

Covid-19 And Crisis in Ukraine

# Where are we now?

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Trends in 2021 and Global Prospects  
for 2022

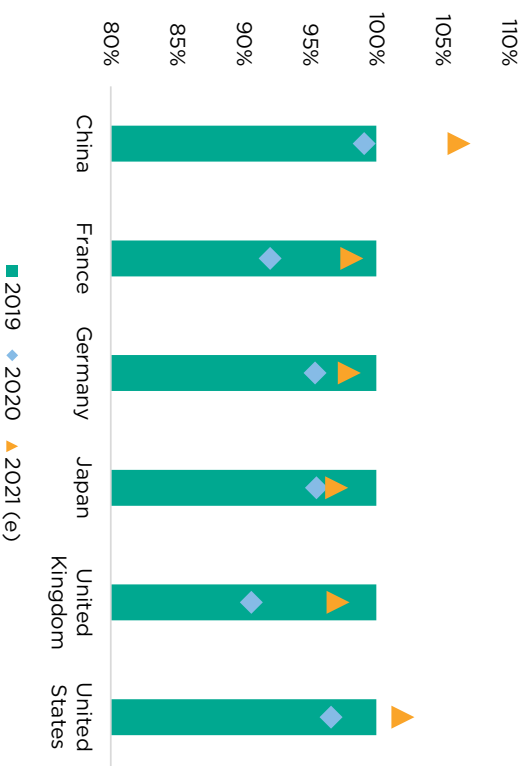
April 25<sup>th</sup> 2022



# 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: ICCC'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)

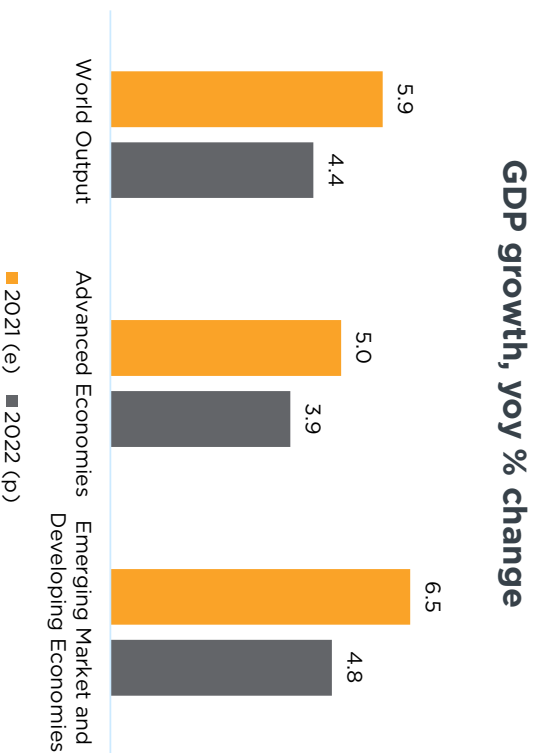


+40% for industrial inputs

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

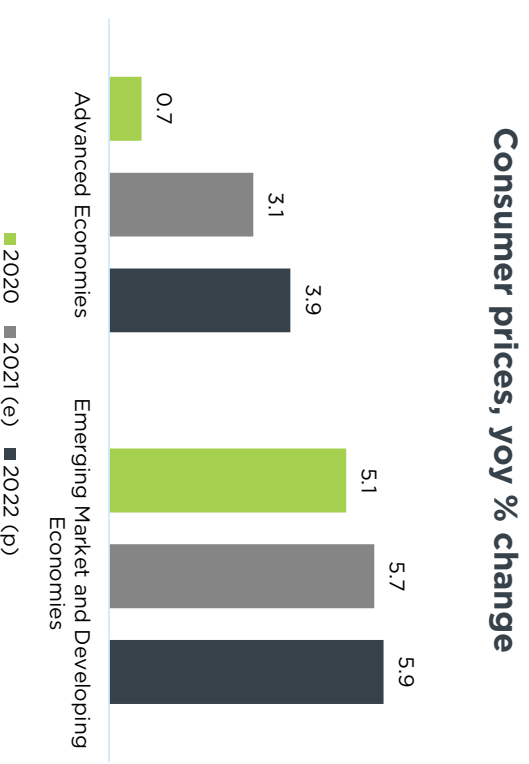
**Prior to the conflict, global economic recovery was expected to slow down in 2022 and inflation to linger...**

**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

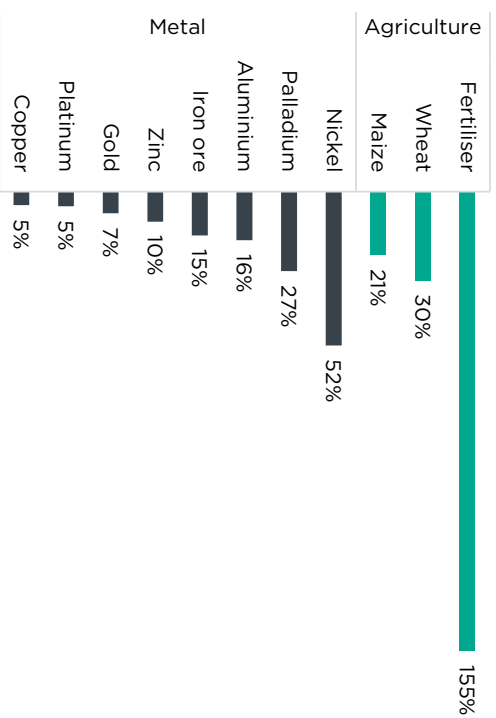
## The war is hampering transport routes and infrastructure



# Soaring commodity prices will exacerbate inflation and aggravate food insecurity

## Agricultural and metal have risen sharply

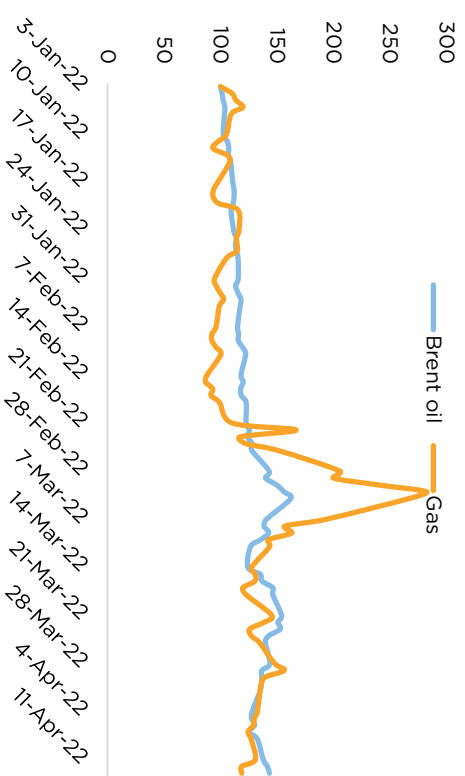
% change between January - March 2022



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

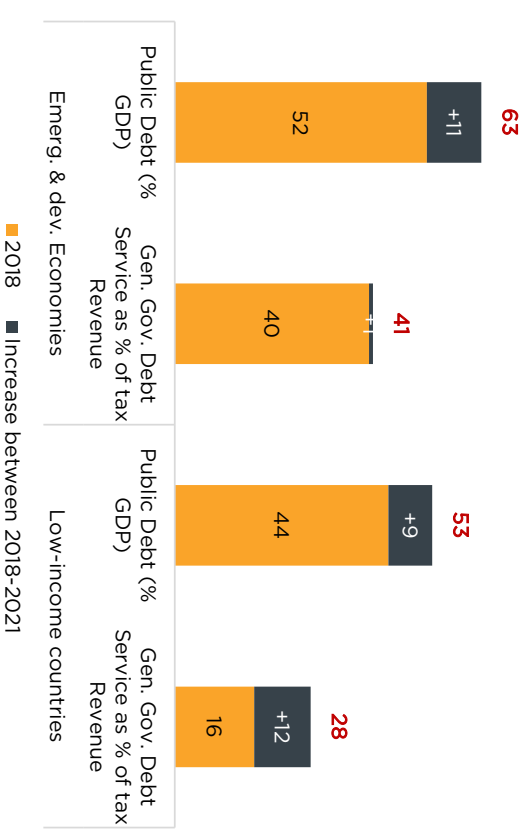
## Emerging markets and LICs

- 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

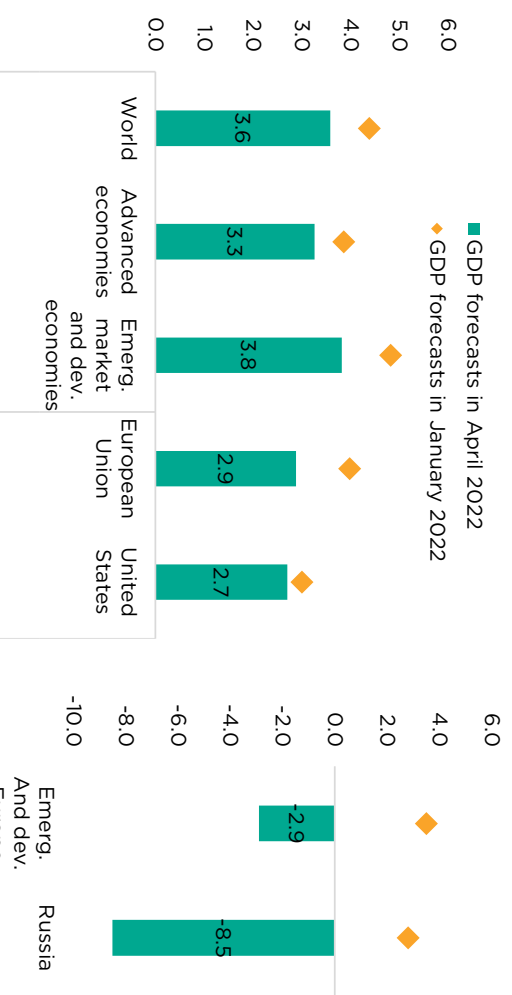
Carmakers

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



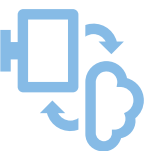
Accelerate move toward greener energy to diversify away for Russia and fossil fuels



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

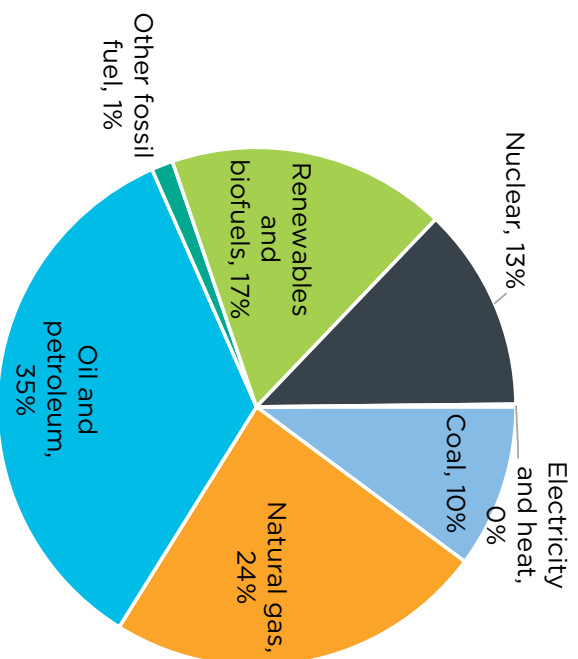
# How this outlook affect energy policies and green transition?



# 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



GAS

Between  
50-75%

Romania, Czechia,  
Poland, Lithuania

Poland, Germany,  
Sweden, Lithuania

Between  
75-100%

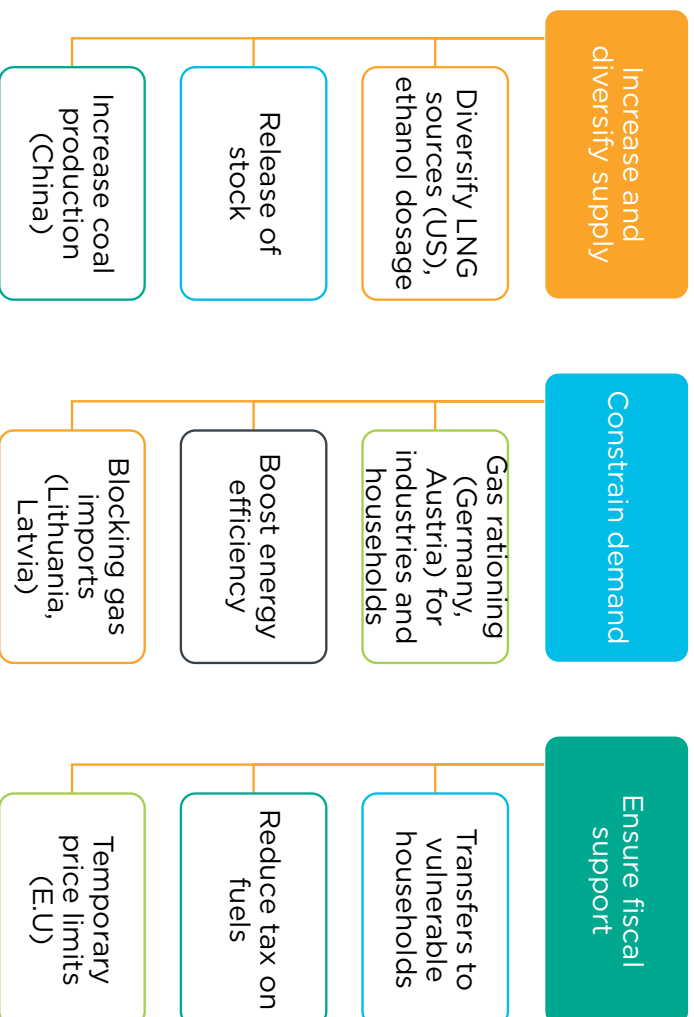
Finland, Slovakia,  
Hungary, Bulgaria,

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

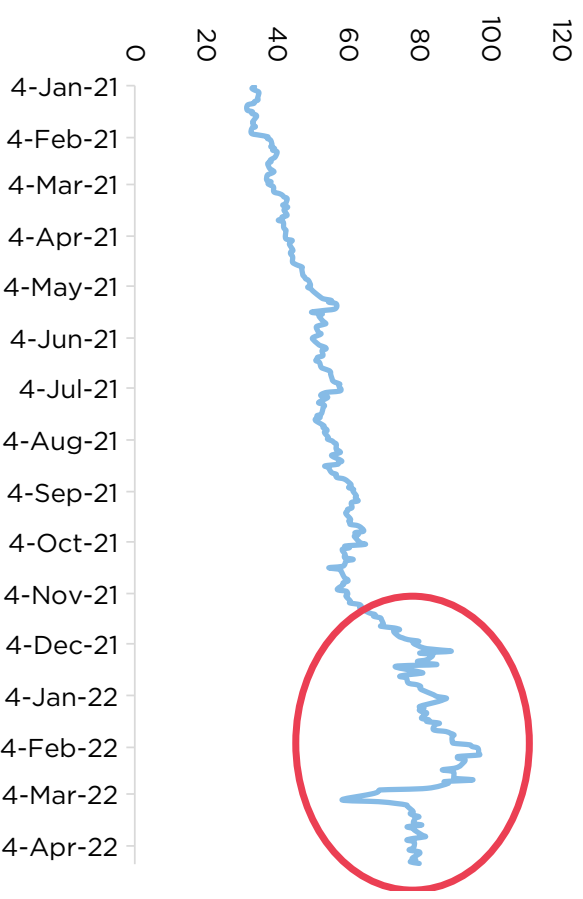
Source: ICC based on Eurostat

# ... and poses challenges to energy transition

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



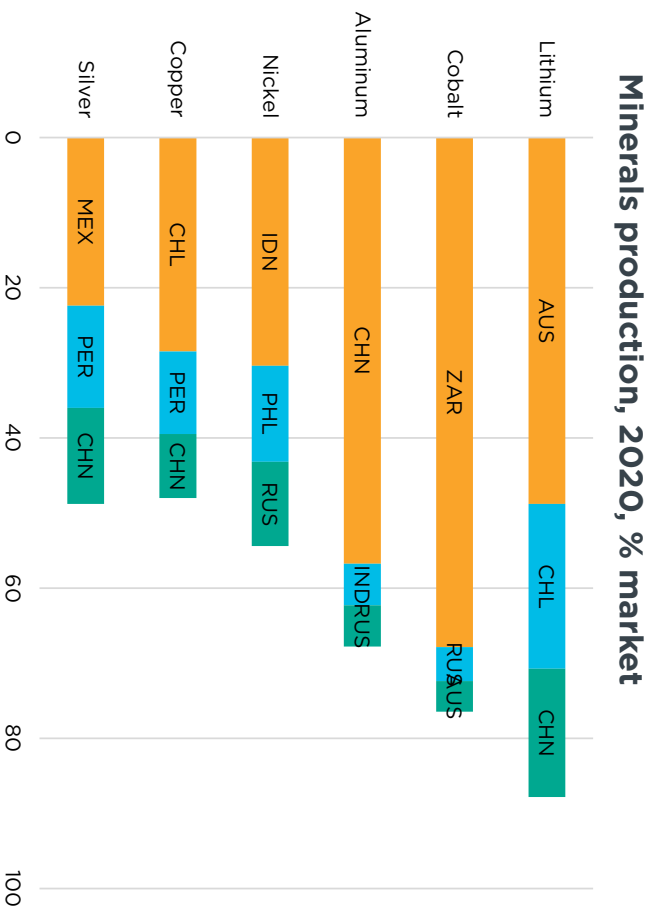
EU ETS carbon prices bounced back but remained below pre-invasion, delaying decarbonisation drive.



Source: Ember-climate

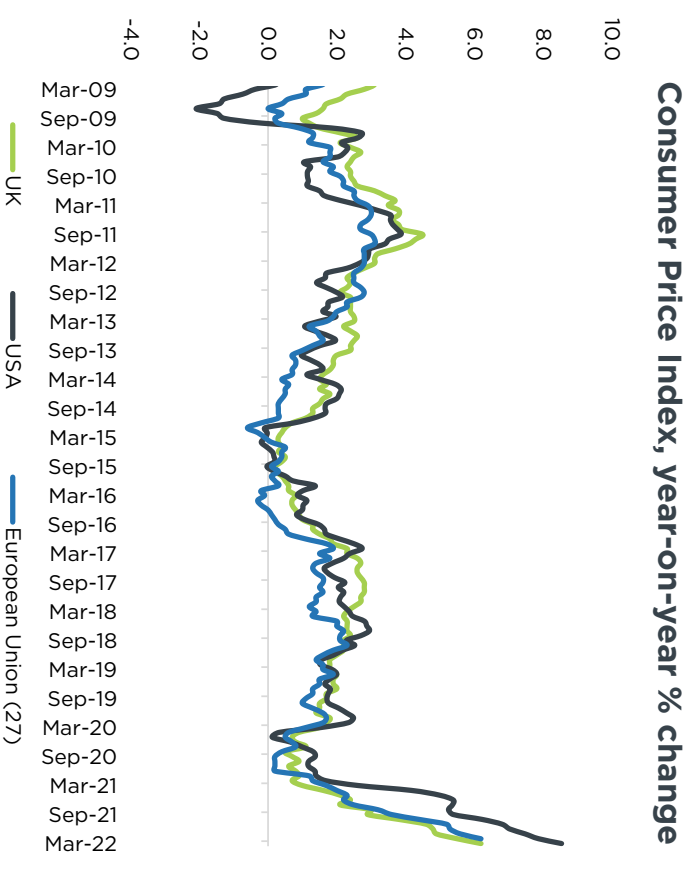
# Elevated metal prices and monetary tightening may delay or derail the energy transition

**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
Standards and regulations	Non-tradable performance standards/certificates	3	5	5		3
	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