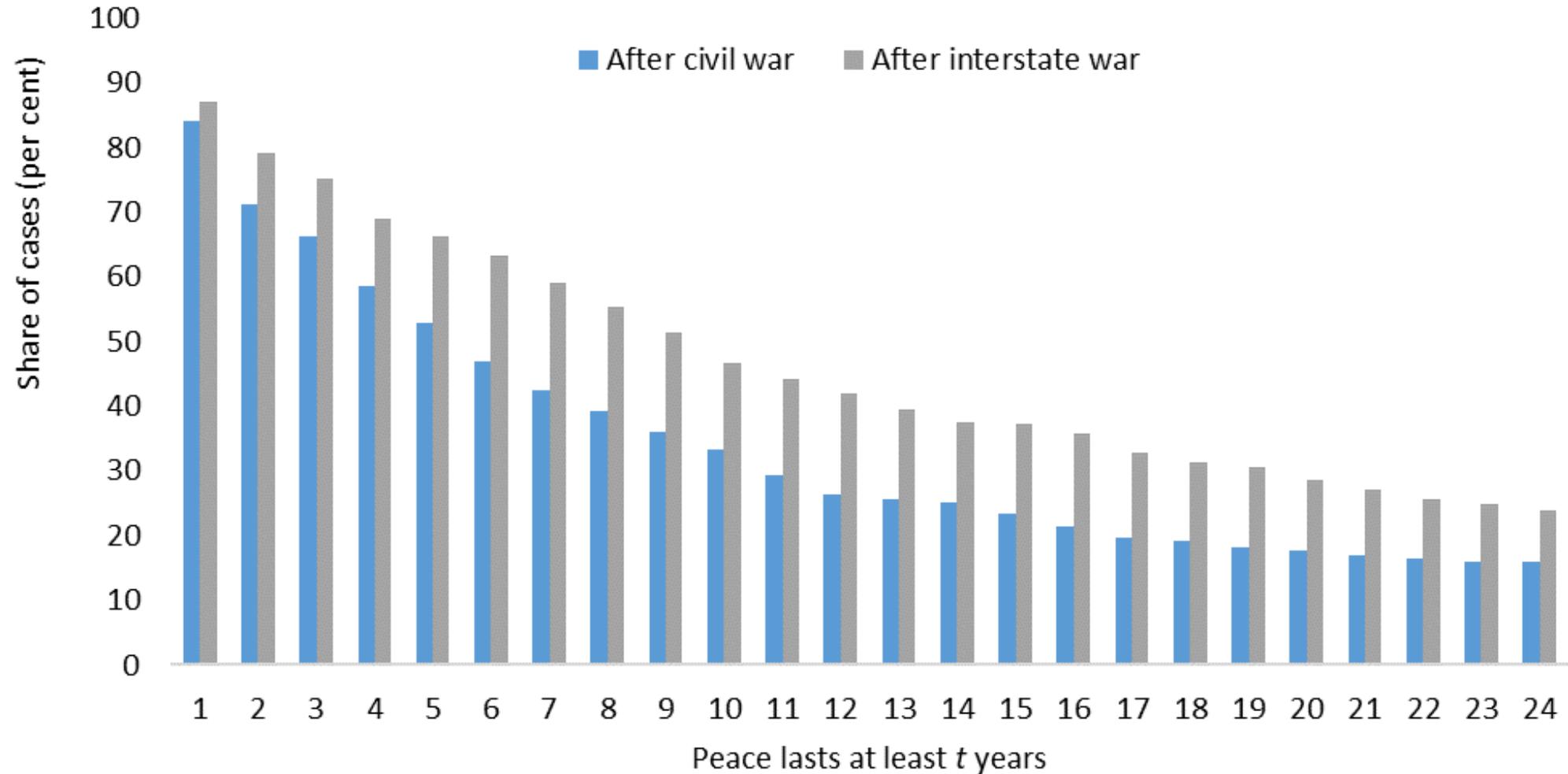
FDI also falls during wars and is slow to recover



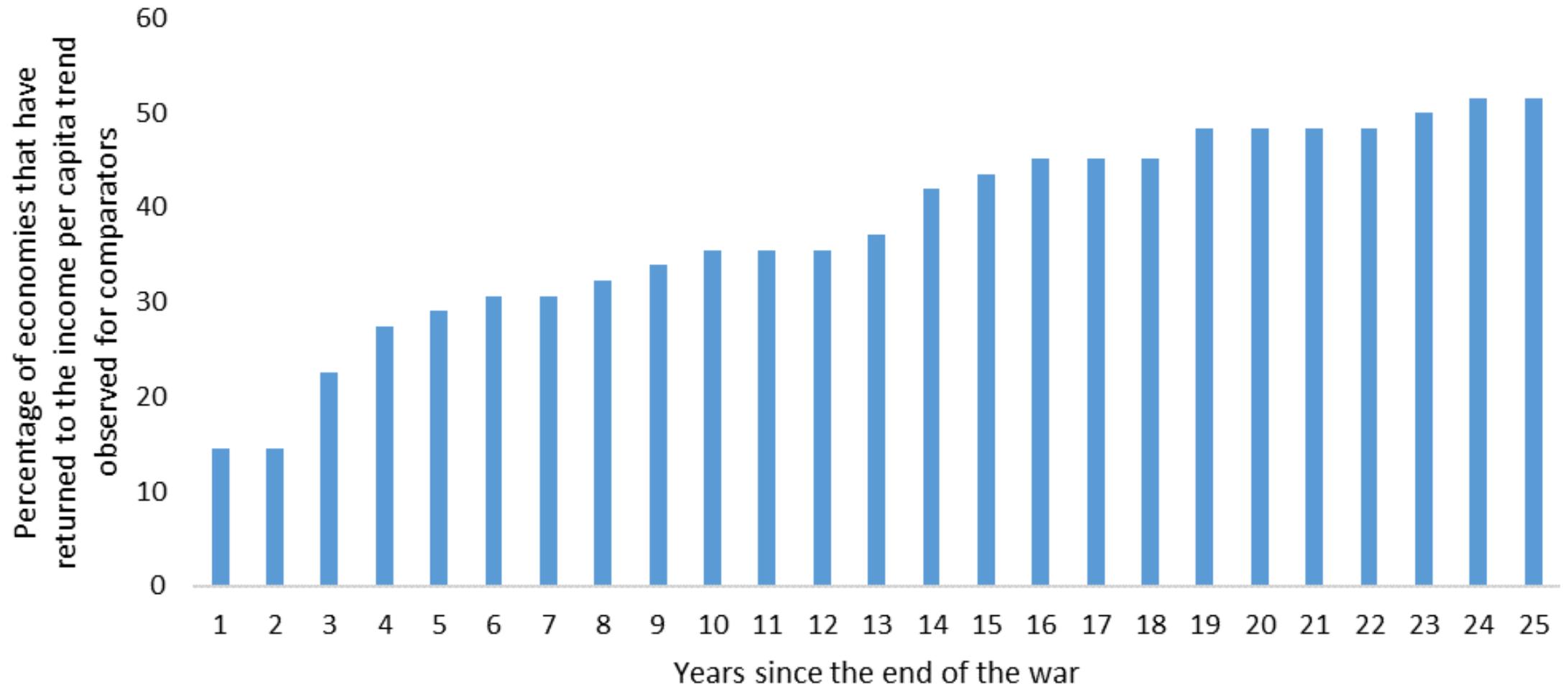
Construction of residential housing drops sharply during wars and remains sluggish thereafter



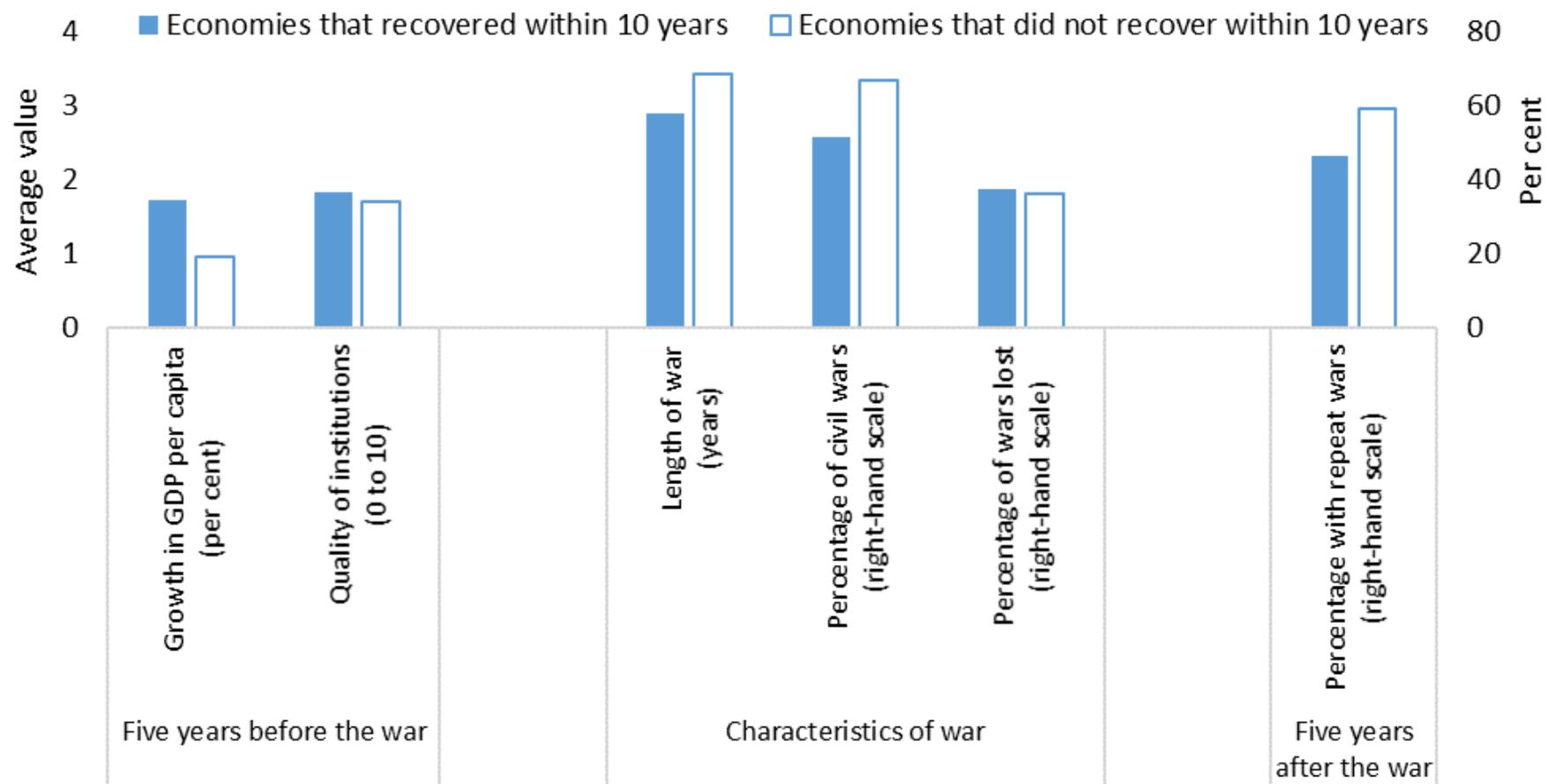
Peace is elusive: Only 20 per cent of wars are followed by 25 years of peace



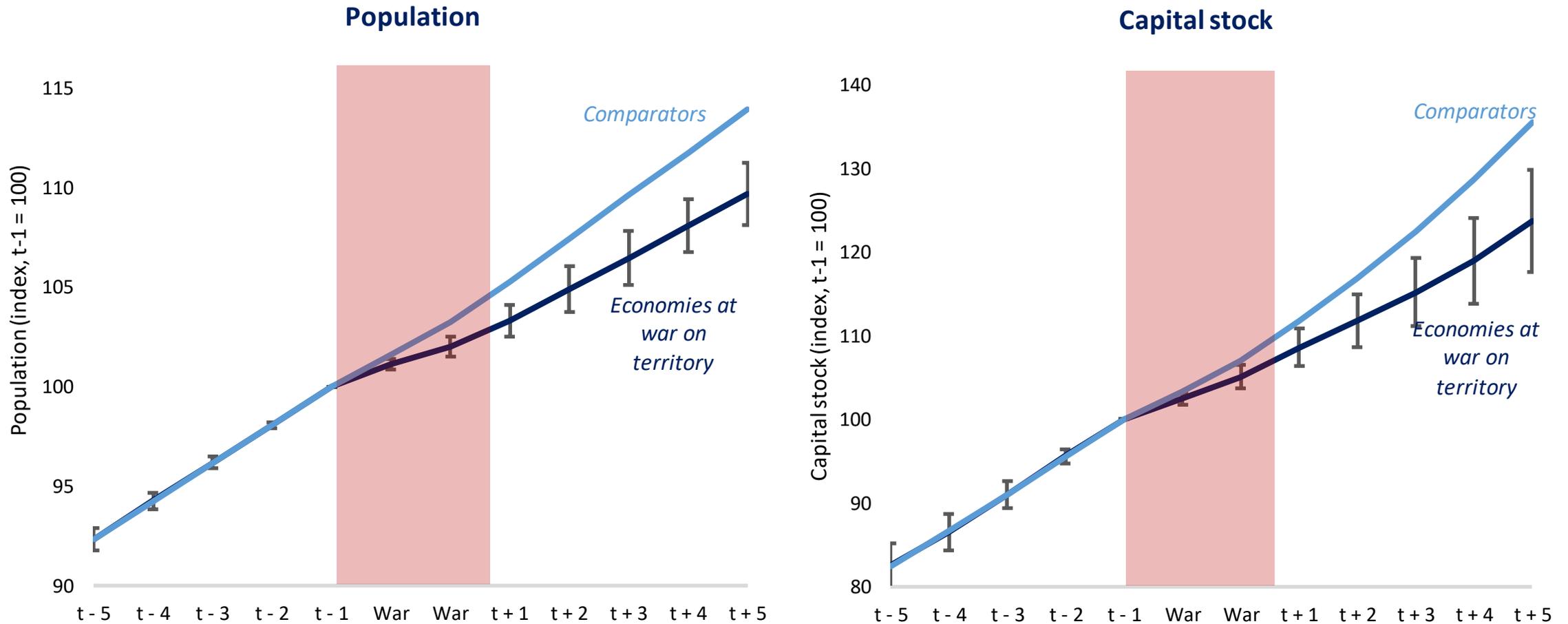
Wars leave deep scars: in 1/2 of cases GDP per capita remains below its counterfactual growth path 25 years later



Full recoveries are more likely in stronger economies and after interstate wars



Even where income per capita recovers, there remain scars to labour force and capital stock

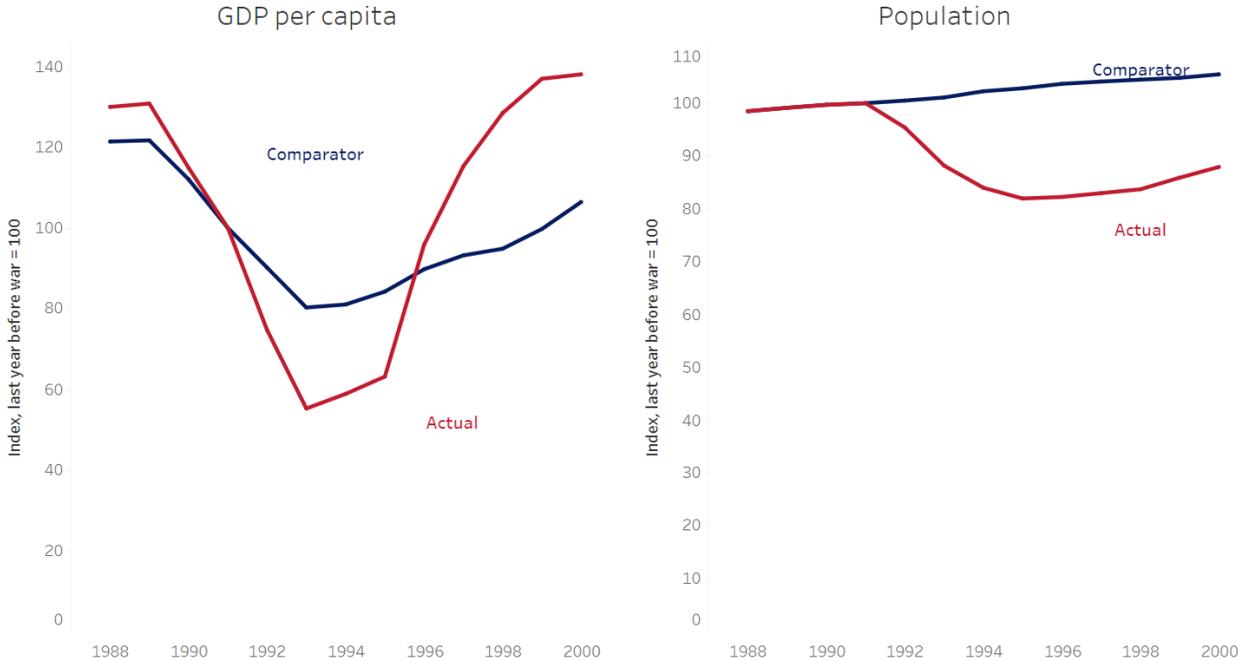


Economies at War Atlas

Bosnia and Herzegovina 1992

Choose comparator method

- Synthetic comparator
- Simple average of all economies at peace
- Linear extension of own pre-trend



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The economic consequences of war: Estimates using synthetic controls

By Maxim Chupilkin and Zsoka Koczan

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A new EBRD Working Paper (number 271)

This paper investigates the short- and long run economic effects of wars drawing on a novel database of almost 400 wars over the past two centuries. We use a synthetic control method to examine both immediate disruptions due to wars and any long term scarring. We find that GDP per capita drops are driven by wars on territory, with GDP per capita even increasing relative to that of comparators for some wars off territory. Wars on territory result in a GDP per capita loss of over 7 percentage points relative to a synthetic control the year after the war ends. Civil wars have more persistent effects than interstate wars. Furthermore, our results suggest that a focus on flows, such as changes in value added generated each year, may significantly understate the lasting damage from wars. Even where income per capita recovers, there are lasting scars to labour forces and capital stocks.

In order to facilitate further research, the paper is accompanied by an interactive online annex providing economic variables and various counter-factual paths for over 100 wars included in our dataset.

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