THE ECONOMIC CONSEQUENCES OF WAR*

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Abstract

We provide systematic evidence on the macroeconomic consequences of war using a new dataset covering 115 conflicts and 145 countries over the past 75 years. We document three main findings. First, conflict generates large and persistent real effects: real GDP falls by 13% on average, with no recovery even after a decade, while investment collapses as financial frictions reduce domestic credit. The drop in real activity is more pronounced for intrastate conflicts than it is for interstate conflicts. Second, government finances deteriorate as revenues contract and expenditures remain stable, thus raising primary deficits. Real government debt also declines, and governments shift 1.2% of GDP toward short maturities. Third, governments rely heavily on inflation to finance their deficits: the price level and money supply both rise by nearly 50%, eroding debt and generating seigniorage but also depressing investment and raising the cost of imported capital goods. *JEL codes*: E31, E62, F51, H56.

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I. Introduction

"The demands of war are always in conflict with the resources of the state, and if war is to be conducted with energy and success, a government must make sacrifices which may imperil its own existence."

von Clausewitz, *On War*, Book VIII, Chapter 3

Wars force governments to mobilize resources under extreme duress. This mobilization, and the war itself, has profound economic consequences, shaping output, inflation, debt, and external balances (Barro, 1987; Harrison, 1998), yet our understanding of these dynamics remains incomplete. Classic accounts emphasize that conflict can build state capacity (Tilly, 1992; Besley and Persson, 2010), but equally often wars undermine fiscal foundations, erode monetary stability, and trigger external crises (Sargent and Velde, 1995; Reinhart and Rogoff, 2009; Hall and Sargent, 2014, 2022). This paper provides systematic evidence on how wars affect the economy and how states meet the demands of war when their resources fall short.

We construct a comprehensive dataset covering 115 conflicts and 145 belligerent countries over a 75 year period, spanning both interstate wars (between two or more states) and intrastate wars (between a state and one or more rebel groups). Because countries may participate in multiple conflicts, we organize the data at the conflict-country-year level. For each conflict, the treated group includes only belligerent countries that are not involved in any other conflict within the event window. The control group consists of countries that do not participate in the conflict and remain conflict-free throughout the event window. Hence, the control group is composed entirely of never-treated countries. This design ensures clean comparisons between belligerents and unaffected countries and yields a novel dataset that combines existing components into the first large-scale, systematic panel of macroeconomic outcomes around conflict episodes.

Our empirical strategy is a stacked event study in which, for each conflict, we compare the evolution of treated countries to that of control countries following the onset of conflict. By construction, our choice of control countries ensures that comparisons are not contaminated by prior or simultaneous conflicts. Of course, conflict is not randomly assigned. Yet conflict is largely shaped by long-run political and historical conditions (Benmelech and Monteiro, 2025), and our inclusion of conflict-country fixed effects absorbs these time-invariant determinants. We further include conflict-region-year fixed effects to capture regional variation in both conflict risk and economic trends, so that identification

comes from within-region, within-conflict contrasts between belligerents and comparable non- belligerents. Finally, in all of our exercises we can test directly for pretrends, which provides an informative check against selection concerns.

We begin by estimating the effect of conflict on real aggregate outcomes. The onset of conflict reduces real GDP by a cumulative 13% over ten years relative to control countries, corresponding to a loss of more than $28 billion (in 2015 prices) compared to the unconditional mean. This contraction is large but consistent with recent evidence on the economic costs of war. Consumption falls sharply, and real investment declines even more. External trade is also disrupted: exports fall by roughly 13% ($4.4 billion), while imports decline by 7% ($2.3 billion). The net effect is a deterioration of the current account by $2.1 billion ten years after the onset of conflict.

None of the real aggregate outcomes we study display pretrends in the periods preceding the onset of conflict, which is reassuring: it suggests that underperforming countries are not disproportionately selected into conflict. The event studies reveal a large but gradual contraction in real output. At the onset of conflict, real GDP falls by only 3.3%, but after a decade, it is 18% lower in treated countries relative to control countries. We thus find, not rapid recovery, but persistent and deepening economic losses.

In theory, the destruction of capital during conflict should raise its marginal product and stimulate investment (Davis and Weinstein, 2002). In practice, we find the opposite: investment collapses at the onset of conflict and remains depressed for at least a decade, with no sign of recovery. One potential explanation is capital flight, which—given the deterioration of the current account—would require central banks to draw down reserves. Yet this mechanism cannot account for the scale or persistence of the decline we observe.

The evidence points instead to financial frictions as the central channel. Conflict erodes collateral values, tightening borrowing constraints and restricting firms' access to credit. Consistent with this mechanism, we document a 22% decline in real domestic credit—larger than the fall in real output. Lending rates do not fall, which rules out weaker demand and instead signals a supply-driven contraction. This mechanism also explains persistence. Negative shocks to collateral reduce borrowing capacity, depress investment, and weaken balance sheets further, amplifying the downturn over time. Applied to conflict, the destruction of capital and the resulting credit crunch prevent firms from financing reconstruction, locking economies into a prolonged investment slump.

We also document substantial heterogeneity across countries. For low-income countries, conflict leads to a large contraction in investment, whereas high-income countries experience only a marginal decline. This divergence is consistent with the presence of financial frictions, which are likely to be more binding in low-income economies. Trade

patterns also differ sharply: high-income countries see no decline in exports and actually increase imports, whereas low-income countries experience reductions in both exports and imports. The decline in imports may help account for the investment collapse in low-income countries, since these economies rely more heavily on imported capital goods.

The nature of conflict also shapes its economic consequences. A decade after onset, countries engaged in intrastate wars suffer a 20% cumulative decline in real output, compared with a decline of only 10% for those in interstate wars. The divergence is even sharper for investment: interstate conflicts leave investment largely unaffected, whereas intrastate conflicts reduce investment by nearly 20%. This pattern reflects both the destructive intensity and the institutional setting of civil wars. Because they are fought on domestic soil, intrastate conflicts cause widespread destruction of physical capital and erode state control over territory and population, further reducing the productive capital stock. At the same time, these conflicts are more prevalent in poorer and institutionally fragile countries, where financial markets are shallow and collateral values are more easily impaired. The resulting tightening of borrowing constraints amplifies the shock through financial frictions, limiting firms' ability to rebuild capital and locking economies into persistent investment slumps.

We then turn to the government's accounts. Following the onset of conflict, real government debt declines by 9%—a reduction of $11.4 billion (in 2015 prices) for treated countries relative to control countries—yet the ratio of debt to GDP remains unchanged. In contrast, real government expenditures do not fall, despite a short-run increase in military spending, suggesting that governments adjust the composition of expenditures rather than the overall level. Revenues, by contrast, contract sharply: real government revenue declines by 14.5%, reflecting both the drop in output and diminished fiscal capacity. With spending stable and revenues collapsing, governments are more likely to run a primary deficit. Indeed, the likelihood of running a primary deficit rises by 9% relative to the unconditional mean, underscoring the persistent fiscal strain induced by conflict.

The decline in real government debt is not driven by lower nominal borrowing. In fact, after the onset of conflict, nominal debt measured in current local currency units increases for treated countries relative to control countries, indicating that governments issue more debt during conflict. By contrast, government debt deflated by the CPI (in constant local currency units) shows a persistent decline. This divergence can be explained by two forces. First, inflation may erode the real value of outstanding debt faster than new nominal debt is issued. Second, with roughly half of government debt in our sample denominated in foreign currency, a depreciation of the nominal exchange rate can mechanically raise the local-currency value of debt even without additional issuance.

Conflict also reshapes the composition of government debt. Following the onset of conflict, the share of long-term debt falls by 2.2 percentage points—about 2.5% relative to the unconditional mean—for treated countries. Given that the average debt-to-GDP ratio is 53% in the year before conflict, this shift corresponds to moving roughly 1.2% of GDP from long- to short-term maturities, an economically sizable reallocation. The mechanism is intuitive: conflict raises the riskiness of sovereign debt, making investors reluctant to hold longer maturities or requiring risk premia so steep that governments prefer to borrow short. Yet this shift carries serious costs. A heavier reliance on short-term debt increases rollover risk, obliging governments to refinance more frequently precisely when real activity is depressed, fiscal capacity is constrained, and market access may be tenuous.

Conflict fundamentally reshapes the nominal side of the economy. We find that real money balances remain unchanged after the onset of conflict even as the price level rises sharply and persistently, increasing by 48% relative to control countries. This inflation finances deficits by transferring wealth from moneyholders to the government through seigniorage and, on impact, by eroding the real value of outstanding debt, thereby taxing debtholders. Consistent with this mechanism, nominal money supply also increases by 51%, underscoring the persistent role of inflationary financing. These patterns are consistent with theories of *fiscal dominance*, in which post-conflict inflation arises from the combination of large deficits and a shrinking real debt burden.

The expansion of money and prices, however, carries important costs. Inflation increases price dispersion as firms adjust at different times, distorting relative prices and lowering the marginal return on capital, much like a fall in productivity. If monetary authorities respond with higher nominal rates, the real cost of capital rises, further depressing investment through a reduction in Tobin's q. And as governments tilt toward short-term debt, persistent inflation forces them to refinance at ever-higher nominal rates, raising rollover risk and fiscal stress.

Finally, our results suggest a flight to liquidity. Although real output contracts, real money balances do not decrease, implying that households hold money for longer despite its sharply negative return in inflationary environments. Deposits as a share of GDP fall substantially after conflict, consistent with financial turmoil and loss of confidence in banks. In the absence of safe alternatives—either due to financial repression or because of lack of access to financial markets—money becomes a captive asset. Thus, even as inflation erodes money's value, households may be trapped into holding it, reinforcing the inflationary burden of war finance.

Finally, we turn to the effect of conflict on the value of currency. Following conflict,

the nominal exchange rate exhibits a large and persistent depreciation, while the real exchange rate remains unchanged. This implies full pass-through of the nominal depreciation into domestic prices. As a result, even sharp depreciations fail to improve competitiveness, and the current account deteriorates despite the nominal devaluation.

The nominal depreciation also provides another channel for the decline in investment. In most countries in our sample, capital goods are heavily imported (Burstein et al., 2005; Burstein and Gopinath, 2014). A large depreciation raises the local-currency cost of imported capital goods, thereby discouraging capital accumulation. Because the depreciations we document are persistent, so too is the investment collapse.

Our paper contributes to a large literature on the economic consequences of war. Using a synthetic control approach, Abadie and Gardeazabal (2003) show that violence in the Basque Country reduced per capita GDP by about 10%. Collier (1999) estimates that civil wars reduce annual growth by roughly 2 percentage points and destroy infrastructure, while Cerra and Saxena (2008) document that output losses from wars are deep and persistent, resembling those from financial crises. Exploiting rainfall variation as an instrument for conflict in Sub-Saharan Africa, Miguel, Satyanath and Sergenti (2004) show that wars depress growth mainly through agriculture. Blattman and Miguel (2010) survey this literature and conclude that civil wars leave long-lasting scars on income, health, and education.[1] We build on this literature by providing the first large-scale panel evidence that conflict generates not only large output losses but also highly persistent ones, with no evidence of recovery even ten years after the onset of conflict.

An important related contribution is Federle et al. (2024), who examine the economic consequences of conflict with a focus on spillovers to nonparticipant countries. Their work is complementary to ours, but our focus and design differ in three important respects. First, while they emphasize cross-border spillovers, we study the direct consequences for participants and place particular emphasis on the mechanisms that generate large and persistent output losses. Second, our data differ in coverage. Federle et al. (2024) use a long panel spanning 150 years for 60 countries, skewed toward developed economies.We instead analyze a shorter window of 75 years but cover 145 countries, providing broader coverage of emerging economies that have experienced conflict. Third, the definition of conflict differs. We include both interstate and intrastate conflicts, whereas their analysis is restricted to interstate conflicts. This distinction is important, since in-

[1]Beyond macro aggregates, a large political economy literature explores how war shapes state capacity. The classic thesis put forward by Tilly (1992) that "war made the state" finds formal support in Besley and Persson (2008, 2010), who develop a theory of fiscal capacity in which external wars may strengthen states but civil wars often undermine them. Dincecco and Prado (2012) show that wars spurred fiscal development in Europe but not in colonies, highlighting institutional heterogeneity.

trastate wars have become much more prevalent in recent decades and are typically shorter in duration (two years on average versus over 12 years for interstate wars; see Online Appendix Figure I), and because, as we show, intrastate conflicts lead to larger declines in real activity. Taken together, these differences make the two studies complementary: theirs highlights the international spillovers of conflict, while ours documents the direct and persistent macroeconomic costs borne by participants.

A second strand focuses on how governments pay for war. Barro (1987) shows that major conflicts in the United Kingdom from 1701 to 1918 produced surges in spending, deficits, and inflation. Harrison (1998) documents how six great powers mobilized resources during World War II, while Sargent and Velde (1995) analyzes the French Revolution as a case of monetary financing leading to hyperinflation. Sargent (1982) shows that postwar hyperinflations were triggered by governments resorting to seigniorage. Hall and Sargent (2014, 2022) provide detailed accounts of U.S. war finance in the Civil War, World War I, and World War II, showing how governments combined taxation, borrowing, and inflation to meet wartime demands, and how the resolution of debt surges shaped the postwar fiscal–monetary regime. Our contribution is to move beyond case studies of major wars in large economies. We provide the first systematic, cross-country evidence covering 115 interstate and intrastate conflicts over 75 years, showing how conflict reshapes debt, deficits, money, and inflation across a wide range of institutional and economic environments.

Finally, our analysis connects to the rare disasters literature, which emphasizes low-probability, high-cost events as central to understanding risk premia and long-run growth (Rietz, 1988; Barro, 2006; Gourio, 2012; Nakamura et al., 2013). In that literature, wars are a canonical example of a disaster shock. By documenting their systematic effects not only on output but also on inflation, debt, and external balances, we provide new evidence on the economic magnitude of war, complementing existing work that highlights their role in asset pricing and precautionary saving.

Section II describes the data. Section III documents the real effects of conflict on output, consumption, investment, and trade. Section IV examines how conflict reshapes the government's budget constraint, while Section V turns to the nominal side of the economy, focusing on money, inflation, and exchange rates. Section VI concludes.

II. Data

II.A Data Sources

We describe the main data sources used in our analysis below.

1. Conflict Data. Our main data source is the UCDP/PRIO Armed Conflict Dataset from the Uppsala Conflict Data Program. It records all armed conflicts worldwide.[2] A conflict meets four criteria. First, it involves the use of armed force. Second, it causes at least 25 battle-related deaths per year. Third, at least two parties are involved, one of which must be a state government. Fourth, the conflict is over an incompatibility, either about government—such as the political system or control of the central government—or about territory. The dataset covers 299 conflicts. For each, the data report the parties involved, the conflict's location or locations, and the type of incompatibility.

2. Defense Spending Data. We obtain data on military spending from the Military Expenditure Database from the Stockholm International Peace Research Institute. This dataset provides consistent time series on the military spending of countries since the 1950s, although the panel is unbalanced.

3. Aggregate Data. We use the Global Macro Database developed by Müller et al. (2025). This dataset has information on a wide range of aggregate outcomes for a large number of countries. Additionally, we obtain data on lending rates from the IMF's Monetary and Financial Statistics and data on private credit and deposits from the World Bank.

II.B Constructing the Dataset

We study how the onset of conflict shapes aggregate outcomes. A key challenge is that countries often experience more than one conflict, which implies repeated treatments. To address this, we organize the data at the conflict-country-year level and estimate a stacked event study following Cengiz et al. (2019).

For each conflict c, we define treated countries as those that participate directly, either as primary combatants or as supporting states contributing troops.[3] We exclude any

[2] We use the 24.1 version of the UCDP/PRIO Armed Conflict Dataset, developed by Gleditsch et al. (2002) and Davies et al. (2024).

[3] A country is classified as treated if it appears in any of the following fields: `gwno_a`, `gwno_b`, `gwno_a_2nd`, and `gwno_b_2nd` .

treated country that engages in a different conflict from five years before to ten years after the onset of conflict c. This restriction isolates the effect of conflict c itself. If no treated countries remain after this filter, we drop conflict c from the sample. Control countries are defined as those that do not participate in c and remain conflict-free over the same window. Hence, the control group consists solely of never-treated states.

Our dataset covers 135 conflicts, 47% of which are severe - with at least one year exceeding 1,000 battle-related deaths - and 78% intrastate, involving a state and rebel groups.[4] Figure I plots their distribution over time. These shares mirror those in the full conflict dataset reported by Benmelech and Monteiro (2025).

We achieve broad coverage of control countries, as shown in Online Appendix Figure A.1. On average, each conflict involves 2 treated countries and 152 control countries (never-treated within the event window).[5] We have 115 unique treated countries and 221 unique control countries.

Most conflicts are short, with a median duration of three years. Yet, as Online Appendix Figure A.2 shows, the distribution has a long right tail: the average duration is about ten years.

II.C Summary Statistics

We study 115 treated countries, shown in Figure II. Our sample is tilted toward countries that engage in conflict infrequently, since we require that treated countries not participate in more than one conflict at a time. For instance, the United States appears only twice in our sample, while Canada appears three times.[6] The regional composition is also uneven: there are more conflicts in Sub-Saharan Africa and Western Asia than in Northern and Southern Europe and Latin America.[7] We also show in Online Appendix Figure A.5 that the distribution of treated countries in our sample closely resembles that of the full universe of conflicts. This similarity indicates that the filters we impose — such as exclud-

[4]We begin with 299 conflicts, corresponding to 364 conflict episodes once intermittent conflicts are counted separately. Our final dataset therefore covers 37% of all conflict episodes. In the full sample, 39% are high-intensity (more than 1,000 battle-related deaths) and 85% are intrastate. These shares are very similar in our restricted sample, indicating that our filters do not materially alter the composition of conflicts.

[5]The number of treated countries is small for two reasons. First, most conflicts in our sample are intrastate, where some participants are nonstate actors not included in our data. Second, we exclude countries that enter another conflict during the event window.

[6]The distribution of conflicts per treated country is presented in Online Appendix Figure A.3. The average is 2.4 conflicts per treated country.

[7]The regional distribution of treated countries, compared to that of all countries worldwide, is shown in Online Appendix Figure A.4.

ing countries engaged in overlapping conflicts — do not materially alter the composition of treated countries. Hence, our results can be interpreted as representative of the broader population of conflict episodes rather than an artifact of sample construction.

To ensure comparability between treated and control groups, we conduct a balance exercise. For each outcome, we take one observation per conflict and country in the year preceding the onset of conflict, standardize it within conflict, and regress it on a treatment indicator with conflict fixed effects.[8] Errors are clustered at the conflict level. Results are reported in Figure III.

Overall, treated and control countries look very similar. There are no differences in GDP, GDP per capita (both in 2015 USD), or government debt. Treated countries also exhibit comparable levels of democracy, suggesting that autocracies are not disproportionately selected into conflict. Two differences emerge. First, defense spending as a share of GDP is higher in treated countries, consistent with anticipatory military buildups. Second, inflation is somewhat higher among treated countries.

III. Macroeconomic Aggregates

In this section, we estimate the consequences of conflict for key macroeconomic aggregates and explore the mechanisms underlying the decline in output. We first document the dynamic effects of conflict on GDP, consumption, investment, and trade. We then turn to the channels that account for both the magnitude and the persistence of these effects, linking our findings to theories of financial frictions.

III.A Empirical Strategy

Our goal is to estimate how the onset of conflict affects macroeconomic aggregates. We implement a stacked event study following Cengiz et al. (2019):

$$Y_{c,i,t} = \mu_{c,i} + \lambda_{c,r(i),t} + \sum_{\tau=-5,\, \tau\neq -1}^{10} \gamma_\tau \, 1\{t = \tau\} \, 1\{(i,c) \in \text{Treated}\} + \varepsilon_{c,i,t}, \tag{1}$$

where $Y_{c,i,t}$ is the outcome for country i in conflict c and year $t = -5, \ldots, 10$ relative to onset. We include conflict–country fixed effects $\mu_{c,i}$ and conflict–region–year fixed effects

[8] For each variable and conflict, we take its value in the year preceding the onset of conflict, yielding one observation per country (treated and control). We then standardize by subtracting the mean and dividing by the standard deviation.

$\lambda_{c,r(i),t}$.[9] The coefficients γ_τ measure the effect of conflict on treated countries τ years from onset, relative to control countries. Standard errors are clustered at the conflict level, the unit of treatment.[10]

Estimating event studies such as equation (1) using OLS may generate the bad comparisons problem emphasized by Goodman-Bacon (2021), Sun and Abraham (2021), and Callaway and Sant'Anna (2021). The concern is that treated units may be implicitly compared to other already-treated units, which may introduce a bias in the estimation. We address this by restricting the control group to *never-treated* countries - those not involved in any conflict during the relevant event window. This design choice ensures that treated countries are compared only to units that remain conflict-free, eliminating contamination from prior or simultaneous treatments. In doing so, we follow the best practices established in recent advances in the difference-in-differences literature (De Chaisemartin and d'Haultfoeuille, 2020; Borusyak, Jaravel and Spiess, 2024).

The standard assumption of an exogenous shock is unlikely to hold, since conflict is not randomly assigned. Conflict is shaped by long historical dynamics, and while it is shaped by long-run political and strategic conditions, it does not appear to be driven by short-run economic fluctuations (Benmelech and Monteiro, 2025). To address this, we include conflict–country fixed effects, which absorb time-invariant determinants such as permanently hostile neighbors or a state's general bellicosity. In addition, we include conflict–region–year fixed effects, which flexibly capture both regional variation in conflict risk and regional economic trends that might otherwise confound the estimates. Together, these controls mitigate concerns that our results reflect underlying geopolitical conditions rather than the causal effect of conflict itself.

We also estimate a condensed version of the event study by collapsing all post-onset years into a single treatment indicator:

$$Y_{c,i,t} = \mu_{c,i} + \lambda_{c,r(i),t} + \gamma\, 1\{(i,c) \in \text{Treated}\} \times 1\{t \geq 0\} + \varepsilon_{c,i,t}. \tag{2}$$

In this specification, the coefficient γ recovers the average treatment effect of conflict on the outcome, pooling across all post-onset years.

[9] Regions are: Southern Asia, Western Asia, South-Eastern Asia, Eastern Asia, Central Asia, Latin America and the Caribbean, Sub-Saharan Africa, Southern Europe, Polynesia, Western Europe, Eastern Europe, North America, Northern Europe, North Africa, Melanesia, Micronesia, Oceania, and other nations.

[10] Each conflict onset defines a treatment episode, and our stacked design creates one panel per episode, pairing treated countries with control countries outside conflict during the same window. Clustering at the conflict level captures serial correlation and common shocks within an episode, following Cengiz et al. (2019). Clustering at the country level would understate uncertainty, since countries may appear in multiple episodes but the identifying variation is within-episode.

III.B Baseline Results

We estimate equation (2) using as outcomes the logarithm of real GDP, real consumption, real investment, real exports, and real imports, all expressed in constant 2015 USD. These variables capture the main macroeconomic aggregates through which conflict may affect economic performance. The results are reported in Table I.

We find that conflict reduces real GDP in treated countries by about 13% relative to control countries, corresponding to a loss of more than $28 billion (in 2015 prices) compared to the unconditional mean. Consumption also falls, though by less, consistent with its lower volatility relative to GDP (Backus, Kehoe and Kydland, 1992). In contrast, investment contracts more sharply than consumption, with real investment declining by nearly 14%. External trade is similarly affected: exports fall by roughly 13%, while imports decline by only 7%. Compared to the unconditional mean, exports decline by $4.4 billion, while the decline in imports is only $2.3 billion. Therefore, the current account decreases by $2.1 billion.

Table I also reports a Wald test for pretrends. For each outcome, we estimate equation (1) and test the joint null that $\gamma_\tau = 0$ for all $\tau < 0$. In every case, the data show no systematic differences between treated and control countries prior to the onset of conflict. This supports the credibility of our identification strategy.

We also estimate the dynamic specification in equation (1), which traces the evolution of outcomes around the onset of conflict. The results are presented in Figure V, allowing us to assess both the immediate impact of conflict and the persistence of its effects over time.

Conflict induces a large but gradual contraction in output. On impact, real GDP falls by only 3.3%, but ten years after onset it is 18% lower in treated countries than in control countries. Moreover, there is little evidence of stabilization: Panel A shows a sustained decline in real output over the decade following conflict. Consumption exhibits a similar pattern, though with eventual stabilization. Seven years after onset, the decline levels off, yet by year 10 real consumption remains 14% below that of control countries (Panel B). Investment likewise displays a persistent contraction, with no sign of recovery. Finally, Panel D shows that real exports fall immediately by about 7%, but the decline stabilizes roughly five years after conflict begins. Taken together, these results suggest that conflict imposes severe and lasting macroeconomic costs, with output and investment particularly hard hit.

The effects we document are large but consistent with recent evidence on the economic costs of war. For instance, Ukraine's real GDP fell by nearly 30% in 2022 (European Parlia-

ment, 2024), a sharper contraction than in our estimates, reflecting the extreme severity of that conflict relative to the average in our sample. Cerra and Saxena (2008) find that civil wars are associated with a cumulative decline in GDP of 15–17%, closely matching our quantitative results. Similarly, exploiting the outbreak of terrorism in the Basque Country, Abadie and Gardeazabal (2003) report a 10% fall in GDP per capita relative to a synthetic control. Taken together, these studies indicate that our estimates are both plausible and firmly in line with the broader empirical literature.

Where our results diverge from much of the literature is in persistence. As Blattman and Miguel (2010) emphasize, conflicts are often followed by relatively rapid recoveries, unlike the protracted declines we document. Classic case studies point in the same direction: Davis and Weinstein (2002) show that Japanese cities bombed in World War II rebounded quickly, and Miguel and Roland (2011) finds that US bombing of Vietnam left no long-run scars on affected areas. Yet such recoveries are not universal. Brakman, Garretsen and Schramm (2004) show that West German cities recovered rapidly after World War II, while East German cities did not. Moreover, rapid recoveries may be the exception rather than the rule in a broader cross-country setting. Consistent with our findings, Federle et al. (2024) use a large panel of countries and conflicts and also document a persistent decline in real output following the onset of conflict. Taken together, this suggests that persistence is not an anomaly in our data but a systematic feature of many conflicts.

One reason we may find stronger persistence is that our dataset covers a much larger number of conflicts, including many intrastate wars in lower-income and institutionally weaker countries. These conflicts are typically fought on domestic soil, generate deeper disruptions to state capacity and credit markets, and leave economies with fewer resources to finance reconstruction. By broadening the scope of analysis beyond the handful of well-studied historical episodes, our results reveal that the deep and lasting scars of conflict are more common than the rapid recoveries highlighted in earlier case studies.

Our results are not driven by differences between the universe of conflicts and the sample we obtain after imposing filters. In Online Appendix Figure B.1, we re-estimate equation (1) using the full universe of conflicts, including treated countries involved in multiple conflicts and control countries exposed to other conflicts. Real output still declines after the onset of conflict, but the estimated effects are smaller. This attenuation is consistent with contamination bias: once control countries experience treatment within the event window, the contrast between treated and controls is artificially muted. We also estimate the event study using a narrower window of five years after the onset of conflict, which expands the number of eligible conflicts and countries. The results, reported in Online Appendix Figure B.1, are smaller in magnitude but remain qualitatively identical.

Importantly, in both exercises we continue to find no evidence of recovery: output does not bounce back even in broader samples or shorter windows. Taken together, these robustness checks reinforce that the persistence of conflict's economic costs is not an artifact of sample construction but a systematic feature of the data.

III.C Mechanisms

Conflict generates three distinct consequences. First, it triggers an immediate increase in military spending. Figure IV shows that military expenditure rises by about 9% at onset and remains elevated for three years—roughly the median conflict duration. Second, conflict destroys part of the territory and capital stock, as vividly illustrated by the city bombings of World War II studied by Davis and Weinstein (2002). Third, conflict reduces overall productivity. Beyond the direct disruption of production, wars generate misallocation as firms operate under distorted relative prices and heightened uncertainty, human capital losses as workers are displaced or killed, and institutional erosion as governments lose control over parts of their territory and population. Evidence from Vietnam shows large and persistent productivity losses from bombings (Miguel and Roland, 2011), while broader surveys emphasize the long-run scars of civil wars on income, health, and education (Blattman and Miguel, 2010). Conflict also undermines fiscal and legal capacity, weakening the institutions that support growth (Besley and Persson, 2010). Together, these channels imply that conflict not only shrinks the capital stock but also lowers the efficiency with which remaining resources are used.

The economic implications follow directly. Capital destruction and lower productivity reduce output, consistent with the sustained fall in GDP documented in Panel A of Figure V. The resulting negative wealth effect lowers consumption. At the same time, conflict can be understood as a negative endowment shock, which depresses domestic savings. The post-conflict period also generates extraordinary demand for funds to finance reconstruction. Taken together, the drop in savings and the demand for funds to finance reconstruction imply a temporary worsening of the current account—precisely the pattern we observe in the data.[11]

However, conflict should be associated with a higher level of investment. The destruction of capital increases the marginal product of capital, which in turn should stimulate new investment. Instead, Panel C of Figure V shows the opposite: conflict produces a large and persistent decline in investment.

[11] In small open economy models, negative productivity or endowment shocks lead to a deterioration of the current account; see Mendoza (1991) and Uribe and Schmitt-Grohé (2017).

A common explanation for falling investment after conflict is capital flight, as argued by Collier (1999). By the balance-of-payments identity,

$$\text{CA} + \text{FA} - \Delta\text{Reserves} = 0,$$

where CA denotes the current account (exports minus imports), FA the financial account (capital inflows minus outflows), and ΔReserves the change in central bank reserves. Capital flight implies $\Delta\text{FA} < 0$. In our data, however, we also find $\Delta\text{CA} < 0$. For the identity to hold, this would require either an decline in reserves or large offsetting inflows. Given the conflict scenario, it is more likely than the central bank is running down reserves to finance both the financial and the current account. However, the effectiveness of that intervention is limited by the amount of reserves the central bank holds. As reserves run out, the current and financial account deficits need to be financed by a nominal depreciation as we show in Section V.

Several alternative mechanisms are also consistent with our findings. First, conflict may induce a persistent decline in total factor productivity. If large enough, this reduces the marginal product of capital and depresses investment. Second, conflict may raise trade costs, impairing the ability to import and export. If most capital goods are imported, higher trade costs increase their relative price, again reducing investment.

A further explanation is the presence of financial frictions.[12] If firms face collateral or net worth constraints, as in Kiyotaki and Moore (1997) or Bernanke, Gertler and Gilchrist (1999), the destruction of capital erodes pledgeable assets, raising spreads and tightening lending. To explore this channel, we estimate equation (1) using as outcomes the logarithm of the real lending rate and the logarithm of real domestic credit. The results are presented in Figure VI.

We find that conflict leads to a large and persistent contraction in domestic credit. On impact, real domestic credit falls by 8% in treated countries relative to control countries. Ten years after the onset of conflict, the decline reaches 28%, equivalent to $72 billion (2015 prices). This decline is larger than the decline we observe for real GDP and therefore credit as a share of GDP also declines. By contrast, the estimated effect on lending rates is indistinguishable from zero. This is consistent with credit rationing, as in Stiglitz and Weiss (1981), where market interest rates do not fully reflect credit market tightness.[13] The

[12] Another possible channel is heightened uncertainty. A persistent rise in uncertainty, as in Bloom (2009) or Arellano, Bai and Kehoe (2019), can also depress investment.

[13] The weakly positive effect on lending rates also helps rule out a demand-driven story: if the fall in credit reflected lower demand, we would expect to see falling, not rising, rates. The evidence in Figure VI therefore points to a supply-driven credit crunch.

persistence of the decline in domestic credit offers a natural explanation for the equally persistent drops in output and investment.

In sum, although theory suggests that conflict should spur investment by raising the marginal return to capital, our evidence points instead to a sharp and persistent contraction. Several mechanisms could account for this pattern. One possibility is capital flight, which drains resources from the domestic economy and further depresses investment. Another is the tightening of financial constraints: the destruction of collateral reduces lending, and in the presence of financial frictions, the resulting credit crunch amplifies the initial capital losses. This mechanism provides a natural explanation for why neither output nor investment recovers even a decade after the onset of conflict.

III.D State-Dependent Effects

Our aggregate results mask substantial heterogeneity, both across conflict types and across countries. To explore this, we estimate a triple-difference version of equation (2) comparing low- and high-income countries, where income is measured by real GDP per capita in the year preceding the onset of conflict.[14] Results are reported in Table II.[15]

Output and consumption fall by similar magnitudes across both groups. Following the onset of conflict, low- and high-income countries experience comparable declines in GDP and in real consumption. In contrast, investment diverges sharply. Low-income countries suffer a 21% drop in real investment, whereas in high-income countries the decline is only 2.9%. This gap is consistent with the presence of financial frictions, which are more binding in low-income economies.[16]

Trade patterns also differ. High-income countries do not experience an export decline, while low-income countries see a 21% contraction. On the import side, low-income countries record a 16% fall, while high-income countries increase imports by 6.1%. For high-income countries, the current account therefore deteriorates despite resilient investment, which explains why output losses are similar across groups. For low-income countries, the sharper decline in imports likely reflects the collapse of investment, given their heavy reliance on imported capital goods (Burstein and Gopinath, 2014).

[14]For each conflict, and using the real GDP per capita in the year preceding the onset of conflict, we compute the cross-sectional median. Countries with a real GDP per capita above or equal to the median are classified as high-income, while countries with a real GDP per capita below the median are classified as low-income countries.

[15]We also report dynamic effects by group in Online Appendix Figure B.2.

[16]Low-income countries are also more likely to experience conflict on their own territory, which implies greater destruction of the capital stock. But capital destruction should raise the marginal product of capital and stimulate investment. The fact that investment collapses instead points to the role of financial frictions.

III.E Interstate versus Intrastate Conflicts

Most research on the economic consequences of conflict has focused on interstate wars (Hall and Sargent, 2022; Federle et al., 2024). Yet, as Panel B of Figure I shows, the vast majority of conflicts in the past 75 years have been intrastate, involving governments and one or more rebel groups. To assess whether their economic impact differs, we estimate equation (1) separately for interstate and intrastate conflicts, with results reported in Figure VII.

The contrast is striking. Ten years after onset, intrastate conflicts reduce real output by 20% relative to control countries—a cumulative loss of nearly $25 billion (in 2015 prices)—whereas interstate conflicts lower output by only 10%. Consumption follows the same pattern: intrastate wars generate an 8% decline, compared with 15% for interstate wars. Investment exhibits an even sharper divergence. For interstate conflicts investment remains unchanged, but for intrastate conflicts it falls persistently, reaching a 19.6% decline after a decade. Exports also contract only in intrastate conflicts, whereas interstate wars show no significant effects on exports.

These differences cannot be attributed to conflict duration. Intrastate conflicts are much shorter on average—two years compared with twelve for interstate wars—yet they inflict deeper economic scars. Instead, the explanation lies in the nature of civil wars and the characteristics of the countries that experience them. Because intrastate conflicts are fought on domestic soil, they destroy infrastructure and productive capital directly, while simultaneously eroding government control over territory and population. The resulting weakening of property rights reduces the effective capital stock available for production (Collier, 1999). In addition, countries engaged in intrastate conflicts are typically poorer and more fragile: in the year prior to conflict, their GDP per capita is only two-thirds that of countries involved in interstate wars. Lower income and weaker institutions make these economies especially vulnerable to shocks, as they lack fiscal and financial buffers. Financial frictions amplify the damage: with domestic credit markets shallow and collateral values collapsing, firms cannot finance investment or reconstruction even when returns are high. Moreover, low-income countries are less likely to be able to replace domestic credit with foreign credit. In this sense, the combination of direct capital destruction, weakened state capacity, and binding financial constraints helps explain why intrastate conflicts carry especially severe and persistent economic costs.

We also compare the post-conflict trajectories of winners and losers. Our dataset identifies outcomes for 45% of conflicts; the remainder end in peace agreements without a

clear victor.[17] We classify treated countries accordingly and re-estimate equation (1) for two subsamples: (1) winners versus all control countries, and (2) losers versus all control countries. The results, shown in Figure VIII, reveal stark differences. Countries that lose a conflict suffer a cumulative 24% decline in real output over the following decade—a loss of $11.7 billion (in 2015 prices) relative to control countries. By contrast, countries that win a conflict show no statistically significant decline in output relative to control countries ten years after onset. These results suggest that the aggregate economic costs of conflict are borne disproportionately by the losers.

We summarize the effects of conflict on real output in Table III. In the full sample, the estimated average treatment effect increases from 7% to 13% once region–year fixed effects are included. This nearly twofold change reflects the fact that region–year fixed effects absorb regional output trends, sharpening identification. The results also reveal substantial heterogeneity. Intrastate conflicts are far more destructive than interstate conflicts: the average treatment effect is 14% for intrastate wars, compared to only 8% for interstate wars. Finally, outcomes differ sharply between winners and losers. Countries that lose wars experience large and persistent output losses, whereas countries that emerge victorious suffer much smaller declines. Taken together, these findings highlight that both the type of conflict and its outcome are critical in shaping the magnitude of economic losses. There is also substantial heterogeneity across conflict types. As shown in Online Appendix Figure B.3, high-intensity conflicts (with more than 1,000 battle-related deaths) generate markedly larger contractions in output. Strikingly, investment does not fall in low-intensity conflicts, underscoring the importance of conflict severity. Turning to duration, Online Appendix Figure B.4 shows that both short and long conflicts are associated with comparable output losses, but only long conflicts depress investment.[18]

IV. Government's Budget Constraint

Because wars must be financed, understanding how governments adjust their fiscal stance is central to our analysis. In this section, we examine how conflict reshapes the government's budget constraint. We begin by estimating its effects on debt, expenditure, and revenue. We then analyze how conflict alters the composition of public debt, focusing on its currency denomination, maturity structure, and ownership.

[17] We can identify winners and losers for 52% of all intrastate conflicts and for 40% of all interstate conflicts.

[18] We define a conflict as short if its duration is below the median duration computed across all conflict episodes in our final sample. Similarly, a conflict is defined as long if its duration is equal to or larger than the median duration.

IV.A Baseline Results

We now turn to the government's budget constraint. To study how governments respond to the onset of conflict, we estimate equation (2) for five outcomes: (1) real government debt, (2) real government expenditure, (3) real government revenue, (4) real tax revenue, and (5) an indicator equal to one if the government runs a deficit and zero otherwise. The results are reported in Table IV.

We find that real government debt falls by more than 9% following the onset of conflict, a reduction of $11.4 billion (in 2015 prices) for treated countries relative to control countries. The ratio of debt to GDP, however, remains unchanged, as shown in Online Appendix Table B.1. Government expenditure in real terms does not decline. This is notable because real military spending rises in the three years after conflict begins (Figure IV), implying that governments reduce spending on non-military items to offset higher defense outlays.

By contrast, government revenues fall sharply. Overall real revenue declines by 14.5% and tax revenue by 9%, reflecting both the contraction in output and diminished fiscal capacity (Besley and Persson, 2008, 2010). With expenditures holding steady, these revenue losses translate directly into higher deficits. Indeed, the probability of running a deficit rises by 6 percentage points—roughly 9% relative to the unconditional mean—underscoring the deterioration of government finances after conflict.

The decline in real government debt may not reflect a fall in nominal debt if conflict induces inflation. In that case, governments could increase nominal debt while the real burden falls. To test this possibility, we estimate equation (1) for two outcomes: the logarithm of government debt in current local currency units, and the logarithm of government debt in constant local currency units (deflated by the local CPI). The results are presented in Figure IX.

In nominal terms, government debt rises after the onset of conflict, although only gradually. On impact, there is no difference between treated and control countries. A decade later, however, treated countries hold a nominal debt stock 69% larger than control countries. By contrast, real government debt in constant local currency units falls persistently, declining by 22% after ten years. Moreover, the coefficients for real debt become statistically significant earlier than those for nominal debt.

Two mechanisms may account for this divergence. First, governments may issue more debt, but the increase is outpaced by inflation.[19] Second, the rise in nominal debt may reflect exchange rate depreciation rather than new issuance. In our sample, half of gov-

[19] In Section V we show evidence of a large increase in the price level following conflict.

ernment debt is denominated in foreign currency on the eve of conflict. Even if the stock of foreign-currency debt remains constant, a depreciation of the nominal exchange rate mechanically inflates its value in local currency.[20]

We also examine the dynamic effects of conflict on the government's budget constraint, reported in Online Appendix Figure B.5. The decline in real government debt is gradual and highly persistent. As shown in Online Appendix Figure B.6, this pattern is driven by high-intensity conflicts, while low-intensity conflicts are instead associated with cuts in government expenditure. Turning to duration, Online Appendix Figure B.7 shows that both short and long conflicts reduce real government debt. Online Appendix Figure B.8 indicates no systematic differences between interstate and intrastate conflicts in their fiscal impact. Finally, Online Appendix Figure B.9 shows that the fiscal consequences of conflict are similar for winners and losers: winning a war does not mitigate the deterioration in government accounts.

Taken together, these results indicate that the observed rise in nominal government debt does not reflect greater fiscal capacity. Rather, it is the byproduct of inflation and exchange rate depreciation: real government debt—the relevant measure of fiscal space—declines after conflict.

IV.B Composition of Government Debt

The onset of conflict may also alter the composition of government debt. To examine this, we estimate equation (2) for three outcomes: the share of government debt held by foreign creditors, the share denominated in foreign currency, and the share with maturity exceeding one year. Results are reported in Table V.

We find no change in the share of debt held by foreigners or in the share denominated in foreign currency. By contrast, the share of long-term debt declines by 2.2 percentage points—about 2.5% relative to the unconditional mean—for treated countries relative to controls. Governments therefore tilt issuance toward shorter maturities.[21] Although the shift may appear modest, it is economically meaningful. Debt maturity structures are typically stable over time, reflecting long-term investor relationships, institutional frameworks, and market depth (Missale and Blanchard, 1994; Arellano and Ramanarayanan,

[20] Formally, let $B^{\star}_{t+1}$ denote government debt issued in foreign currency (e.g. USD). Its local-currency value is $B^{\star}_{t+1} \times \mathcal{E}_t$, where $\mathcal{E}_t$ is the nominal exchange rate in local currency per unit of foreign currency. A large depreciation of $\mathcal{E}_t$ therefore raises the nominal value of debt even if $B^{\star}_{t+1}$ remains unchanged. In Section V we show evidence that conflict causes a large nominal depreciation.

[21] This decline in maturity is consistent with evidence that when spreads rise, emerging economies reduce issuance and shift toward short-term borrowing (Broner, Lorenzoni and Schmukler, 2013). Similarly, Arellano and Ramanarayanan (2012) show that maturities fall during crises.

2012). A reallocation of this magnitude thus signals a significant adjustment. Moreover, our estimate is likely attenuated by institutional constraints: in some countries, limited market access or shallow financial systems prevent changes in debt composition, leaving the maturity profile mechanically unchanged. This censoring effect biases the average impact downward, suggesting that the true effect of conflict on maturity structures—among countries with market access—is larger. From a fiscal perspective, even a 2.2 percentage point shift is substantial. On the eve of conflict, government debt averaged 53% of GDP in treated countries; a reallocation of this size therefore implies that roughly 1.2% of GDP in debt is shifted from long-term to short-term maturities, significantly raising rollover risk.

The mechanism is natural. Conflict increases the riskiness of sovereign debt, either through heightened default probabilities or higher expected inflation. Investors may then be unwilling to hold longer-term assets—or demand premia so large that short-term borrowing becomes more attractive (Aguiar et al., 2019). As a result, governments retire long-term debt and issue shorter-term instruments.

This increased reliance on short-term debt carries costs. Higher rollover risk forces governments to refinance more frequently, precisely at a time when real activity is depressed and fiscal needs are high. As shown in Figure V, the effects of conflict are persistent, so shifting toward short maturities may amplify macroeconomic fragility. Moreover, if conflict drives sustained increases in the price level, rollover implies an escalating path of debt payments as nominal interest rates adjust to expected inflation.

V. Money and Prices

We now turn to the nominal side of the economy. Starting from the government's budget constraint, we show that conflict gives rise to seigniorage revenues generated through inflation. We then examine how this form of war finance shapes exchange rates, linking fiscal imbalances to currency depreciation.

V.A From the Government's Budget Constraint to Prices

We have so far focused on the real side of the economy. Before turning to the effects of conflict on money and prices, it is useful to start from the government's budget constraint. In nominal terms, this is given by

$$B_{t+1} + M_{t+1} = (1 + i_t)B_t + M_t + G_t - T_t,$$

where the left-hand side represents end-of-period nominal debt B_{t+1} and money supply M_{t+1}, while the right-hand side consists of debt service $(1+i_t)B_t$, the beginning-of-period money stock M_t, government spending G_t, and revenues T_t. Dividing by the price level yields the real budget constraint:

$$b_{t+1} + m_{t+1} - (g_t - \tau_t) = \frac{1+i_t}{1+\pi_t} b_t + \frac{m_t}{1+\pi_t}, \tag{3}$$

where $b_t = B_t/P_{t-1}$, $m_t = M_t/P_{t-1}$, $g_t = G_t/P_t$, $\tau_t = T_t/P_t$, and $1+\pi_t = P_t/P_{t-1}$ is gross inflation. On the left-hand side, the government finances its real deficit $g_t - \tau_t$ through new debt issuance b_{t+1} or increases in real money balances m_{t+1}.

As shown in Table IV, real government debt declines while real government deficits rise following conflict. For the budget constraint to hold, governments must therefore rely either on increases in real money balances m_{t+1} or on higher inflation π_t. In the first case, households are induced to hold more real balances, effectively transferring goods to the government via *seigniorage*. In the second case, higher inflation allows the government to (i) erode the real value of outstanding debt through the *inflation tax* at the onset of conflict, and (ii) generate seigniorage by reducing the real value of money balances.

To evaluate these mechanisms, we estimate equation (2) using four outcomes: the logarithm of M0, M0 deflated by the CPI, the CPI, and the GDP deflator. The results are reported in Table VI.

We find that, following the onset of conflict, real money holdings do not change for treated countries relative to control countries. By contrast, nominal money supply (M0) rises by 51%. Thus, governments do not finance deficits through an expansion of real balances, but rather through higher prices. Consistent with this, we estimate that the price level of treated countries increases by 48% relative to control countries after conflict begins.[22] These results indicate that governments finance deficits primarily through seigniorage and, on impact (assuming the initial price increase is unanticipated), through an inflation tax on debtholders.

Event-study estimates, reported in Figure X, show that the rise in money supply and prices is both persistent and gradual. On impact, M0 and the CPI increase by around 9% in treated countries relative to control countries. After a decade, money supply is 87% higher and the price level 85% higher. The evidence thus points to conflict-driven fiscal expansions financed not by real money balances, but by sustained monetary expansion and inflation.

[22] In Online Appendix Table B.2 we replicate this analysis using alternative definitions of money supply and find consistent evidence of expansion across all measures.

Our findings are consistent with a theory of *fiscal dominance*, as in Sargent and Wallace (1981). In this framework, post-conflict inflation arises from the combination of government deficits and a reduction in real government debt. To finance these deficits, governments raise seigniorage revenues through higher price levels. This mechanism redistributes wealth away from moneyholders and toward the state. If the inflation is initially unanticipated, it also reduces the real burden of outstanding debt, effecting a one-time transfer from debtholders to the government. Such a strategy, however, is not sustainable: once investors adjust their expectations, they demand higher nominal interest rates. Our findings are not consistent with a simple quantity theory of money under constant velocity. In such a framework, real money balances and real output should move one-for-one. Instead, we find that real money balances remain unchanged while real output falls. Within the logic of the quantity equation, this implies a decline in velocity. In other words, conflict induces a *flight to liquidity*: agents choose to hold more money relative to their transaction needs.

This flight to liquidity is costly. As shown in Table VI and Figure X, conflict generates inflation, so holding money entails a substantial negative return. If agents nonetheless anticipate higher inflation and still prefer to hold money, there must be compensating benefits. A natural explanation is financial dislocation: conflicts disrupt capital markets and generate turmoil in the banking system. Indeed, Online Appendix Figure B.10 shows that the ratio of deposits to GDP declines sharply after the onset of conflict. In such environments, households may substitute into cash from deposits or government debt, while restrictions on capital mobility and shallow financial markets (Calvo and Végh, 1999) limit the ability to shift into foreign assets, making money a *captive asset*. Another possibility is financial repression, as in Reinhart and Rogoff (2011) and Reinhart and Sbrancia (2015), where governments impose policies that prevent households from divesting away from cash.

Inflation also imposes costs through its effects on investment. In models with nominal rigidities, higher inflation is associated with greater price dispersion, which lowers the marginal product of capital (Woodford, 2003; Clarida, Galí and Gertler, 1999). In addition, the high inflation we document after conflict may induce monetary authorities to raise nominal interest rates. With sticky prices, this raises real interest rates and the user cost of capital. Both channels decrease Tobin's q, as in Christiano, Eichenbaum and Evans (2005), thereby depressing investment. These mechanisms operate independently of financial frictions and thus provide a complementary explanation for the persistent decline in investment we observe.

V.B Effect on Exchange Rates

Finally, we turn to the exchange rate. Having shown that conflict triggers monetary expansion, higher prices, and a worsening of the current account, we now examine the implications for currency values by estimating equation (2) with nominal and real exchange rates as outcomes. Results are presented in Figure XI.

Conflict generates a sharp nominal depreciation. On impact, the nominal exchange rate rises by 12% for treated countries relative to control countries. A decade after onset, the local currency has depreciated by roughly 180%, implying a loss of almost two-thirds of its value against the dollar.

By contrast, we find no evidence of a real depreciation. The large nominal depreciation passes through fully into domestic prices, so competitiveness does not improve and expenditure switching fails to materialize. This pattern is consistent with the evidence in Burnside, Eichenbaum and Rebelo (2001), who show that currency crises often involve substantial nominal devaluations with little effect on real exchange rates, as domestic prices adjust rapidly. In our context, this complete pass-through explains why the current account deteriorates rather than adjusts: the devaluation provides no gain in external competitiveness, only higher domestic prices.

The nominal depreciation also provides a channel for the decline in investment. If capital goods are imported, a weaker currency raises their relative price in local currency and reduces investment. Empirically, large devaluations have been shown to translate into higher prices for tradable inputs, including machinery and equipment, thereby depressing capital accumulation (Burstein, Eichenbaum and Rebelo, 2005; Burstein and Gopinath, 2014). Because the depreciation we document is large and persistent, the resulting increase in the relative price of capital goods offers a natural explanation for the equally persistent decline in investment.

V.C State-Dependent Effects

We have shown that governments are more likely to run deficits after conflict, and that these deficits are financed through money creation. An important question is whether the consequences of monetary financing depend on the pre-conflict fiscal stance. To examine this, we estimate a triple-difference version of equation (2), comparing treated countries that ran a primary surplus in the year before conflict with those that ran a deficit. Results are reported in Table VII, with dynamic effects in Online Appendix Figure B.11.

The contrast is stark. Countries already in deficit before conflict expand money supply

and experience higher inflation, while those in surplus do not. In other words, conflict generates inflation only when governments enter with weak fiscal positions. Neither group finances war through increases in real money balances, but only deficit countries experience a nominal depreciation. These results underscore that conflict-induced inflation is not automatic but arises in the presence of fiscal fragility.

Heterogeneity by conflict characteristics reinforces this pattern. As shown in Online Appendix Figure B.12, only high-intensity conflicts generate inflation, monetary expansion, and depreciation. Duration also matters: only long conflicts, reported in Online Appendix Figure B.13, produce these outcomes. Finally, as Online Appendix Figure B.14 shows, intrastate conflicts are associated with larger price-level increases than interstate conflicts.

VI. Conclusion

Wars force governments and societies to adjust under extreme duress. Using a novel dataset of 115 conflicts covering 145 countries over the past 75 years, we provide systematic evidence on the macroeconomic consequences of conflict. Across real, fiscal, monetary, and external dimensions, our results reveal large and highly persistent effects. Real GDP falls by 13% on average, with no evidence of recovery even a decade after the onset of conflict. Investment collapses and fails to rebound, a pattern we trace to financial frictions and the contraction of domestic credit. Moreover, the drop in real activity is more pronounced for intrastate conflicts, since these are associated with a greater reduction of the capital stock as governments lose control over part of the territory. Government revenues decline while expenditures remain stable, increasing the likelihood of deficits and shifting debt issuance toward shorter maturities. These fiscal pressures give rise to inflationary finance: price levels rise by nearly 50% and remain elevated, consistent with theories of fiscal dominance. Inflation erodes real debt, redistributes wealth from moneyholders and debtholders to governments, and creates additional costs by depressing investment and increasing rollover risk. Finally, conflicts trigger large nominal depreciations that pass fully into domestic prices, worsening current accounts and raising the cost of imported capital goods.

Our analysis highlights that the economic toll of conflict is not confined to the battlefield or to short-term disruptions. Wars leave deep and lasting scars on productive capacity, public finances, and monetary stability. Understanding these mechanisms is essential for assessing the true cost of conflict and for designing postwar reconstruction strategies. Future work could explore the political economy channels—such as institutional change,

external aid, or the design of fiscal and monetary frameworks—that determine why some states recover quickly while others remain trapped in persistent decline.

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TABLES AND FIGURES

TABLE I
EFFECT OF CONFLICT ON MACROECONOMIC AGGREGATES

	GDP	Consumption	Investment	Exports	Imports
Treated × Post	-0.130***	-0.111***	-0.135**	-0.125***	-0.065*
	(0.021)	(0.023)	(0.055)	(0.043)	(0.036)
Conflict-Country FE	✓	✓	✓	✓	✓
Conflict-Region-Year FE	✓	✓	✓	✓	✓
Wald F-stat	1.37	1.28	2.30	1.02	0.54
Wald p-value	0.24	0.34	0.06	0.40	0.70
Observations	167,726	151,315	160,601	164,388	164,136
Within R^2 (%)	0.33	0.13	0.07	0.07	0.02

Notes. This table shows the results of estimating equation (2). We consider five dependent variables: the logarithm of real GDP, the logarithm of real consumption, the logarithm of real investment, the logarithm of real exports, and the logarithm of real imports. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the estimate for the average treatment effect of conflict. We also report the results of a Wald test for pretrends in the estimation of equation (1). The null hypothesis is the absence of pretrends. Standard errors are clustered at the conflict level. $***$, $**$, and $*$ denote significance at the 1%, 5%, and 10% level, respectively.

TABLE II
EFFECT OF CONFLICT ON MACROECONOMIC AGGREGATES - ROLE OF COUNTRY INCOME

	GDP	Consumption	Investment	Exports	Imports
Treated × Post	-0.150***	-0.139***	-0.212***	-0.213***	-0.156***
	(0.026)	(0.030)	(0.069)	(0.055)	(0.047)
Treated × Post × High Income	0.057	0.069	0.183**	0.234***	0.217***
	(0.038)	(0.047)	(0.080)	(0.069)	(0.066)
Conflict-Country FE	✓	✓	✓	✓	✓
Conflict-Region-Year FE	✓	✓	✓	✓	✓
Observations	154,492	138,880	146,525	149,332	149,198
Within R^2 (%)	0.36	0.21	0.36	0.23	0.45

Notes. This table shows the results of estimating a triple-difference version of equation (2). We consider five dependent variables: the logarithm of real GDP, the logarithm of real consumption, the logarithm of real investment, the logarithm of real exports, and the logarithm of real imports. We include conflict-country and conflict-region-year fixed effects. We split countries into two groups based on their real GDP per capita in the year preceding the onset of conflict - countries below the median are classified as having low income, and countries above the median are classified as high-income. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the estimate for the average treatment effect of conflict, and estimates for the difference in the average treatment effect between low-income and high-income countries. Standard errors are clustered at the conflict level. $***$, $**$, and $*$ denote significance at the 1%, 5%, and 10% level, respectively.

TABLE III
EFFECT OF CONFLICT ON REAL OUTPUT

	Full Sample		Interstate	Intrastate	Winners	Losers
Treated × Post	-0.070***	-0.130***	-0.081**	-0.143***	-0.061**	-0.121*
	(0.019)	(0.021)	(0.038)	(0.024)	(0.029)	(0.061)
Conflict-Country FE	✓	✓	✓	✓	✓	✓
Conflict-Year FE	✓					
Conflict-Region-Year FE		✓	✓	✓	✓	✓
Observations	167,726	167,726	35,999	131,727	58,909	58,502
Within R^2 (%)	0.09	0.33	0.15	0.38	0.04	0.11

Notes. This table shows the results of estimating equation (2), where the dependent variable is the logarithm of real GDP. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the estimate for the average treatment effect of conflict. We present the results for six specifications: (1) including conflict-year fixed effects, (2) including conflict-year-region fixed effects, (3) including only interstate conflicts, (4) including only intrastate conflicts, (5) including only treated countries that win the conflict and all control countries, and (6) including only treated countries that lose the conflict and all control countries. $***$, $**$, and $*$ denote significance at the 1%, 5%, and 10% level, respectively.

TABLE IV
EFFECT OF CONFLICT ON GOVERNMENT'S BUDGET CONSTRAINT

	Debt	Expenditure	Revenue	Taxes	Has Deficit
Treated × Post	-0.094**	-0.053	-0.145**	-0.091**	0.061**
	(0.047)	(0.068)	(0.056)	(0.042)	(0.027)
Conflict-Country FE	✓	✓	✓	✓	✓
Conflict-Region-Year FE	✓	✓	✓	✓	✓
Wald F-stat	3.47	2.23	1.92	1.69	1.11
Wald p-value	0.01	0.06	0.10	0.15	0.35
Observations	112,599	119,022	127,222	102,898	110,648
Within R^2 (%)	0.03	0.02	0.09	0.04	0.01

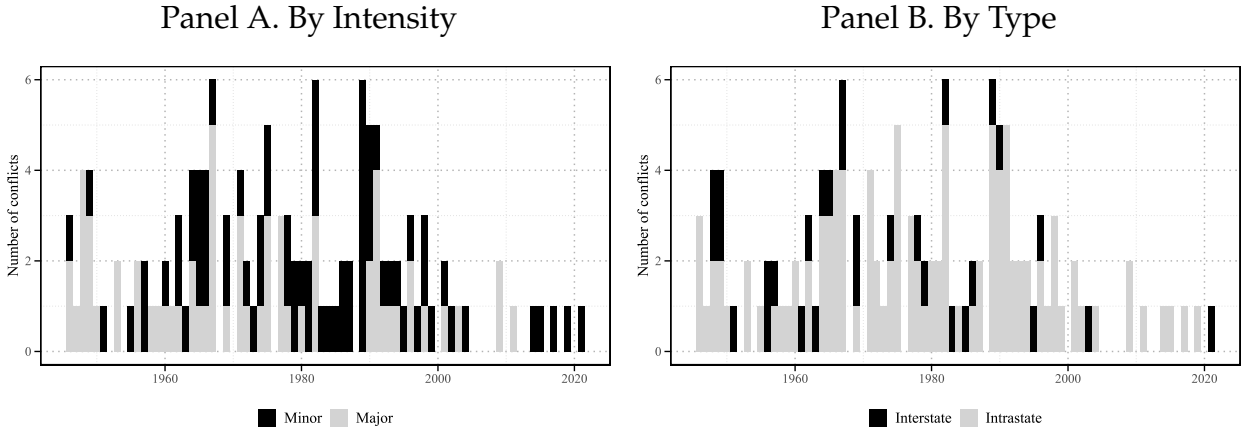
Notes. This table shows the results of estimating equation (2). We consider five dependent variables: the logarithm of real government debt, the logarithm of real government expenditure, the logarithm of real government revenue, the logarithm of real tax revenue, and an indicator variable that takes the value of one if the government has a deficit, and zero if otherwise. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the estimate for the average treatment effect of conflict. We also report the results of a Wald test for pretrends in the estimation of equation (1). The null hypothesis is the absence of pretrends. Standard errors are clustered at the conflict level. $***$, $**$, and $*$ denote significance at the 1%, 5%, and 10% level, respectively.

TABLE V
EFFECT OF CONFLICT ON GOVERNMENT DEBT COMPOSITION

	Foreign Creditors	Foreign Currency	Long-Term Debt
Treated × Post	0.041	0.013	-0.022***
	(0.123)	(0.081)	(0.003)
Average of dep. var.	0.74	0.54	0.89
Conflict-Country FE	✓	✓	✓
Conflict-Region-Year FE	✓	✓	✓
Observations	1,143	1,143	1,129
Within R^2 (%)	0.93	0.08	0.35

Notes. This table shows the results of estimating equation (2). We consider three dependent variables: the share of government debt owned by foreign creditors, the share of government debt issued in foreign currency, and the share of government debt with maturity larger than a year and with payments due in more than one year. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the estimate for the average treatment effect of conflict. Standard errors are clustered at the conflict level. $***$, $**$, and $*$ denote significance at the 1%, 5%, and 10% level, respectively.

FIGURE I
Number of Conflicts



Notes. This figure displays the number of conflicts over time. In Panel A, we split conflicts into minor (no year with more than 1,000 battle-related casualties) and major (at least one year with more than 1,000 battle-related casualties). In Panel B, we split conflicts into interstate (between two or more states) and intrastate (between one state and one or more nonstate actors).

TABLE VI
EFFECT OF CONFLICT ON MONEY SUPPLY

	M0	Real M0	CPI	GDP Deflator
Treated × Post	0.508**	-0.042	0.476**	0.471***
	(0.196)	(0.045)	(0.186)	(0.171)
Conflict-Country FE	✓	✓	✓	✓
Conflict-Region-Year FE	✓	✓	✓	✓
Wald F-stat	1.02	0.57	1.12	0.87
Wald p-value	0.40	0.69	0.35	0.48
Observations	127,826	120,469	154,296	177,015
Within R^2 (%)	0.19	0.00	0.13	0.11

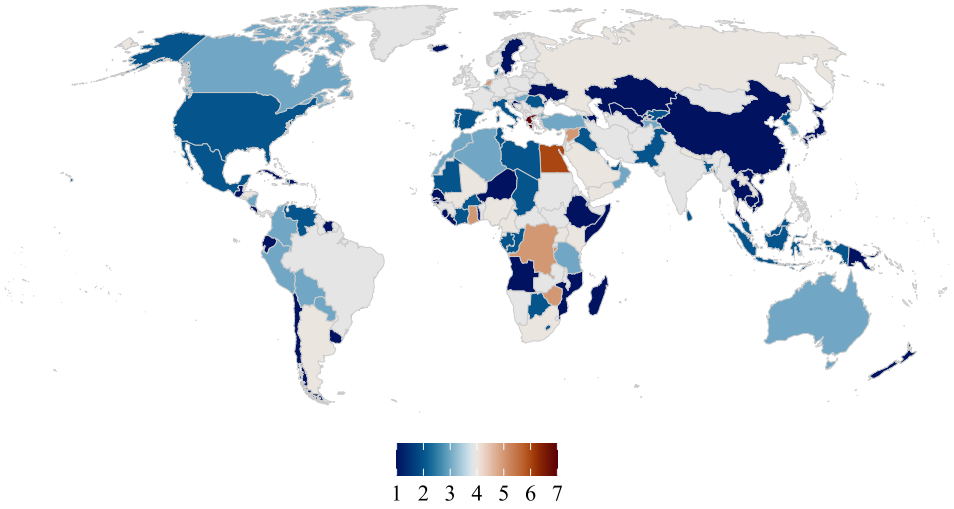
Notes. This table shows the results of estimating equation (2). We consider four dependent variables: the logarithm of M0, the logarithm of M0 deflated by the CPI, the logarithm of the CPI, and the logarithm of the GDP deflator. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the estimate for the average treatment effect of conflict. We also report the results of a Wald test for pretrends in the estimation of equation (1). The null hypothesis is the absence of pretrends. Standard errors are clustered at the conflict level. $***$, $**$, and $*$ denote significance at the 1%, 5%, and 10% level, respectively.

TABLE VII
EFFECT OF CONFLICT ON MONEY SUPPLY - ROLE OF LAGGED DEFICITS

	M0	Real M0	CPI	Nominal Exchange Rate
Treated × Post	0.506***	0.002	0.418**	0.460**
	(0.192)	(0.047)	(0.199)	(0.213)
Treated × Post × Surplus	-0.779***	0.001	-0.636***	-0.593**
	(0.230)	(0.118)	(0.219)	(0.229)
Conflict-Country FE	✓	✓	✓	✓
Conflict-Region-Year FE	✓	✓	✓	✓
Observations	87,548	86,494	96,889	97,848
Within R^2 (%)	0.31	0.26	0.12	0.12

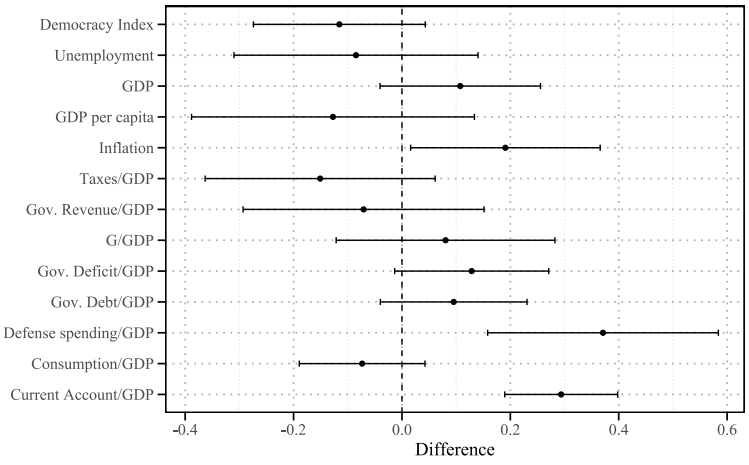
Notes. This table shows the results of estimating equation (2). We consider four dependent variables: the logarithm of M0, the logarithm of M0 deflated by the CPI, the logarithm of the CPI, and the logarithm of the nominal exchange rate. We include conflict-country and conflict-region-year fixed effects. We split countries into two groups based on whether they had a primary deficit in the year preceding the onset of conflict. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the estimate for the average treatment effect of conflict, and estimates for the difference in the average treatment effect between deficit and surplus countries. Standard errors are clustered at the conflict level. $***$, $**$, and $*$ denote significance at the 1%, 5%, and 10% level, respectively.

FIGURE II
Treated Countries



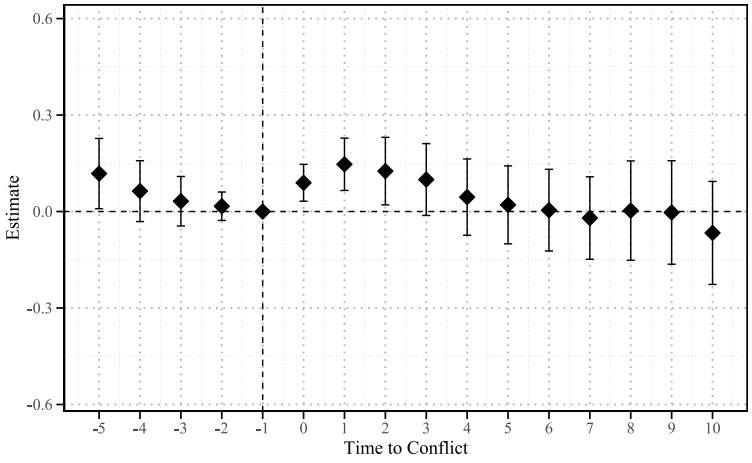
Notes. This figure displays the number of conflicts for each country in our final sample.

FIGURE III
Comparison of Treated and Control Countries



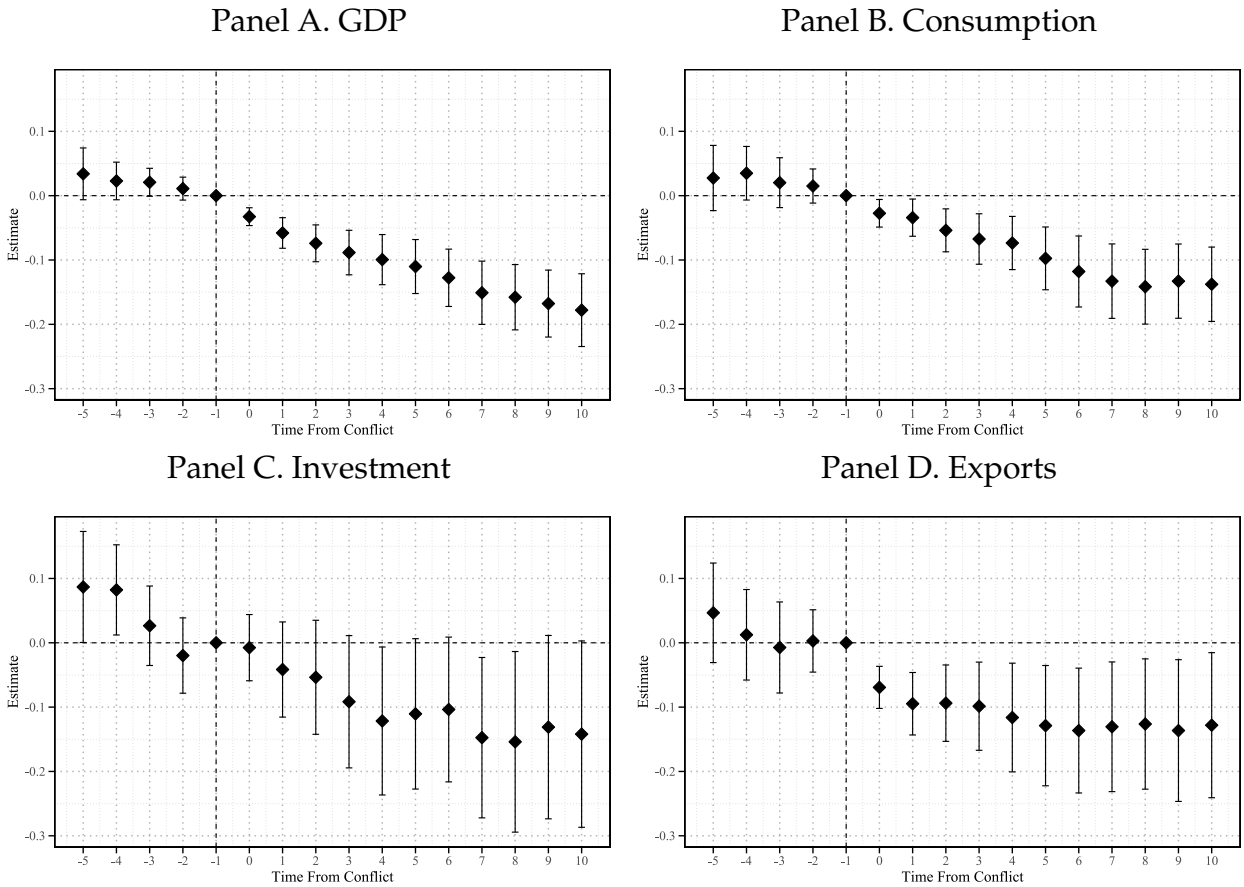
Notes. This figure compares outcomes for treated and control countries. For each outcome, we consider one observation per conflict measured in the period before the onset of conflict. The outcomes are then standardized within conflict. We regress the standardized outcome on a treated indicator with conflict fixed effects. Errors are clustered at the conflict level. We present the estimate and 95% confidence intervals.

FIGURE IV
Effect of Conflict on Military Spending



Notes. This figure presents the results of estimating equation (1). The outcome variable is the logarithm of real military spending in 2015 USD. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the average treatment effects over time, using the year before the start of the conflict as the base. We cluster the errors at the conflict level and display 95% confidence intervals.

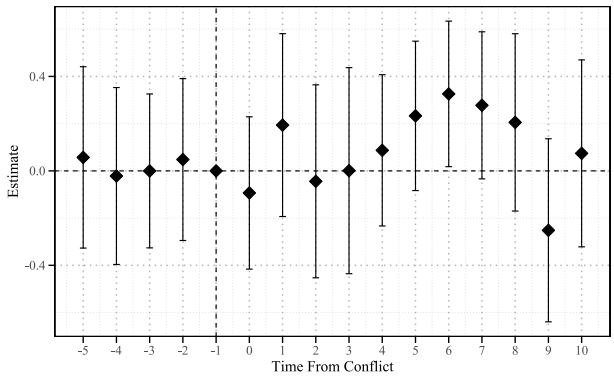
FIGURE V
Effect of Conflict on Macroeconomic Aggregates



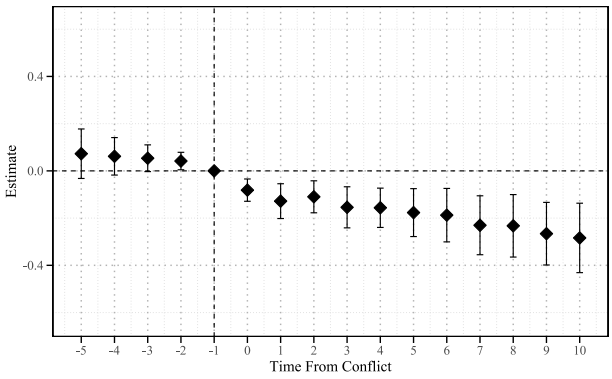
Notes. This figure shows the results of estimating equation (1). We consider four dependent variables: the logarithm of real GDP, the logarithm of real consumption, the logarithm of real investment, and the logarithm of real exports. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the estimate for the average treatment effect of conflict over time. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

FIGURE VI
Effect of Conflict on Credit Conditions

Panel A. Lending Rate

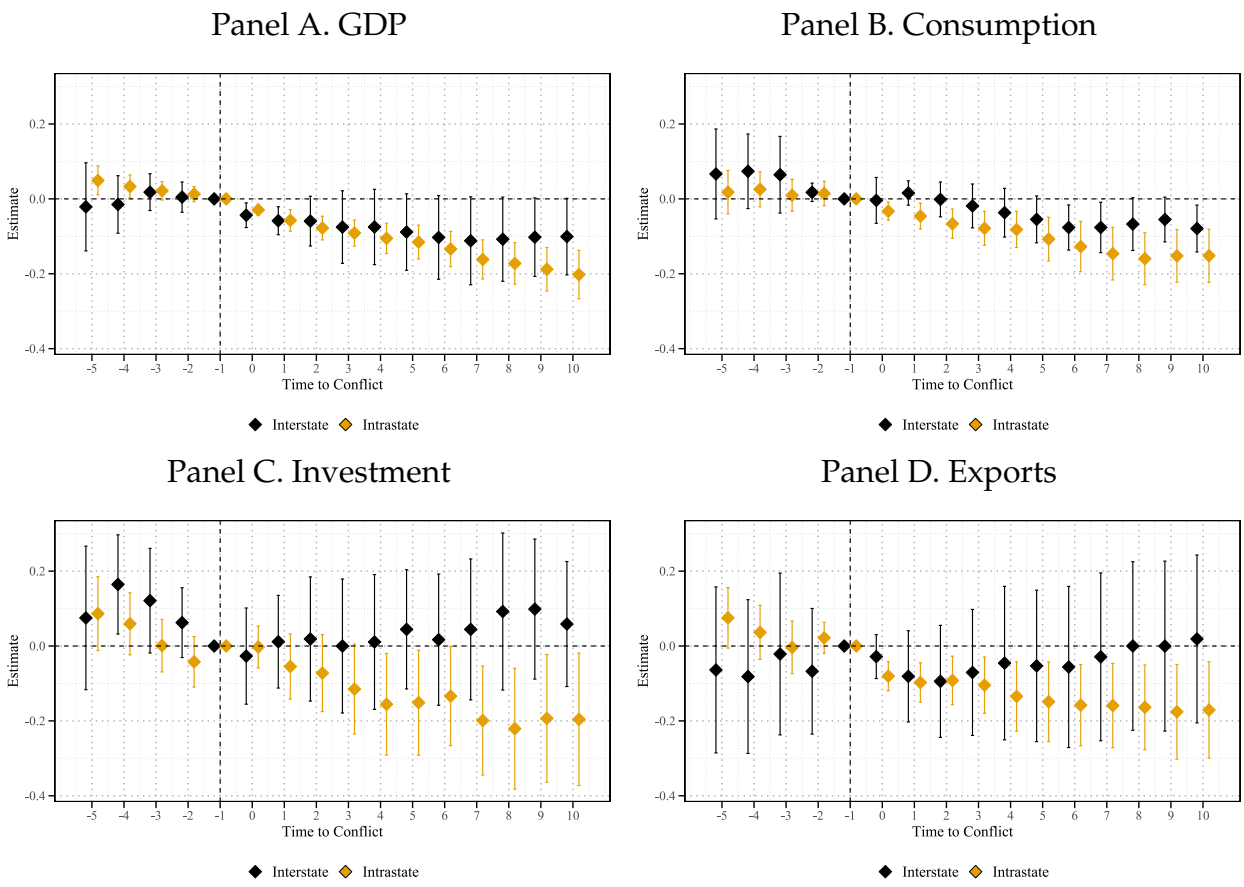


Panel B. Domestic Credit



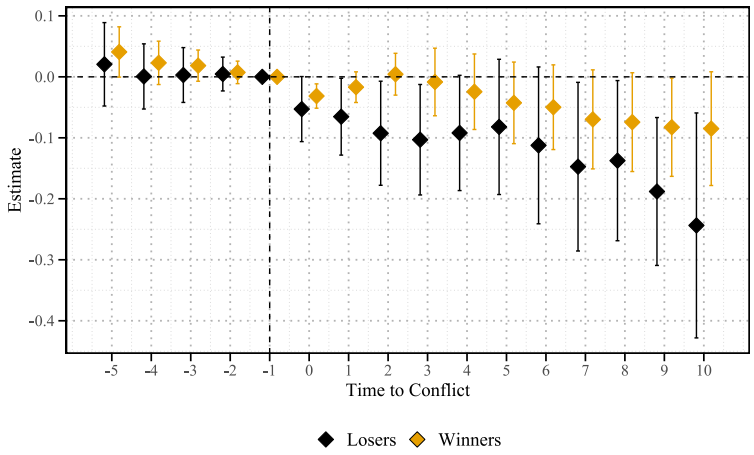
Notes. This figure shows the results of estimating equation (1). We consider two dependent variables: the logarithm of the real lending rate, and the logarithm of total real domestic credit. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the estimate for the average treatment effect of conflict over time. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

FIGURE VII
Effect of Conflict on Macroeconomic Aggregates - Decomposition by Type of Conflict



Notes. This figure shows the results of estimating equation (1). We consider four dependent variables: the logarithm of real GDP, the logarithm of real consumption, the logarithm of real investment, and the logarithm of real exports. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We split conflicts into two groups based on their type - interstate or intrastate. We present the estimate for the average treatment effect of conflict over time for the two groups of conflicts. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

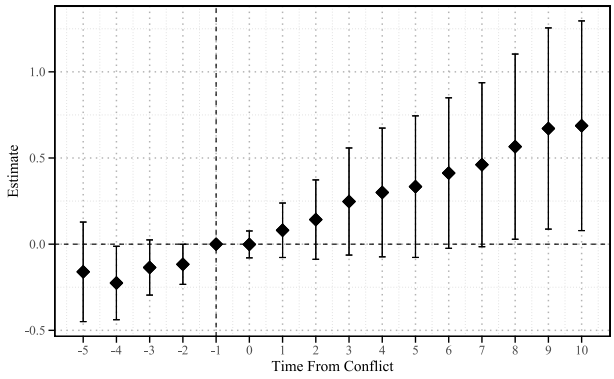
FIGURE VIII
Effect of Conflict on Output - Winners versus Losers



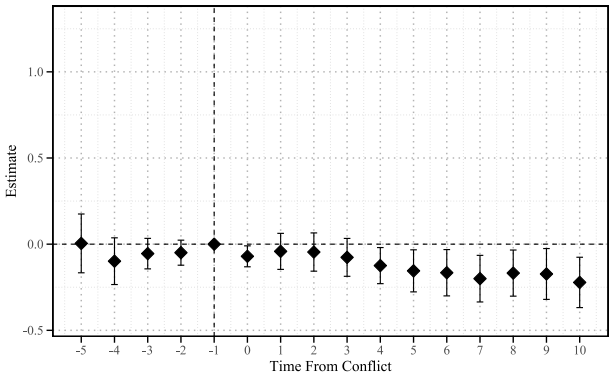
Notes. This figure shows the results of estimating equation (1), where the outcome variable is the logarithm of real GDP. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We estimate the regression using two samples - (1) using only treated countries that lose the conflict (losers) and all control countries, and (2) using only treated countries that win the conflict (winners) and all control countries. We present the estimate for the average treatment effect of conflict over time. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

FIGURE IX
Effect of Conflict on Government Debt

Panel A. In Current Local Currency

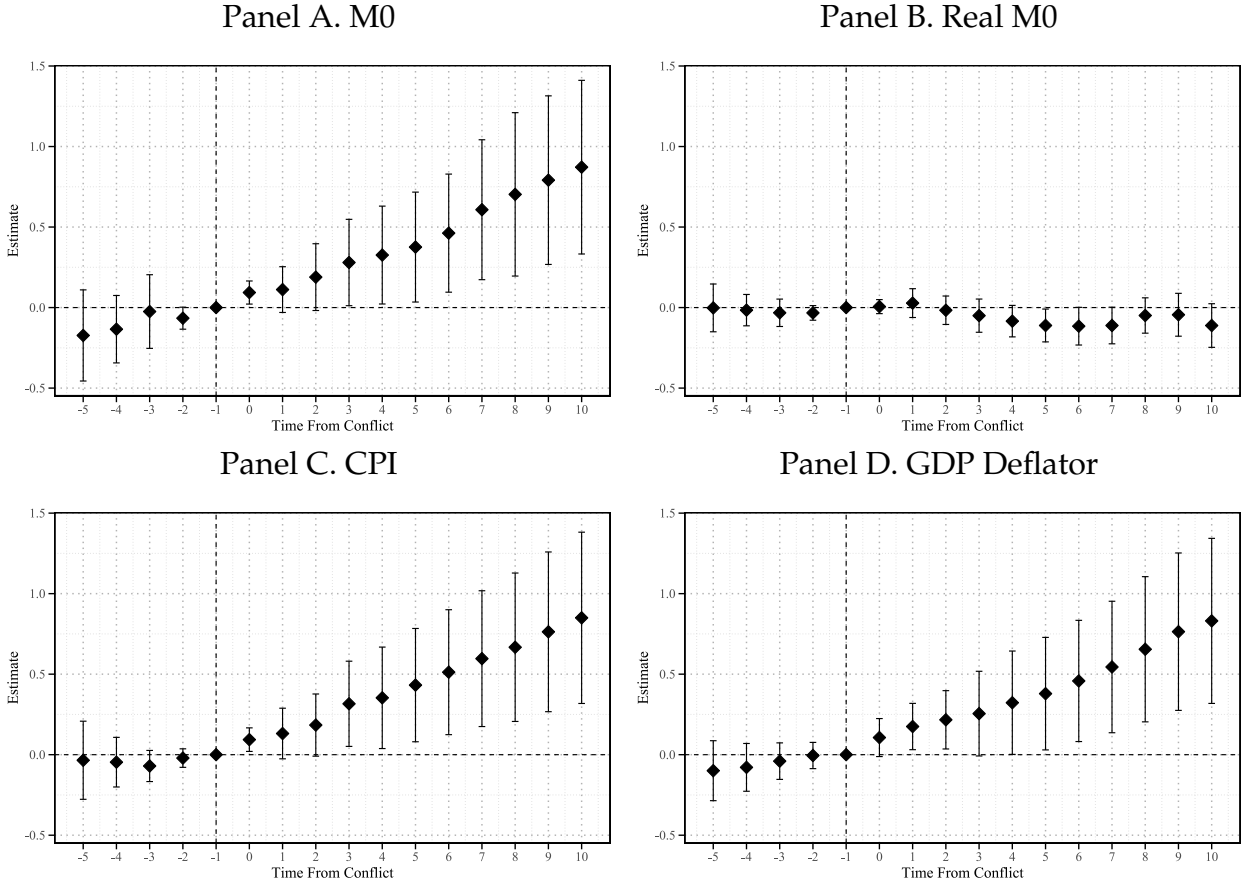


Panel B. In Constant Local Currency



Notes. This figure shows the results of estimating equation (1). We consider two dependent variables: the logarithm of government debt in current local currency units, and the logarithm of real government debt in constant local currency units. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the estimate for the average treatment effect of conflict over time. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

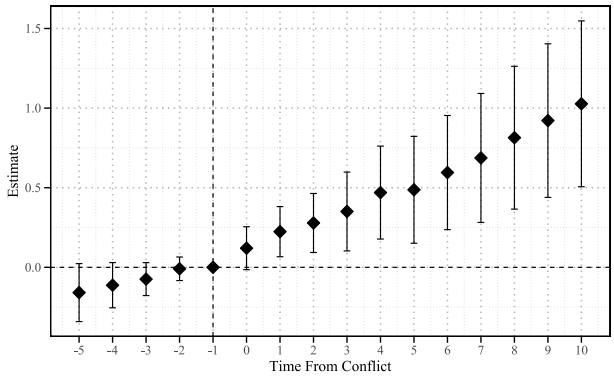
FIGURE X
Effect of Conflict on Money and Prices



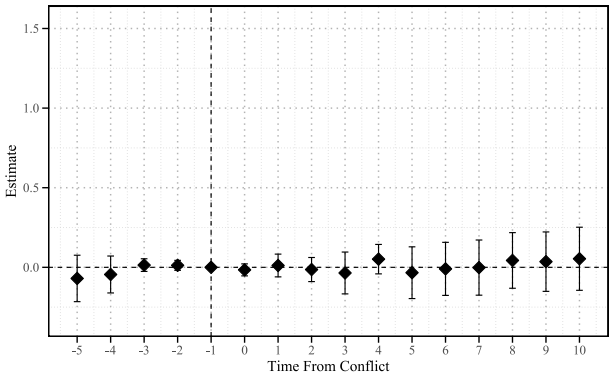
Notes. This figure shows the results of estimating equation (1). We consider four dependent variables: the logarithm of M0, the logarithm of M0 deflated by the CPI, the logarithm of the CPI, and the logarithm of the GDP deflator. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the estimate for the average treatment effect of conflict over time. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

FIGURE XI
Effect of Conflict on the Exchange Rate

Panel A. Nominal Exchange Rate



Panel B. Real Exchange Rate



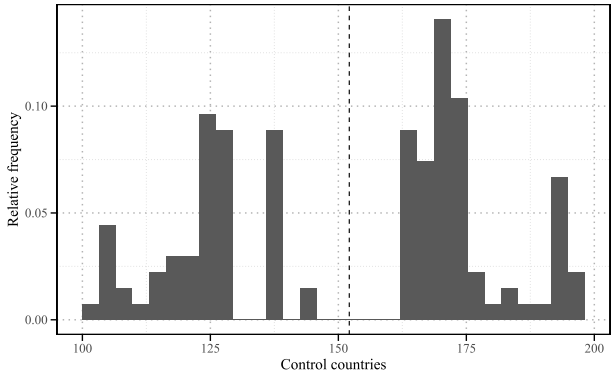
Notes. This figure shows the results of estimating equation (1). We consider two dependent variables: the logarithm of the nominal exchange rate (in local currency units per USD), and the logarithm of the real exchange rate. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the estimate for the average treatment effect of conflict over time. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

Online Appendix

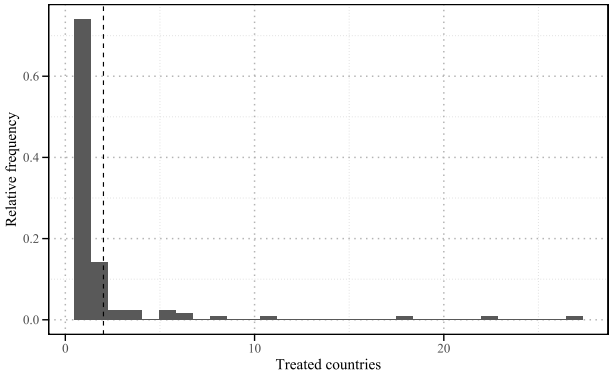
A. Data Appendix

FIGURE A.1
Distribution of Number of Countries per Conflict

Panel A. Control Countries

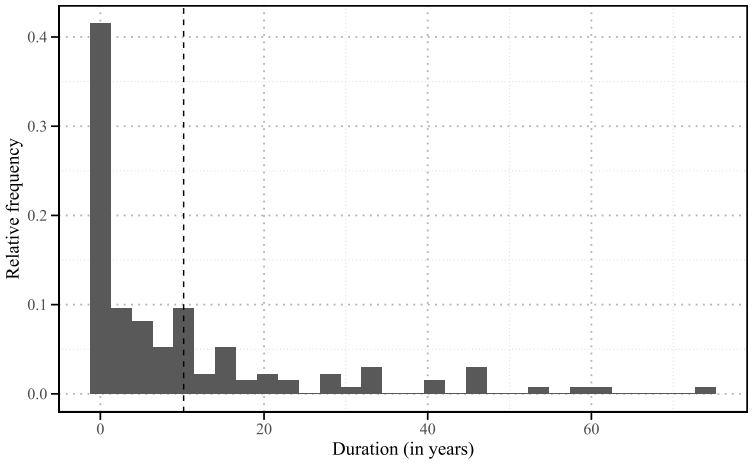


Panel B. Treated Countries



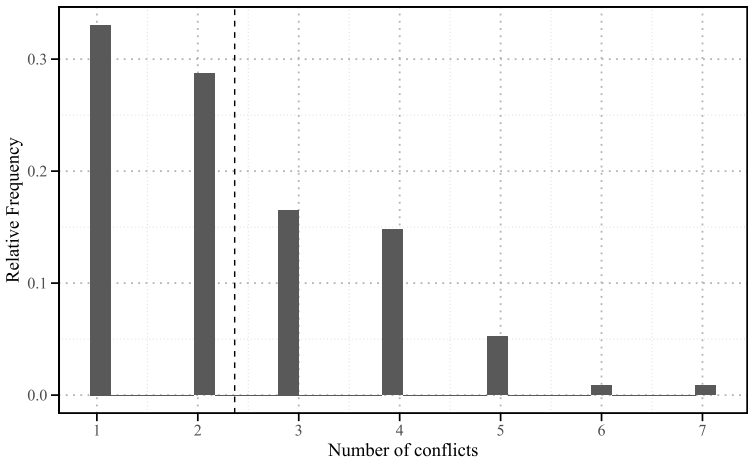
Notes. This figure displays the distribution of the number of countries we include in each conflict. Treated countries are countries involved in the conflict, and control countries are countries not involved in that conflict or any other conflict (never treated).

FIGURE A.2
Distribution of Conflict Duration



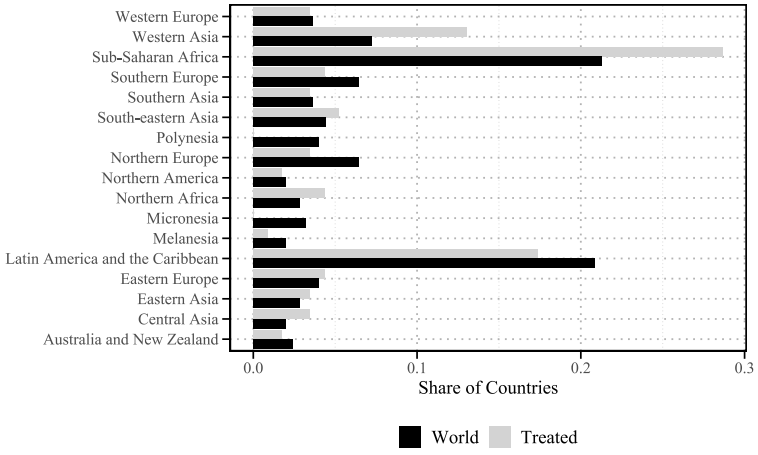
Notes. This figure displays the distribution of conflict duration (in years). The dashed line represents the mean.

FIGURE A.3
Distribution of Number of Conflicts



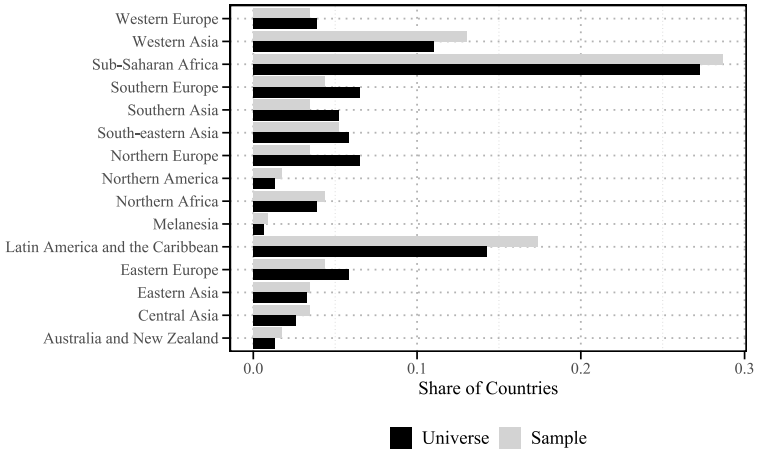
Notes. This figure displays the distribution of the number of conflicts for treated countries (countries that engage in at least one conflict). The vertical dashed line represents the mean.

FIGURE A.4
Distribution of Number of Countries



Notes. This figure shows the share of countries allocated to each region. We compute these shares for all countries in the world ("World") and for all treated countries in our sample ("Treated").

FIGURE A.5
Distribution of Number of Countries - Comparison with Universe



Notes. This figure shows the share of countries allocated to each region. We compute these shares for all countries in the universe of conflicts ("Universe") and for all treated countries in our sample ("Treated").

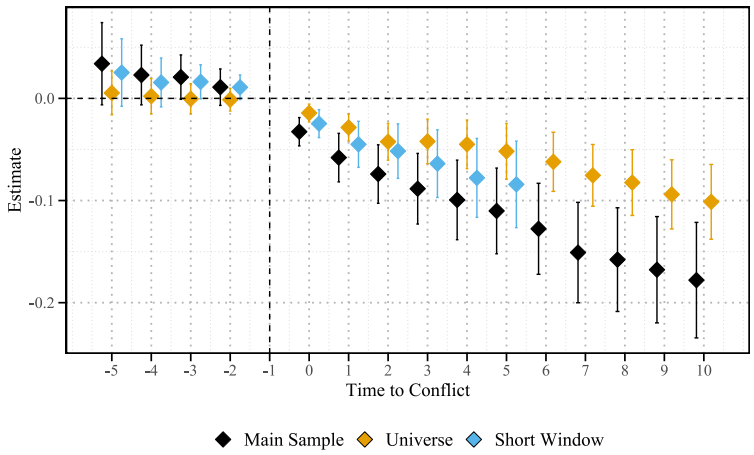
B. Additional Results

TABLE B.1
EFFECT OF CONFLICT ON GOVERNMENT'S BUDGET CONSTRAINT

	Debt	Expenditure	Revenue	Taxes	Deficit
Treated × Post	5.19	0.317	-0.248	0.340	-1.39
	(3.34)	(0.759)	(0.565)	(0.616)	(0.880)
Conflict-Country FE	✓	✓	✓	✓	✓
Conflict-Region-Year FE	✓	✓	✓	✓	✓
Wald F-stat	0.93	2.61	1.09	1.00	0.64
Wald p-value	0.44	0.03	0.36	0.40	0.63
Observations	115,306	118,478	115,748	84,732	112,939
Within R^2 (%)	0.02	0.00	0.00	0.00	0.00

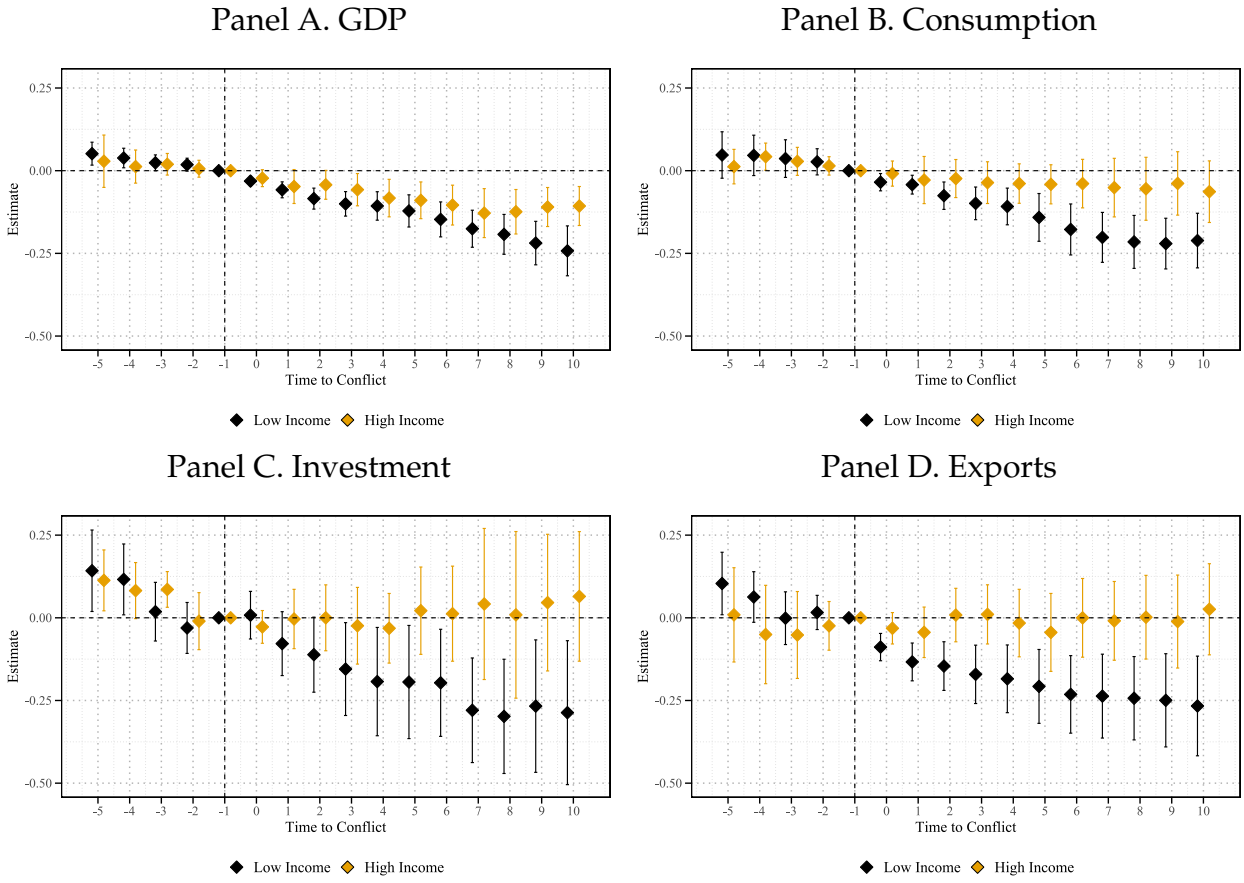
Notes. This table shows the results of estimating equation (2). We consider five dependent variables: the government debt over GDP, government expenditure over GDP, government revenue over GDP, government tax revenue over GDP, and government deficit over GDP. All variables are in percentages. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the estimate for the average treatment effect of conflict. We also report the results of a Wald test for pretrends in the estimation of equation (1). The null hypothesis is the absence of pretrends. Standard errors are clustered at the conflict level. $***$, $**$, and $*$ denote significance at the 1%, 5%, and 10% level, respectively.

FIGURE B.1
Effect of Conflict on Real Output - Role of Sample Selection



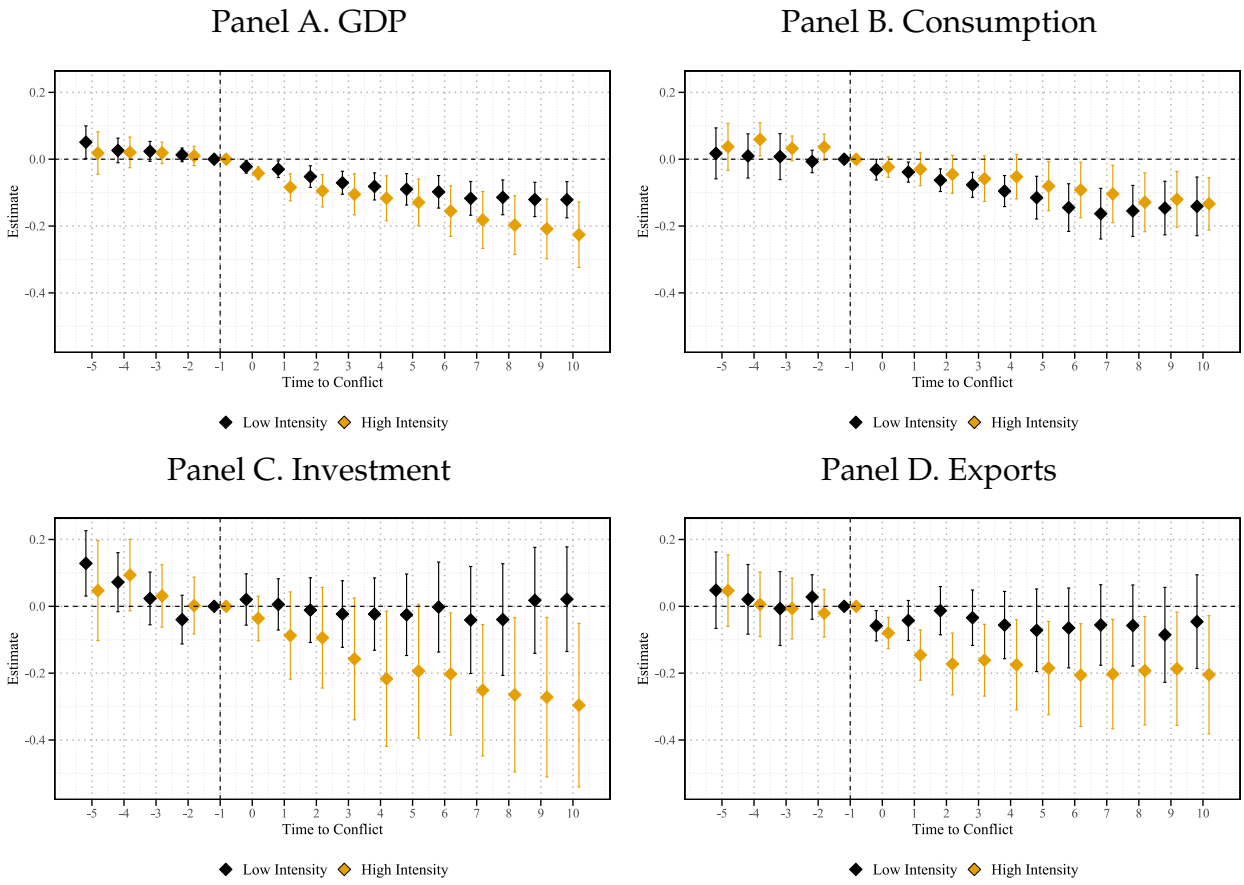
Notes. This figure shows the results of estimating equation (1) using the logarithm of real output as the outcome variable. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We estimate the equation for three different samples: (1) our main sample, (2) the universe of conflicts, and (3) the sample obtained with an event window of $[-5, 5]$ years relative to the onset of conflict. We present the estimate for the average treatment effect of conflict. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

FIGURE B.2
Effect of Conflict on Macroeconomic Aggregates - Role of Income



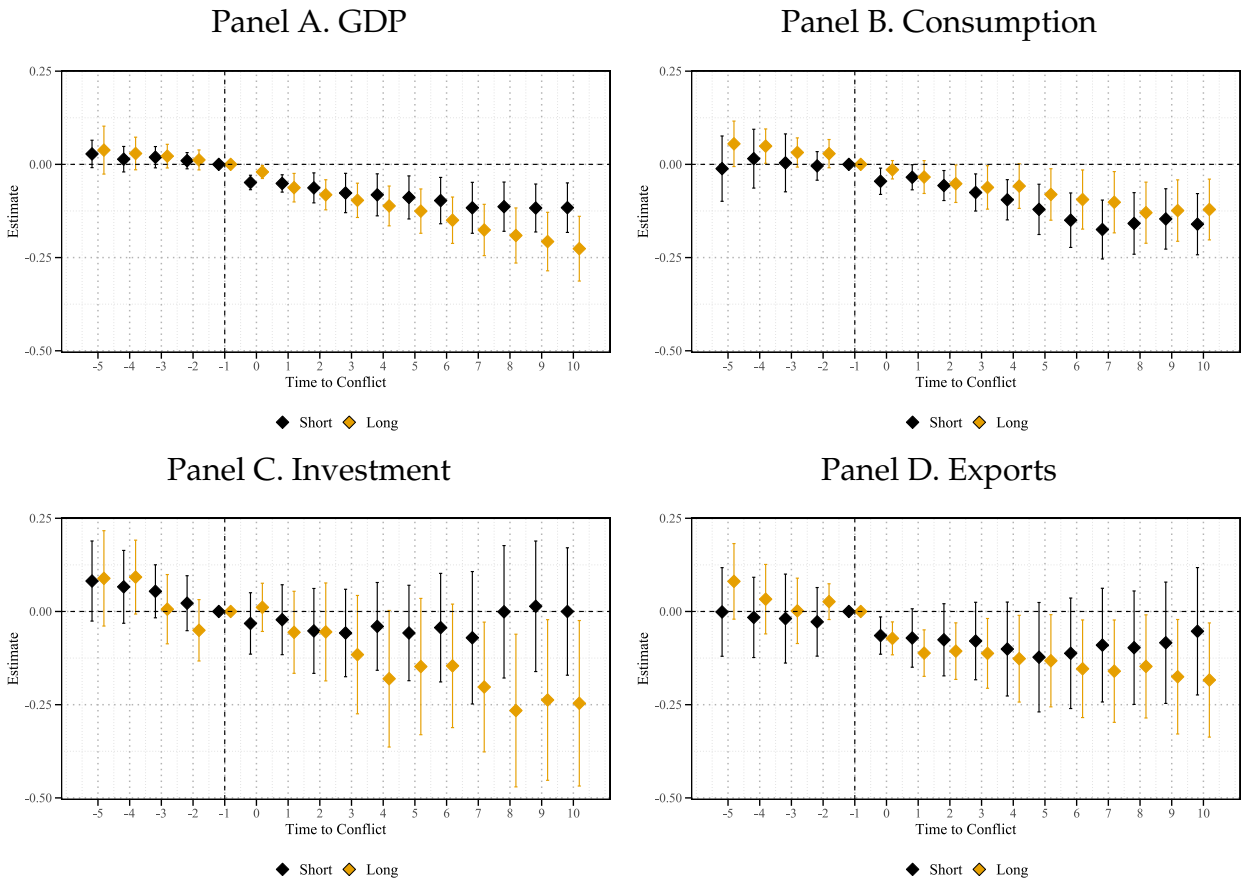
Notes. This figure shows the results of estimating equation (1). We consider four dependent variables: the logarithm of real GDP, the logarithm of real consumption, the logarithm of real investment, and the logarithm of real exports. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We split countries into two groups based on their real GDP per capita in the year preceding the onset of conflict - countries below the median are classified as low-income, and countries above the median are classified as high-income. We present the estimate for the average treatment effect of conflict over time for the two groups of countries. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

FIGURE B.3
Effect of Conflict on Macroeconomic Aggregates - Role of Intensity



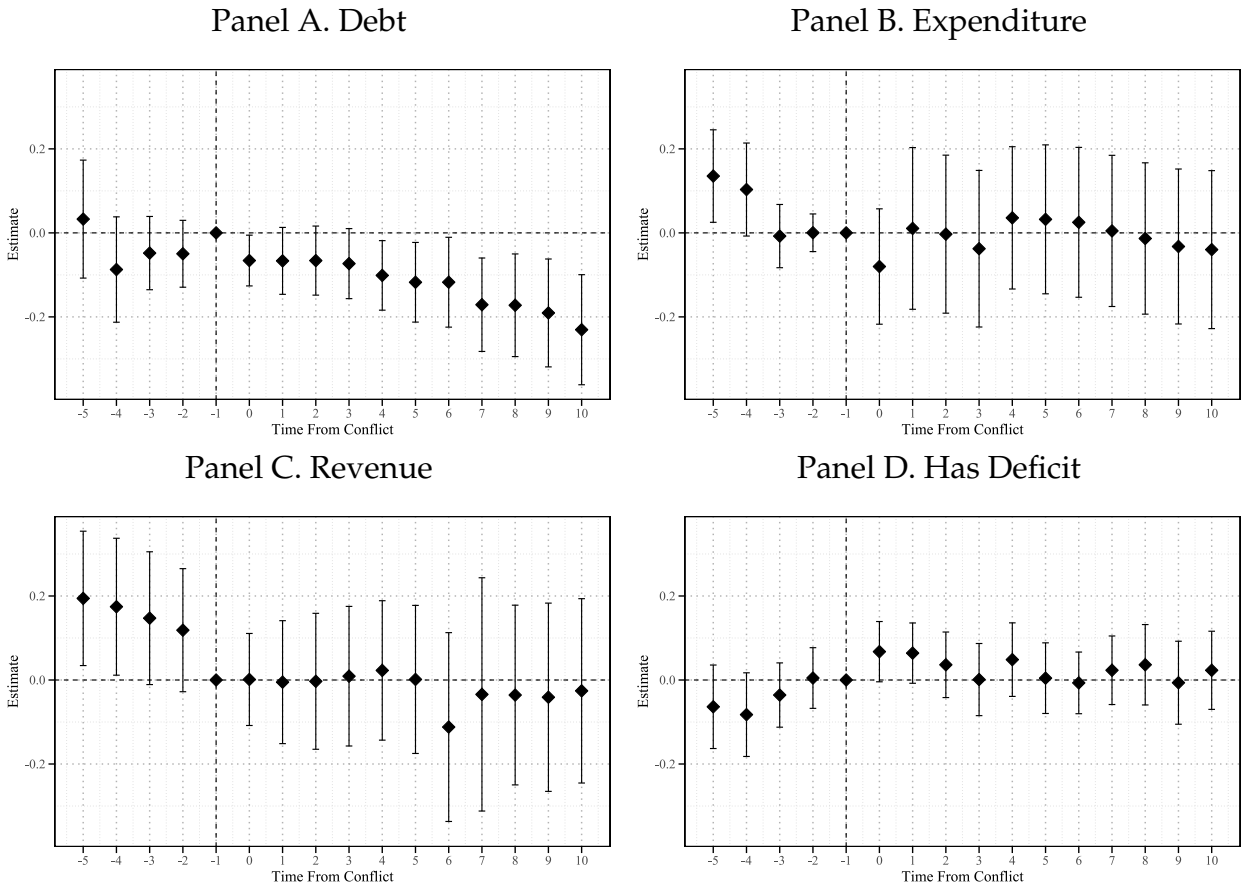
Notes. This figure shows the results of estimating equation (1). We consider four dependent variables: the logarithm of real GDP, the logarithm of real consumption, the logarithm of real investment, and the logarithm of real exports. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We split conflicts into two groups: low intensity conflicts (under 1,000 battle-related casualties) and high intensity conflicts (over 1,000 battle-related casualties). We present the estimate for the average treatment effect of conflict over time for the two groups of conflicts. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

FIGURE B.4
Effect of Conflict on Macroeconomic Aggregates - Role of Duration



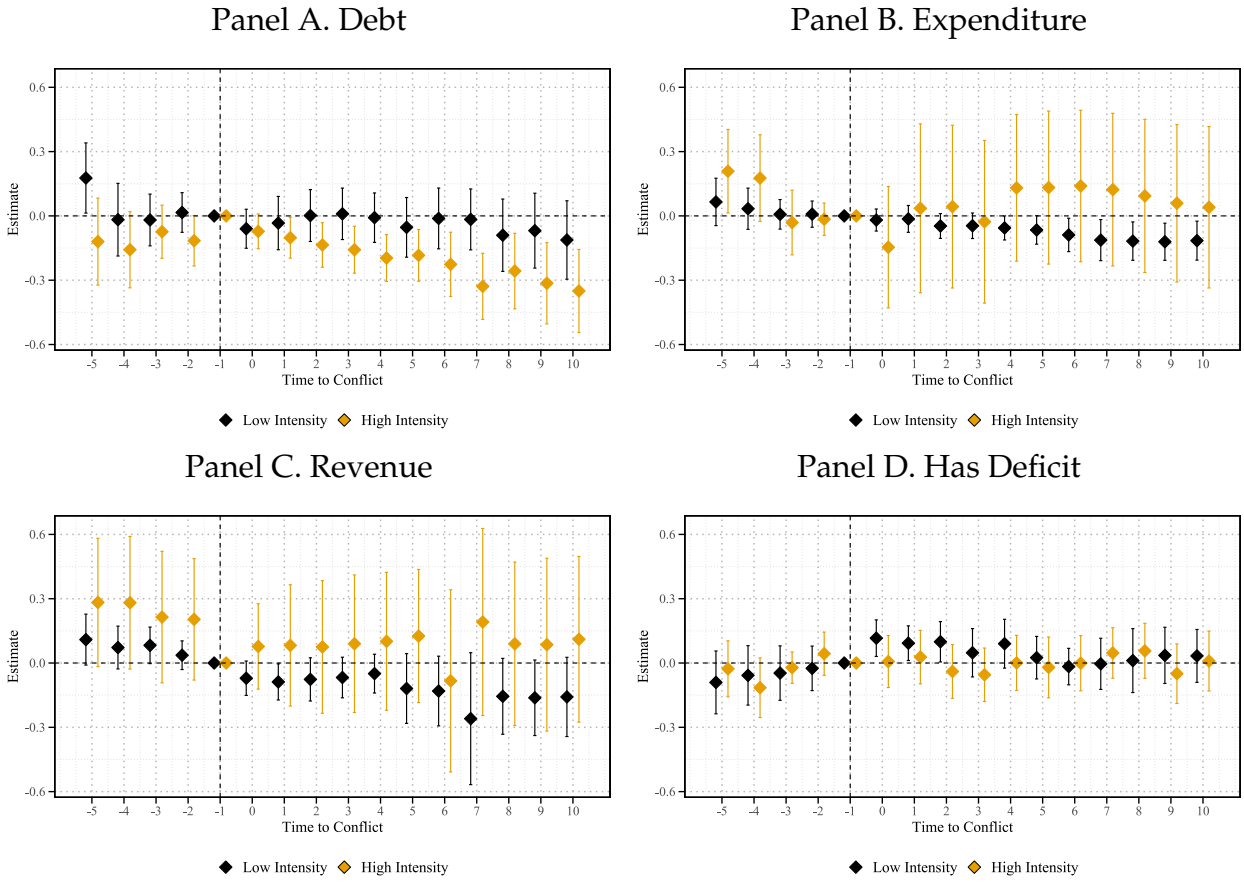
Notes. This figure shows the results of estimating equation (1). We consider four dependent variables: the logarithm of real GDP, the logarithm of real consumption, the logarithm of real investment, and the logarithm of real exports. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We split conflicts into two groups based on their duration: conflicts with a duration below the median are classified as short and conflcits with a duration above the median are classified as long. We present the estimate for the average treatment effect of conflict over time for the two groups of conflicts. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

FIGURE B.5
Effect of Conflict on Government's Budget Constraint



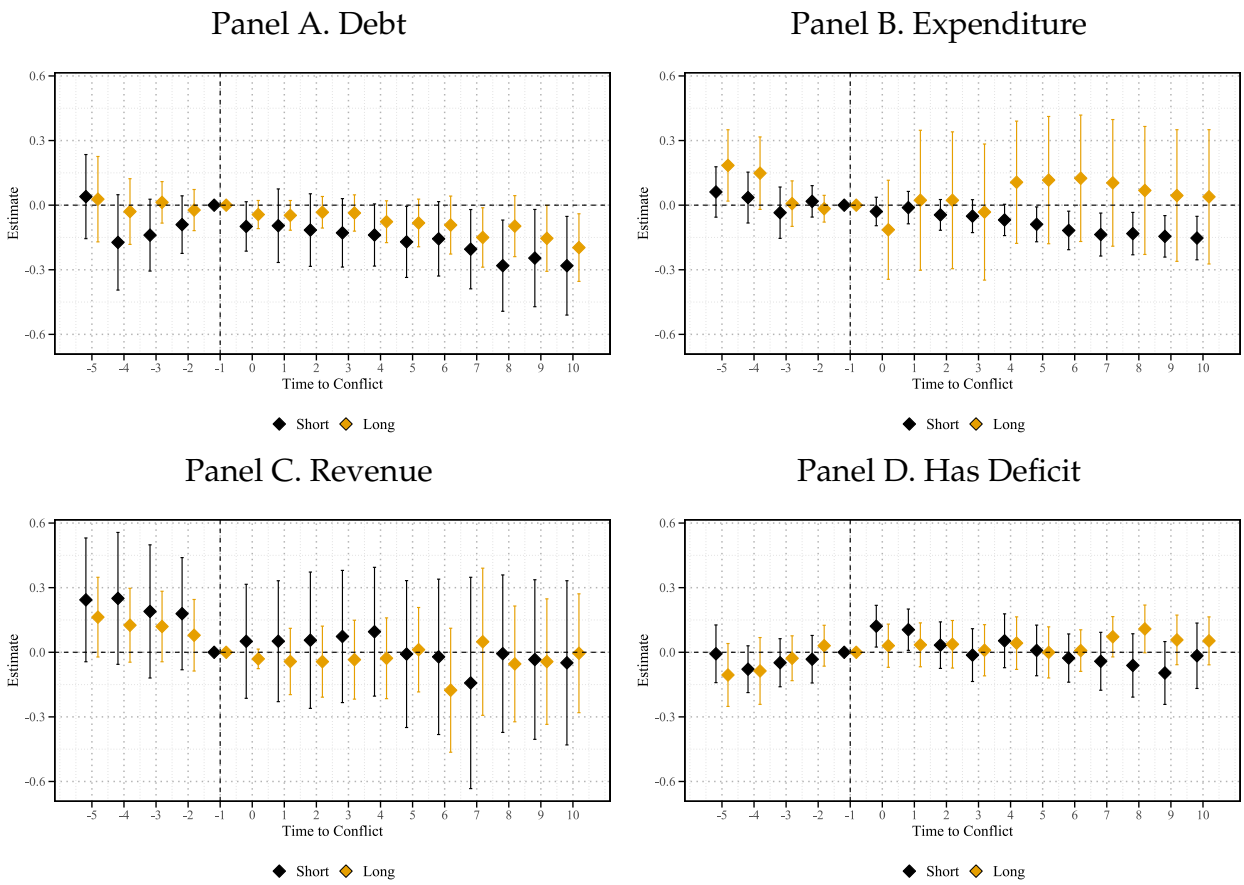
Notes. This figure shows the results of estimating equation (1). We consider four dependent variables: the logarithm of real government debt, the logarithm of real government expenditure, the logarithm of real government revenue, and an indicator that takes the value of one if the government has a primary deficit and zero if otherwise. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the estimate for the average treatment effect of conflict over time. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

FIGURE B.6
Effect of Conflict on Government's Budget Constraint - Role of Intensity



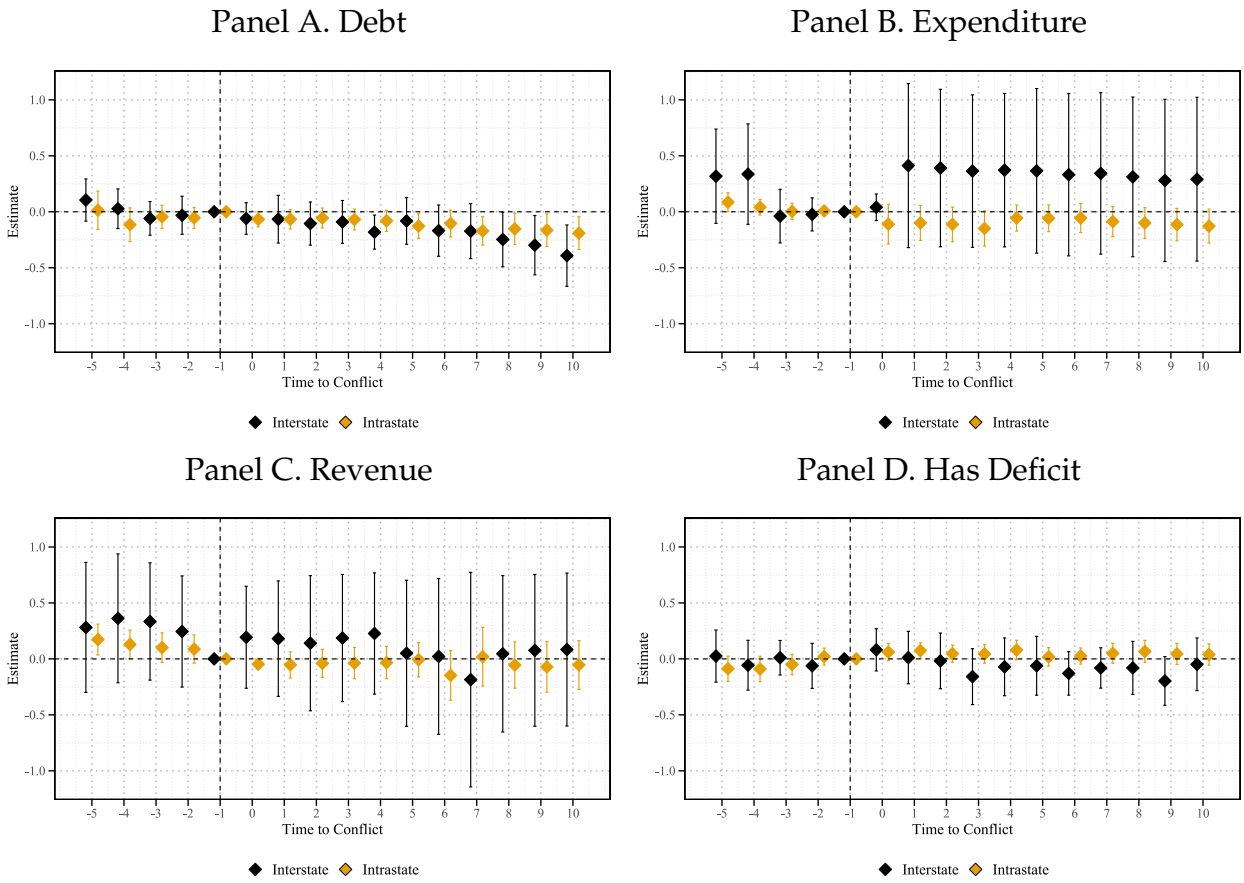
Notes. This figure shows the results of estimating equation (1). We consider four dependent variables: the logarithm of real government debt, the logarithm of real government expenditure, the logarithm of real government revenue, and an indicator that takes the value of one if the government has a primary deficit and zero if otherwise. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We split conflicts into two groups: low intensity conflicts (under 1,000 battle-related casualties) and high intensity conflicts (over 1,000 battle-related casualties). We present the estimate for the average treatment effect of conflict over time for the two groups of conflicts. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

FIGURE B.7
Effect of Conflict on Government's Budget Constraint - Role of Duration



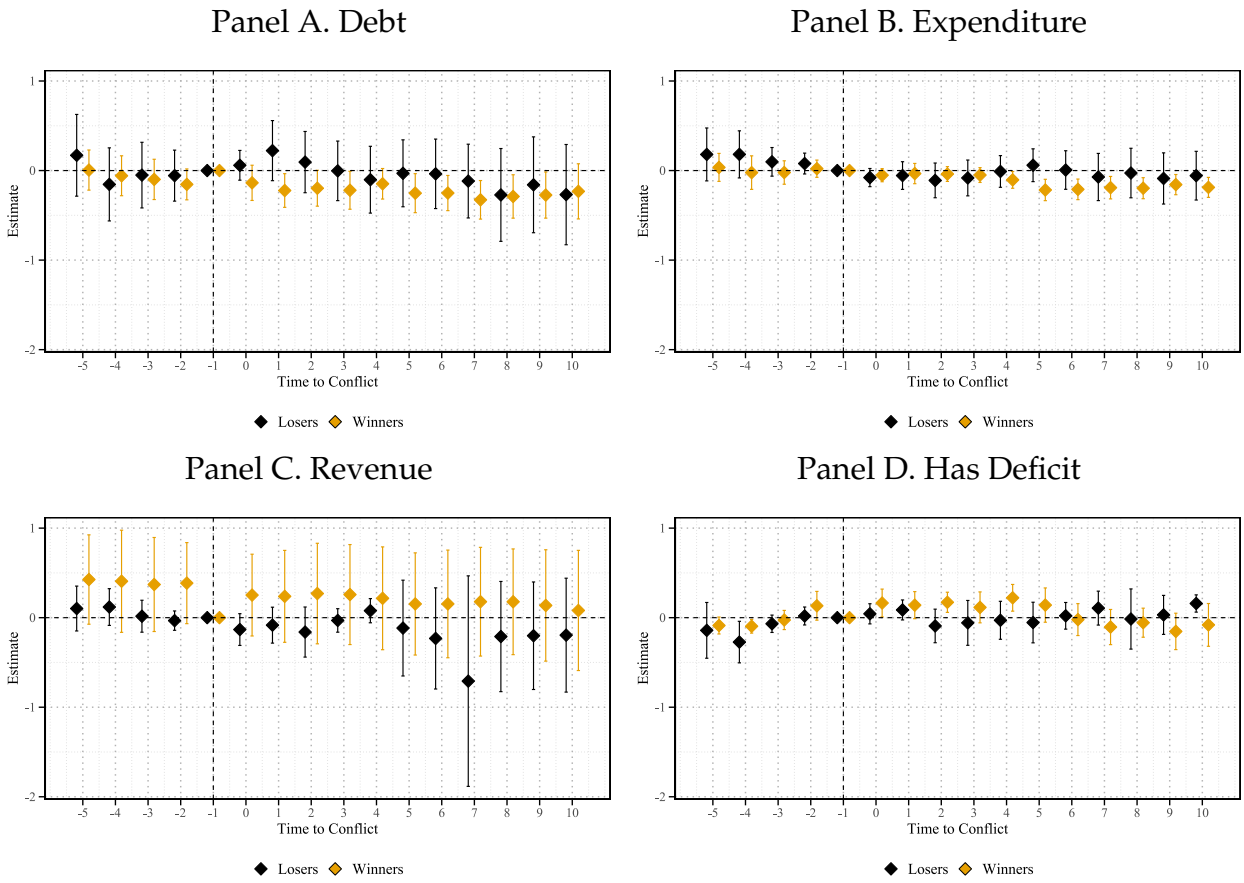
Notes. This figure shows the results of estimating equation (1). We consider four dependent variables: the logarithm of real government debt, the logarithm of real government expenditure, the logarithm of real government revenue, and an indicator that takes the value of one if the government has a primary deficit and zero if otherwise. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We split conflicts into two groups based on their duration: conflicts with a duration below the median are classified as short and conflicts with a duration above the median are classified as long. We present the estimate for the average treatment effect of conflict over time for the two groups of conflicts. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

FIGURE B.8
Effect of Conflict on Government's Budget Constraint - Decomposition by Type of Conflict



Notes. This figure shows the results of estimating equation (1). We consider four dependent variables: the logarithm of real government debt, the logarithm of real government expenditure, the logarithm of real government revenue, and an indicator that takes the value of one if the government has a primary deficit and zero if otherwise. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We split conflicts into two groups based on their type - interstate or intrastate. We present the estimate for the average treatment effect of conflict over time for the two groups of conflicts. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

FIGURE B.9
Effect of Conflict on Government's Budget Constraint - Winners versus Losers



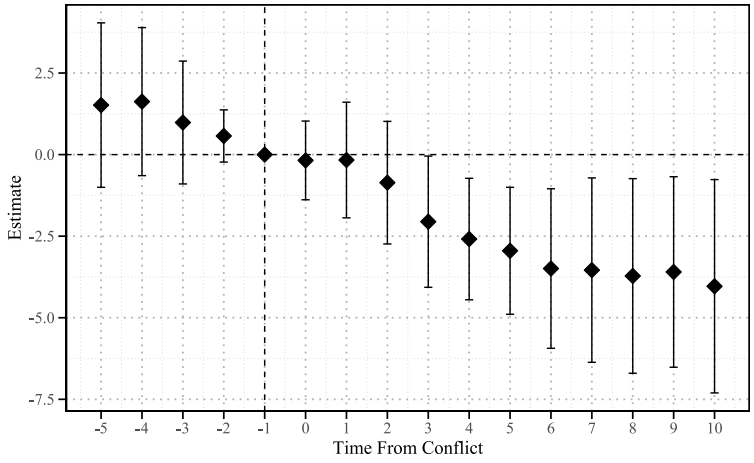
Notes. This figure shows the results of estimating equation (1). We consider four dependent variables: the logarithm of real government debt, the logarithm of real government expenditure, the logarithm of real government revenue, and an indicator that takes the value of one if the government has a primary deficit and zero if otherwise. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We estimate the equation for two subsamples: (1) using only treated countries that lose the conflict and all control countries, and (2) using only treated countries that win the conflict and all control countries. We present the estimate for the average treatment effect of conflict over time for the two groups of treated countries. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

TABLE B.2
EFFECT OF CONFLICT ON MONEY SUPPLY

	M0	+M1	+M2	+M3	+M4
Treated × Post	0.508**	0.473***	0.466**	0.460**	0.455**
	(0.196)	(0.202)	(0.201)	(0.199)	(0.200)
Conflict-Country FE	✓	✓	✓	✓	✓
Conflict-Region-Year FE	✓	✓	✓	✓	✓
Observations	127,826	128,907	128,935	129,179	129,179
Within R^2 (%)	0.19	0.16	0.14	0.13	0.13

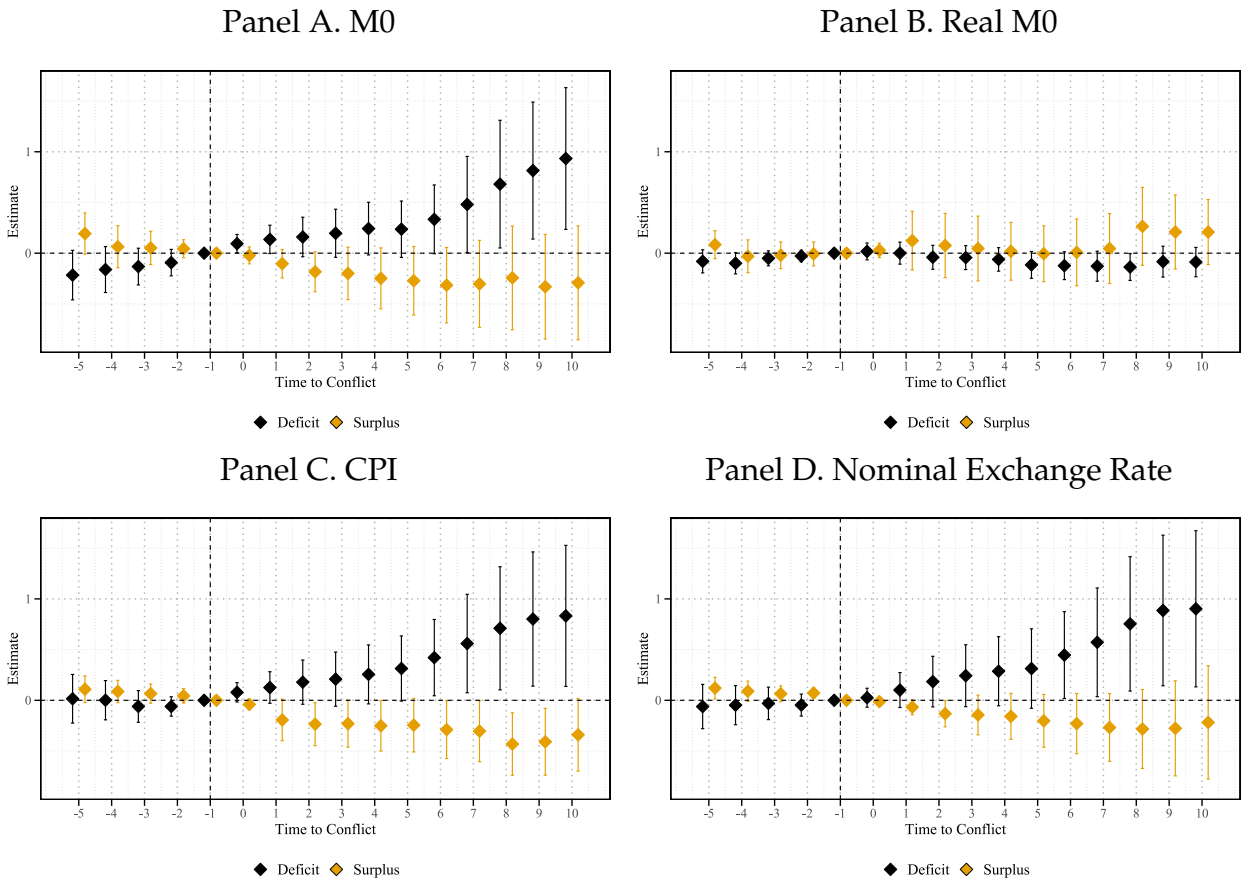
Notes. This table shows the results of estimating equation (2). We consider five dependent variables: the logarithm of M0, the logarithm of M0+M1, the logarithm of M0+M1+M2, the logarithm of M0+M1+M2+M3, and the logarithm of M0+M1+M2+M3+M4. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the estimate for the average treatment effect of conflict. Standard errors are clustered at the conflict level. $***$, $**$, and $*$ denote significance at the 1%, 5%, and 10% level, respectively.

FIGURE B.10
Effect of Conflict on Deposits/GDP



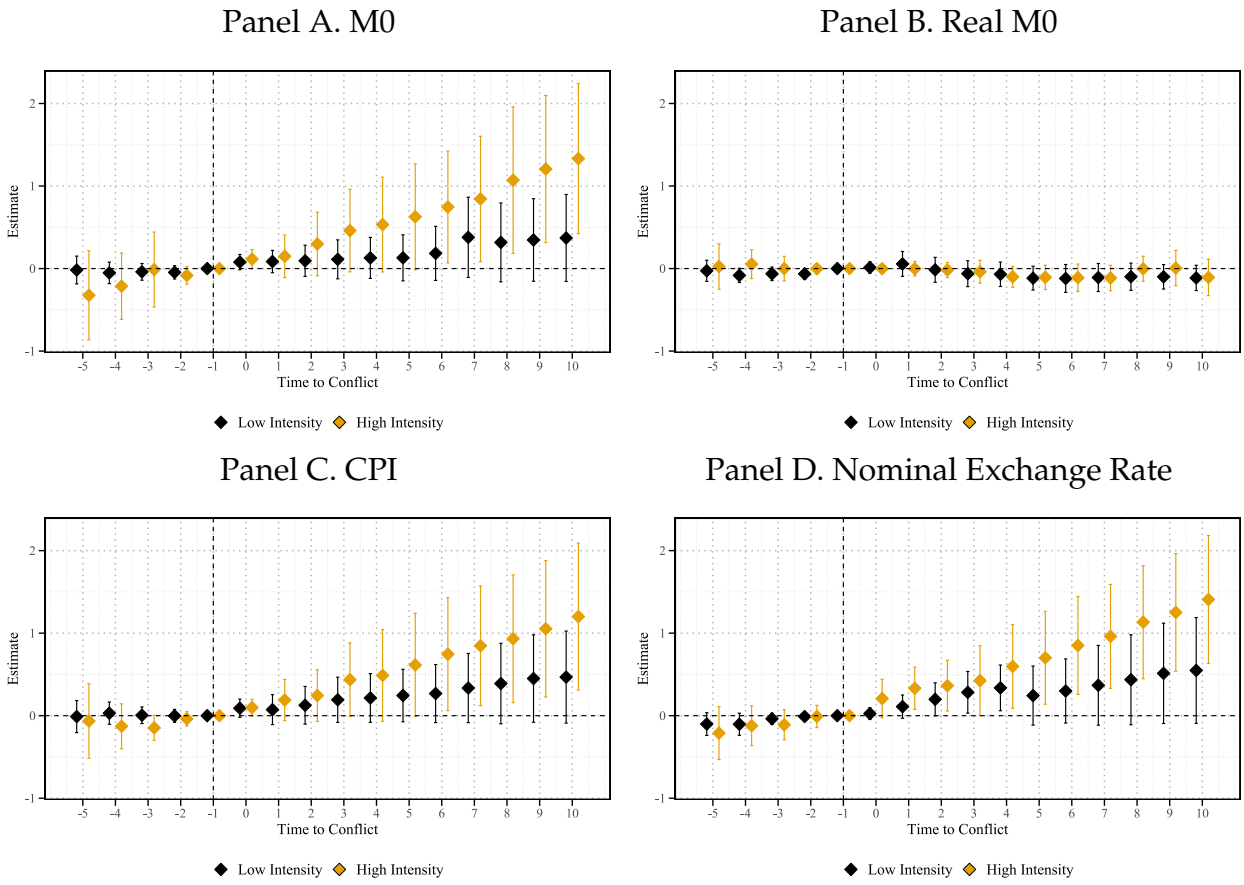
Notes. This figure presents the results of estimating equation (1). The outcome variable is the share of deposits as a percentage of GDP. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We present the average treatment effects over time, using the year before the start of the conflict as the base. We cluster the errors at the conflict level and display 95% confidence intervals.

FIGURE B.11
Effect of Conflict on Prices - Role of Lagged Deficits



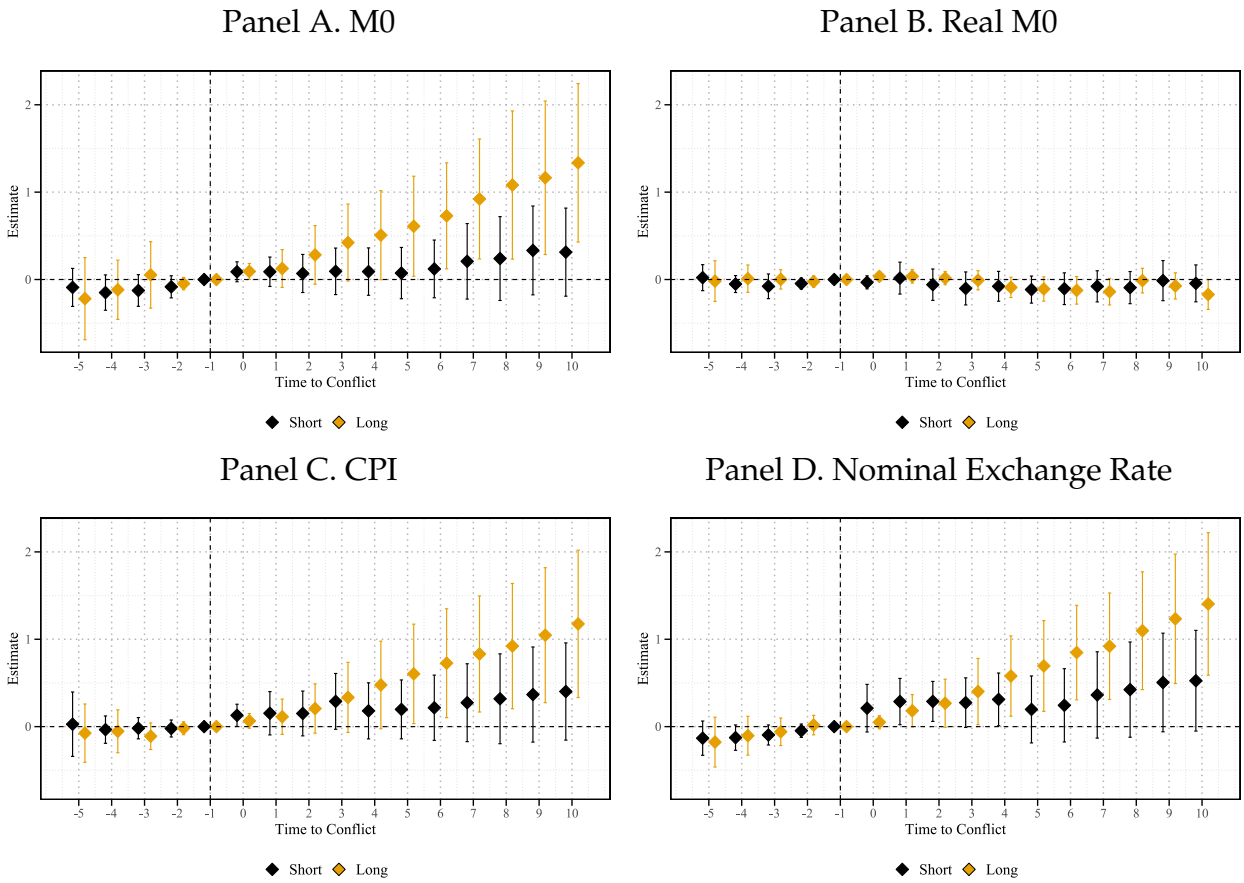
Notes. This figure shows the results of estimating equation (1). We consider four dependent variables: the logarithm of M0, the logarithm of M0 deflated by the CPI, the logarithm of CPI, and the logarithm of the nominal exchange rate. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We split countries into two groups based on whether they had a primary deficit in the year preceding the onset of conflict.. We present the estimate for the average treatment effect of conflict over time for the two groups of countries. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

FIGURE B.12
Effect of Conflict on Prices - Role of Intensity



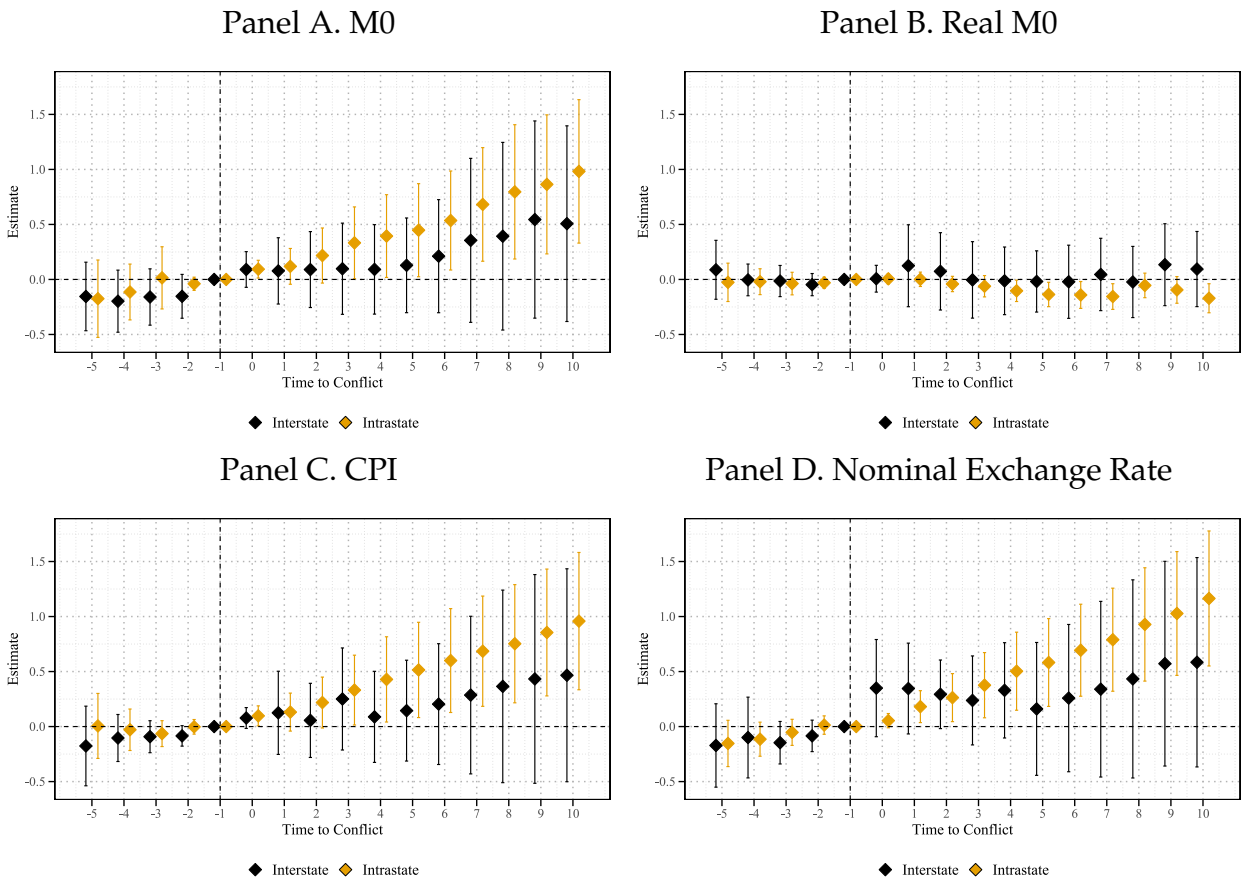
Notes. This figure shows the results of estimating equation (1). We consider four dependent variables: the logarithm of M0, the logarithm of M0 deflated by the CPI, the logarithm of CPI, and the logarithm of the nominal exchange rate. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We split conflicts into two groups: low intensity conflicts (under 1,000 battle-related casualties) and high intensity conflicts (over 1,000 battle-related casualties). We present the estimate for the average treatment effect of conflict over time for the two groups of conflicts. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

FIGURE B.13
Effect of Conflict on Prices - Role of Duration



Notes. This figure shows the results of estimating equation (1). We consider four dependent variables: the logarithm of M0, the logarithm of M0 deflated by the CPI, the logarithm of CPI, and the logarithm of the nominal exchange rate. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We split conflicts into two groups based on their duration: conflicts with a duration below the median are classified as short and conflicts with a duration above the median are classified as long. We present the estimate for the average treatment effect of conflict over time for the two groups of conflicts. Standard errors are clustered at the conflict level. We present 95% confidence intervals.

FIGURE B.14
Effect of Conflict on Prices - Decomposition by Type of Conflict



Notes. This figure shows the results of estimating equation (1). We consider four dependent variables: the logarithm of M0, the logarithm of M0 deflated by the CPI, the logarithm of CPI, and the logarithm of the nominal exchange rate. We include conflict-country and conflict-region-year fixed effects. The treated group contains countries involved in that conflict and the control group contains countries that are not involved in that conflict and are not involved in any conflict in the event window. We split conflicts into two groups based on their type - interstate or intrastate. We present the estimate for the average treatment effect of conflict over time for the two groups of conflicts. Standard errors are clustered at the conflict level. We present 95% confidence intervals.