

Covid-19 And Crisis in Ukraine

Where are we now?

Trends in 2021 and Global Prospects
for 2022

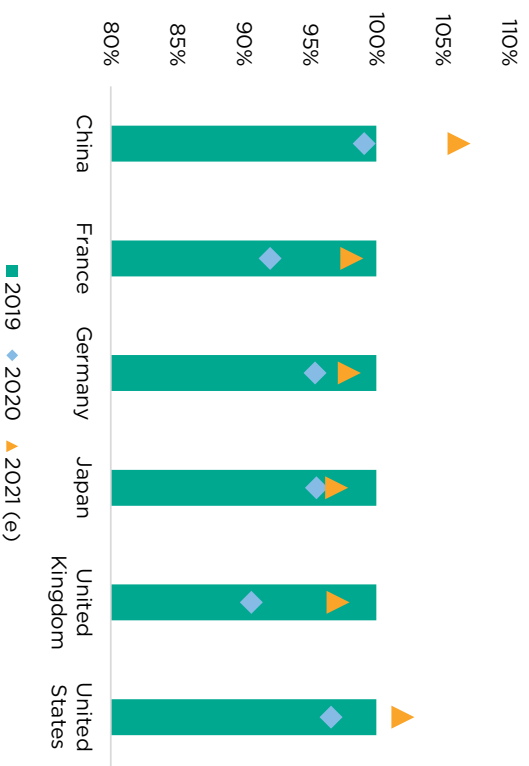
April 25th 2022



2021: An uneven recovery marked by unexpected high inflation

China and the US returned to their pre-pandemic real GDP in 2021, while others only partly rebounded

Real GDP levels, % of 2019 level



Source: ICC's calculations based on IMF data, WEO January 2022 (e) = estimate

A pent-up demand, soaring commodity prices, supply-chain disruptions and tight labour markets fuelled inflation

Consumer prices in 2021



+3.1% in advanced economies



+5.9% in emerging and developing economies

Prices increases in 2021



+ 67% for oil
+ 127% for coal
+397% for natural gas (Europe)

+24% for agricultural prices
(especially maize and soybeans)

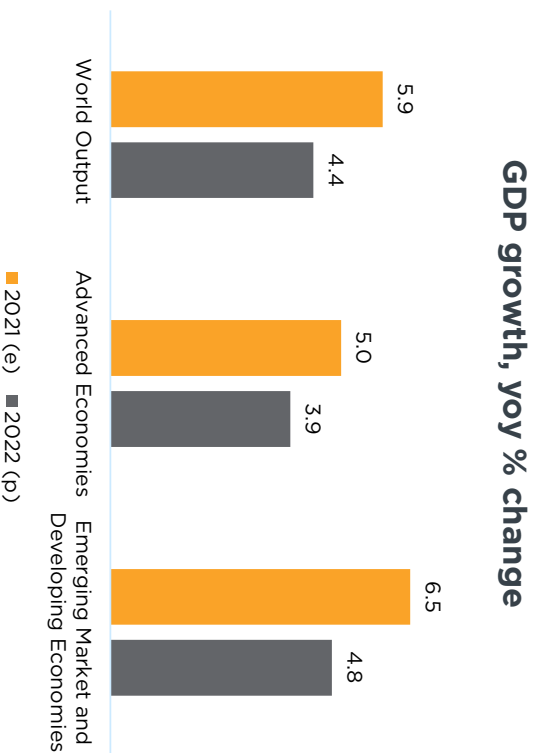


+40% for industrial inputs

Source: ICC's calculations based on IMF data, WEO (April 2022), World Bank Commodity Price Data (The Pink Sheet)

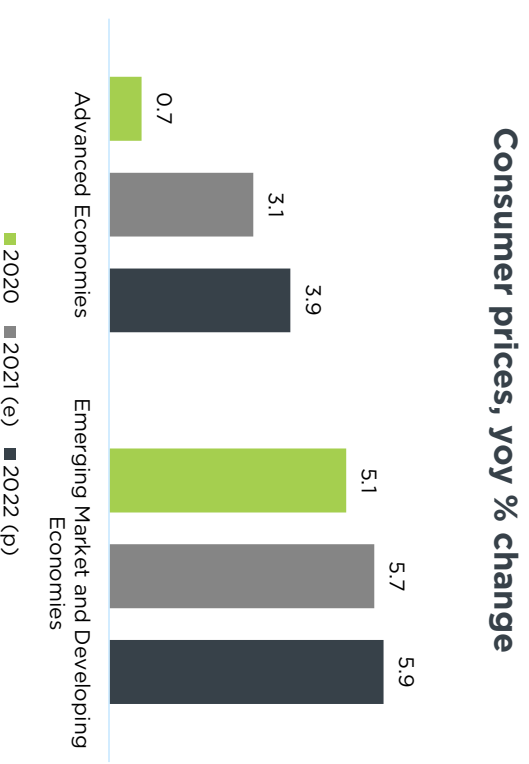
Prior to the conflict, global economic recovery was expected to slow down in 2022 and inflation to linger...

Global economy was projected to continue growing, albeit at a lower rate



Source: IMF, WEO January 2022
(e) = estimate, (p) = projections

Inflation was expected to remain elevated in a context of prolonged supply-chain disruptions and high energy prices



Source: IMF, WEO January 2022
(e) = estimate, (p) = projections

But Russia's war in Ukraine will hamper global recovery and fuel further inflation

Trade

Supply-chains disruptions

Remittances

Lower consumer and business confidence

Inflation

Agricultural

Energy

Manufacturing and shipping

Liquidity and fiscal risks

Currency depreciations

Increasing financing costs, fiscal vulnerability

Country-risk premium

Increasing disruptions in supply-chains (already tense) will weaken trade growth

Russia and Ukraine are top exporters of raw materials

Share of global exports in 2019, %



Sunflower seed/oil: 70%	Rapeseed: 17%
Wheat: 25%	Corn: 14%
Barley: 20%	



Crude petroleum: 13%	Coal tar oil: 17%
Natural gas in gaseous state: 16%	



Aluminium: 10%	Palladium: 20%
Semi-finished iron: 40%	Nickel: 30%
Nitrogenous fertilizers: 13%	Iron: 30%

Source: Observatory of Economic Complexity

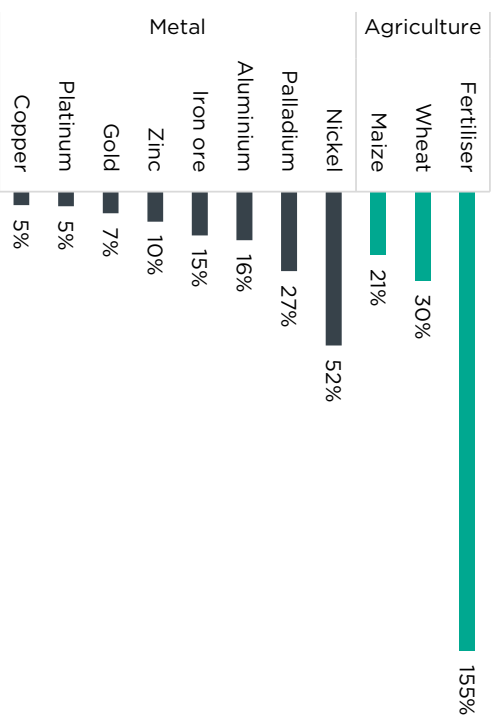
The war is hampering transport routes and infrastructure



Soaring commodity prices will exacerbate inflation and aggravate food insecurity

Agricultural and metal have risen sharply

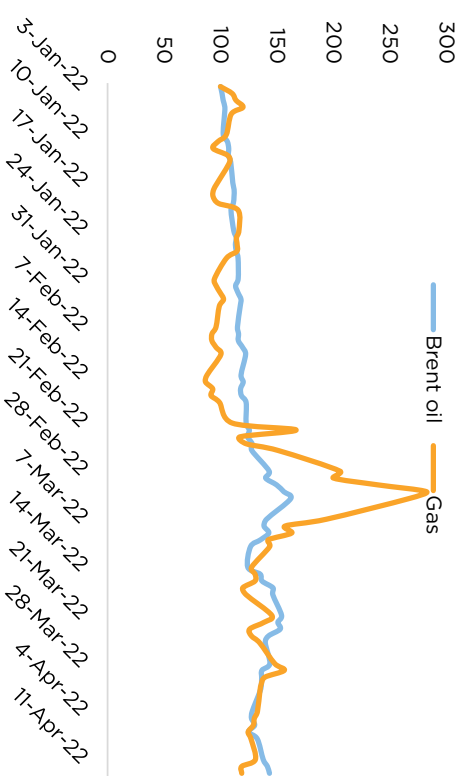
% change between January - March 2022



Source: World Bank Commodity Price Data (The Pink Sheet)

Energy prices are reaching record levels

Index, January 3, 2022=100



Source: Yahoo

Liquidity and fiscal risks will intensify in a context of high financial volatility and uncertainty

Advanced economies

- Exposure of European banks to Russia made them more vulnerable to SWIFT cut-off (Italy, France, Austria)
- High volatility and uncertainty will erode confidence and delay investment decisions

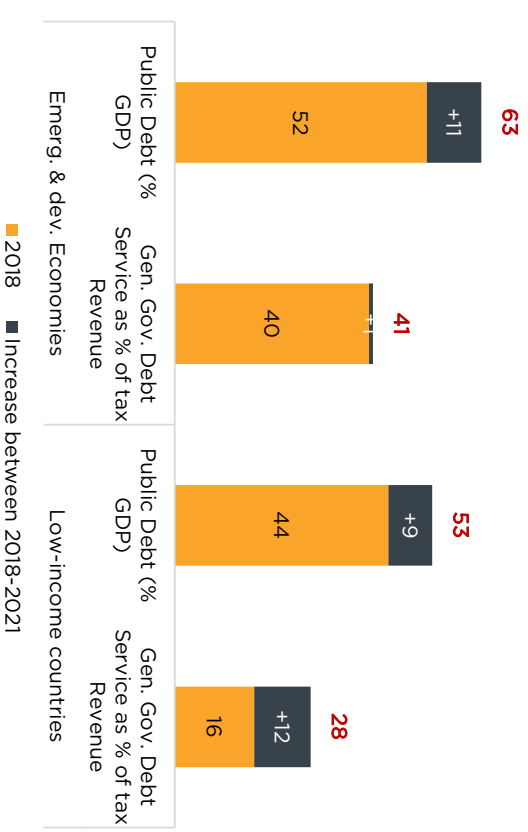
Emerging markets and LICs

- Tightening global liquidity, increasing borrowing costs → risk of currency depreciations and debt crisis
- Surge country-risk premium

Tightening of global liquidity could lead to widespread debt distress, especially in

LICs

Median public debt and debt service, in % of GDP and %



Source: ICC calculations based on IMF WEO (April 2022)

The impact of this shock will differ across sectors and regions

Metal manufacturing

Transport and storage

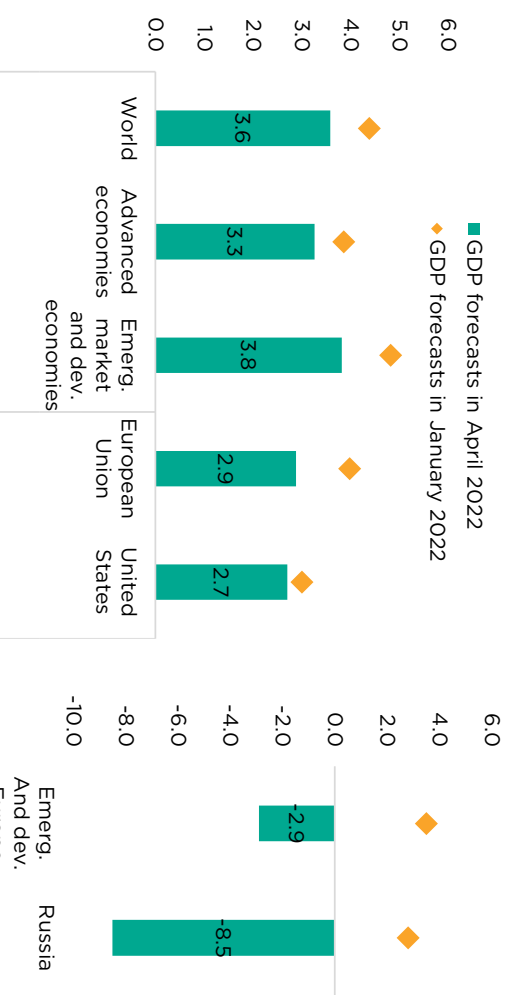
Carmakers

Agribusiness

- ❖ Mixed impact of commodity prices depending if country is net importer/exporter
- ❖ Middle East countries: highly exposed and vulnerable to agricultural shortages and price variations (especially Egypt).
- ❖ America region: US, Canada, Mexico and Brazil (especially for cars, fertilizers)

European countries will be the hardest hit, especially in eastern Europe

GDP growth for 2022, %



Source: IMF WEO (April 2022)

Medium-term outlook



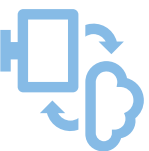
Accelerate move toward greener energy to diversify away for Russia and fossil fuels



Additional supply-chains disruptions may increase the pressure for re-shoring/on-shoring



Global monetary order (payments and settlements): seek for alternative systems to reduce dependency on US dollar (multiple central bank digital currencies)



Regionalisation of internet (splinternet) with two types of governance: open, decentralised, industry-led vs. closed, centralised, country-led

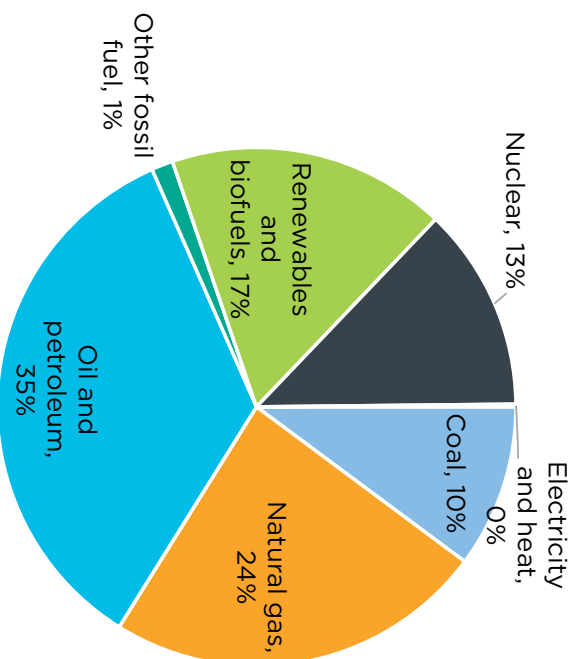
How this outlook affect energy policies and green transition?



In the short-run, the war in Ukraine is increasing energy security concerns for Europe...

European Union is still depend on fossil fuels for energy

Gross available energy by fuel, EU, 2020



Source: Eurostat

Due to their over-reliance on Russia, some countries are highly exposed to price volatility and possible embargo

Share of Russia in national extra EU imports, Q1 2021, in %



OIL

Between
50-75%

Romania, Czechia,
Poland, Lithuania



GAS

Poland, Germany,
Sweden, Lithuania

Between
75-100%

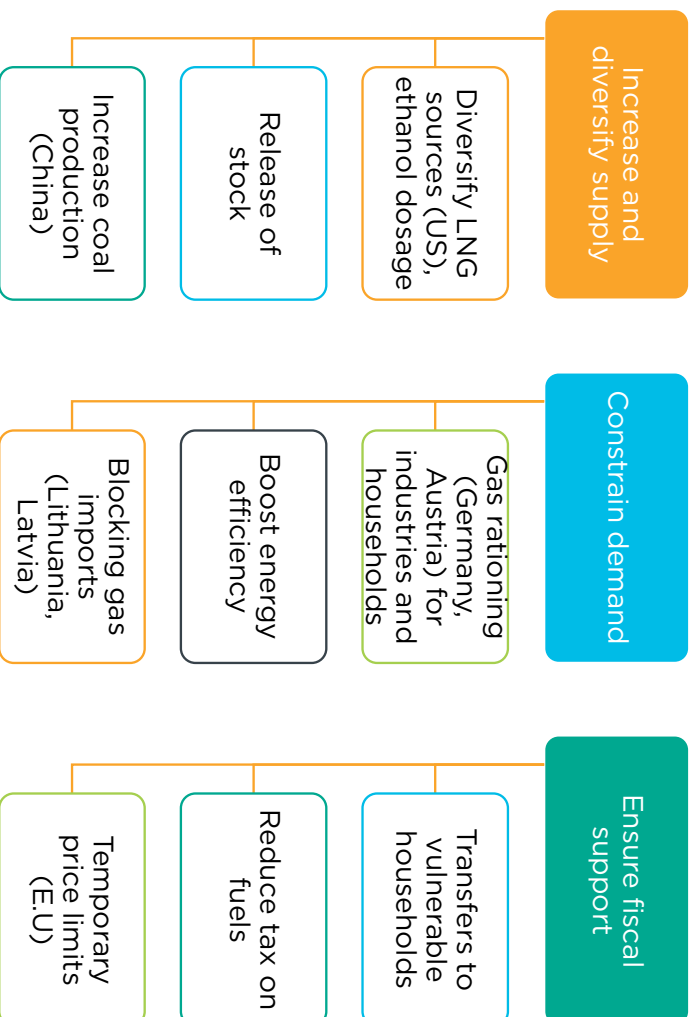
Finland, Slovakia,
Hungary, Bulgaria,

Finland, Slovakia,
Hungary, Bulgaria,
Romania, Czechia,
Austria, Estonia,
Slovenia Latvia

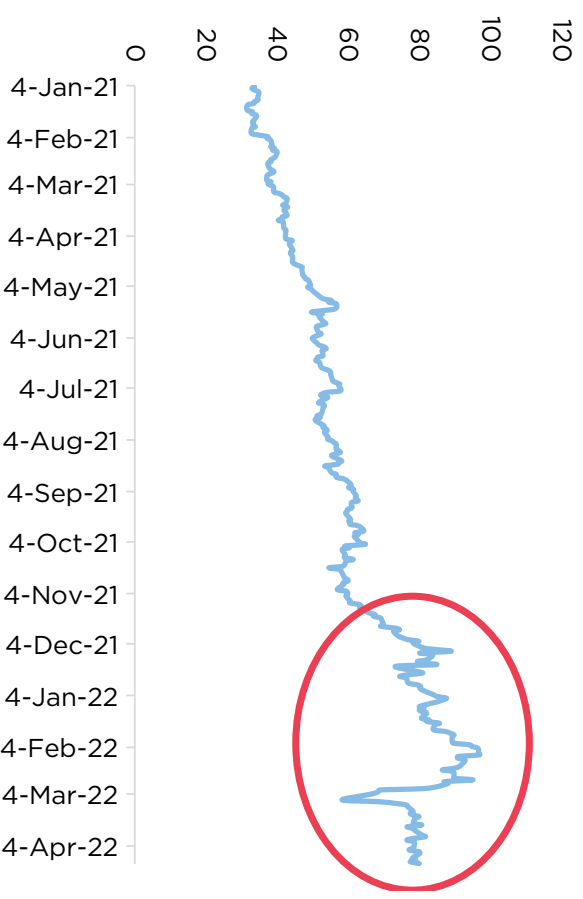
Source: ICC based on Eurostat

... and poses challenges to energy transition

Fossil-fuel importers are scrambling to find alternative energy resources in the short-term



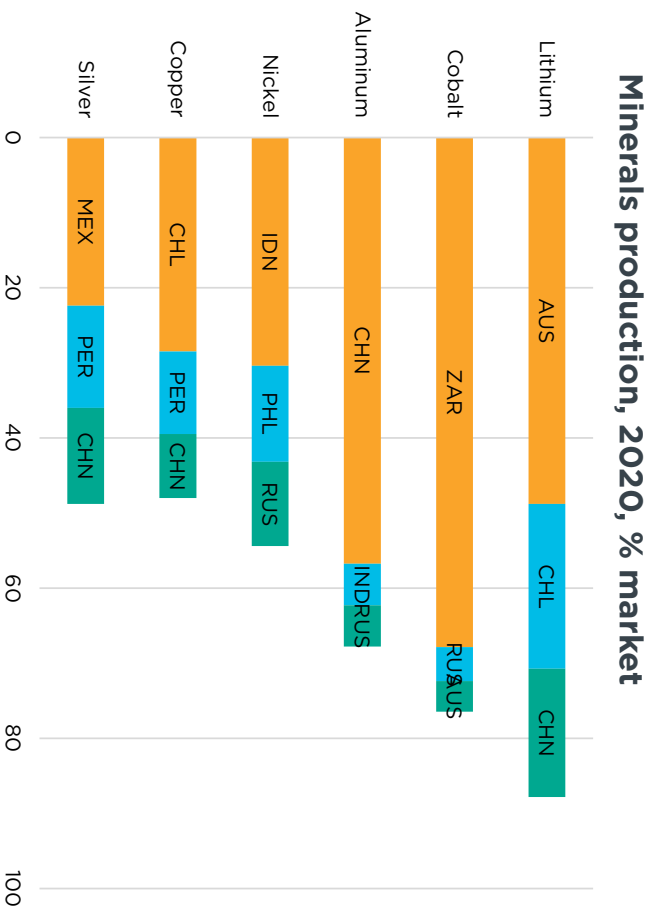
EU ETS carbon prices bounced back but remained below pre-invasion, delaying decarbonisation drive.



Source: Ember-climate

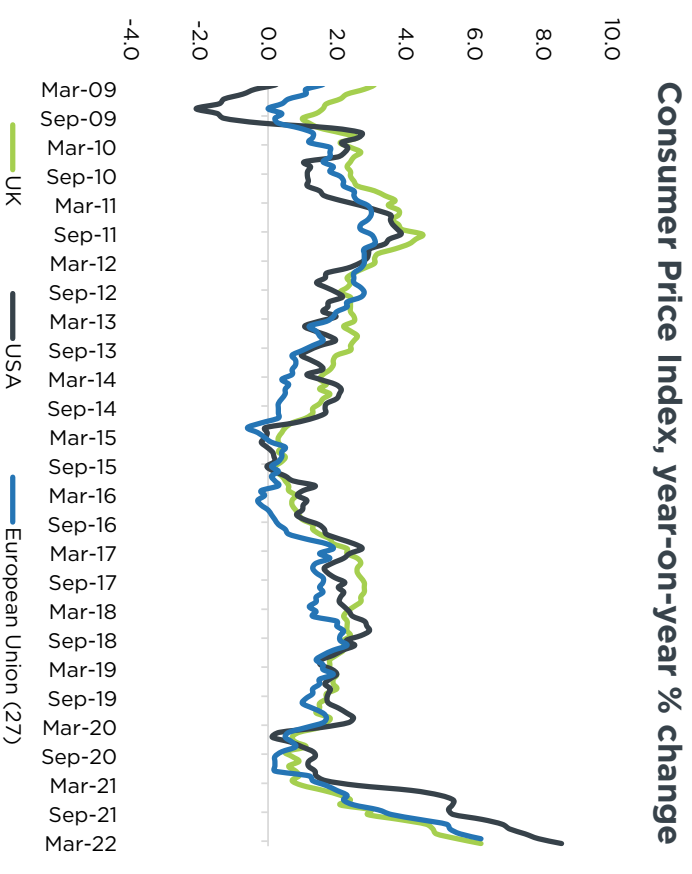
Elevated metal prices and monetary tightening may delay or derail the energy transition

Decarbonisation will also push up metal prices, which are concentrated in few suppliers



Source: ICC calculations based on US Geological Survey - Mineral Commodities Summaries 2021

As inflation hit record levels, interest rates are set to rise, making financing more expensive



Source: OECD stats

In the long-term, goals for energy transition and energy security should converge

Different policy tools to increase the cost of pollution and move towards renewable energies, which are more secure, abundant and affordable

Policy instrument	Minimisation of abatements costs	Administrative costs	Reallocation distribution concerns	Public acceptability and political economic	Fiscal impact	
Emission pricing instruments	GHG tax	5	2	3	1	5
	Emission trading system (ETS)	5	1	3	2	5
	Tax on polluting goods/activities (ex. fuel excise tax)		5	3	1	5
	Non-tradable performance standards/certificates	3	5	5	5	3
Standards and regulations	Tradable performance standards/certificates	5	1	3	3	3
	Subsidies to abatement	4	1	2	5	1
	Feebates (ex. vehicles)	4	4	4	5	3
	Technology standards	1	5	1	5	3

1	Low	Negative
2	Low to moderate	Negative to neutral
3	Moderate	Neutral
4	Moderate to high	Neutral to positive
5	High	Positive

Source: OECD - A framework to decarbonise the economy, February 2022