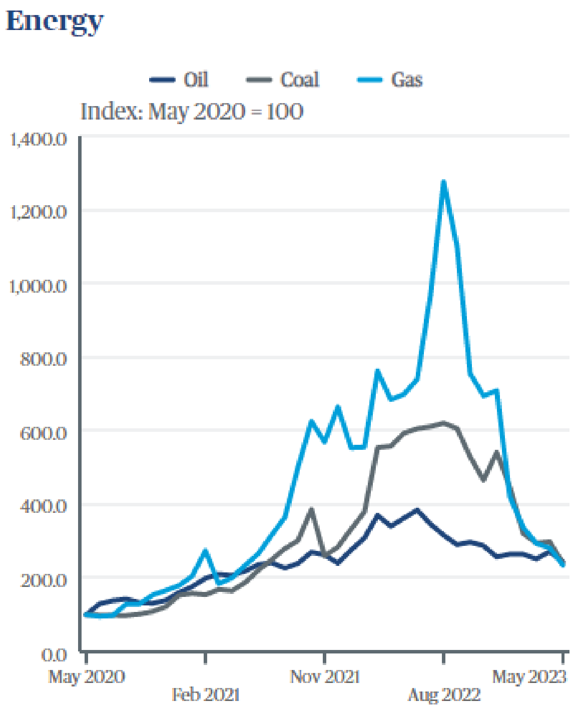
Russian-Ukrainian conflict
Impact on the construction industry
17/07/2023

	General and construction	Ukraine
	EUROPE NEWS STATISTICS	**The Ukrainian economy is adapting and recovering at a faster pace than initially forecast.** The Ukrainian economy is adapting to the war situation. Real GDP in Q1 2023 compared with Q4 2022 rose by 2.4%. The 2nd quarter also saw positive GDP dynamics. According to Economy Minister Yulia Svyrydenko, these data indicate that the Ukrainian economy is adapting and recovering at a faster pace than initially expected, continuing to function and overcome the challenges of war. At the same time, the World Bank has lowered its growth forecast for the Ukrainian economy to 2% from the 3.3% initially announced in January. Economic shocks due to the war, and in particular the destruction of energy infrastructure in the 4th quarter of 2022, were cited by the institution as the main reason. Inflation is slowing faster than expected due to adequate supplies of food and fuel, the strengthening of the hryvnia on the spot foreign exchange market, improved inflation expectations, and so on.
	Turner & Townsend The European Union's economy has so far withstood the impact of the war between Russia and Ukraine. However, the outlook for the main contributing countries, including Germany, remains uncertain. To combat inflation, energy security is a priority, and the EU is responding with major policy and investment initiatives to support high-growth sectors of industry and advanced manufacturing. The EU saw GDP growth of 3.7% in 2022. A key factor was the mild winter, which reduced gas consumption by 25% compared with the five-month rolling average. A gradual reduction in oil prices also helped mitigate the impact on GDP growth. Nevertheless, across the EU as a whole, growth is slowing and inflation remains high, although the peak seems to have been passed. According to the IMF's April forecast, GDP growth should rise by 0.7% in 2023 - narrowly missing a recession - followed by an increase to 1.6% in 2024. According to the IMF, Germany is set to contract by 0.1%, while France is expected to grow by 0.7%, Spain by 1.5% and Italy by 0.7%. Inflation peaked at 11.5% for the year to October 2022 and gradually fell to 8.3% for the year to March 2023. In 2023, inflation is only expected to fall to 6.2% in Germany, 5% in France, 4.3% in Spain and 4.5% in Italy. Energy costs have recently been relegated to second place among the main drivers of inflation in Europe, behind rising food costs (Turner & Townsend). *Global trend in energy prices (oil, gas and coal) between May 2020 and May 2023* (Turner & Townsend).	



Source: World Bank and Freightos

INTERNATIONAL NEWS STATISTICS

The COVID-19 pandemic is no longer a global public health emergency, according to the World Health Organization, but its economic aftershock is still being felt in emerging markets.
Since the onset of the pandemic, emerging market economies have struggled to rebuild amid the Russia-Ukraine conflict and its impact on global supply chains, alongside

In view of improved exchange rate forecasts and a faster-than-expected slowdown in inflation in recent months, analysts at investment firm Dragon Capital have lowered their forecast for the inflation rate at the end of 2023 by 3.5 points to 12.5%. Experts also expect the Ukrainian economy to grow by 3% (Business France).

The Central Bank of Ukraine authorizes new loans from non-residents.
The Central Bank of Ukraine continues to lift restrictions introduced as early as February 24, 2022, notably on exchange controls, and with the aim of facilitating the use of financial resources for the reconstruction of Ukraine and the support of its economy. Thus, since June 21, 2023, the Central Bank of Ukraine has authorized companies registered in Ukraine to make payments abroad to pay interest and repay debts to foreign creditors for foreign loans, granted after June 20, 2023, and paid into customer accounts in Ukrainian banks - under certain conditions. At the same time, the document prohibits early repayment of loans.
The Central Bank of Ukraine considers that the easing of these measures will have only a limited effect on foreign exchange reserves and the foreign exchange market, while enabling local companies to tap into sources of financing (Business France).

Dialogues on reconstruction" forum

	increasing food and energy prices, challenging credit conditions and questions about the vulnerability of their banks and companies to financial stress. S&P Global Ratings recently revised its expectations for GDP growth across emerging markets downward to an average of 4.1% for 2023, from 4.3% in June. “We continue to expect emerging market countries in Europe, the Middle East and Africa, and Latin America to grow well below long-term trends the next 12 months,”. Earlier in 2023, S&P Global Ratings warned that the balance of emerging market risks remains on the downside. Threats to emerging economies from decelerating global trade and geopolitical tensions were expected to remain, while the risks of tighter financing conditions, stubborn inflation and rising labor costs were expected to increase. At the same time, the risk of climate change and rising adaptation costs — a secular trend that affects emerging and developed economies — was forecast to worsen. While emerging markets have faced pressure from the outset of the COVID-19 pandemic, the impact of this pressure on credit quality has evolved over time. From March 2020 to February 2022, Latin America had the highest number of negative rating actions, while banks and utility companies were most heavily affected by rating downgrades. From February 2022 to January 2023, Greater China saw the highest number of negative rating actions, with real estate and nonbank financial institutions hit the hardest. Much of the concern for emerging market economies centers around the US Federal Reserve. At its most recent meeting from June 13 to June 14, the Federal Open Market Committee decided to maintain the federal funds rate at 5%-5.25%, but the central bank’s focus on curbing inflation is expected to result in tighter financing conditions for emerging markets. While S&P Global Ratings expects economic growth to slow across most emerging markets in 2023, India is showing resilience, while China and Thailand are expected to buck the trend. Other emerging markets might even see opportunities from shifts in global supply chains. Nearshoring, or the idea of moving production closer in proximity to demand, has become a popular theme in recent years as companies look to address supply chain risks highlighted by COVID-19 and geopolitical tensions. If companies choose to move production from China to countries such as Mexico or Hungary, the impact on GDP growth could be substantial.	At the "Dialogues on Reconstruction" Forum held in Kyiv at the beginning of June 2023, the Director of the Renovation Agency, Mr Mustafa Nayyem, presented his Agency's current and future projects. According to Mr. Nayyem, reconstruction is a complex process that must take into account economic and social factors. Preparing the ground for large-scale post-war reconstruction is one of the Agency's priorities. At present, as the war is not over, the Agency is concentrating on rebuilding critical infrastructure and transport facilities. Today's top priority is the physical protection of energy infrastructure equipment. These include installations to protect electrical transformers from missile attack. Another project that became critical recently, following the Russian army's destruction of the Kakhovka dam and hydroelectric power station, is the construction of the 90 km-long water pipelines to supply drinking water to two Ukrainian regions. The project is ambitious, and the deadlines are very tight, given the vital need of several towns - according to UN estimates, almost 700,000 Ukrainians were left without drinking water after the attack. Lastly, the Agency has launched a project to rebuild 6 local authorities in unoccupied regions. This is a pilot project to perfect all the procedures that can then be deployed nationwide to rebuild the country. According to the Agency's Director, Mustafa Nayyem, one of the major obstacles to

"In a hypothetical scenario in which 1% of total manufacturing output from China is shifted to Mexico gradually over the next five years, we estimate annual real GDP growth for Mexico would average roughly 2.6%, compared with our 2.0% baseline," analysts said in the June 26 report.
The risks and opportunities for emerging markets will be discussed at S&P Global Ratings' Global Emerging Markets Conference, which takes place July 11 in London and features a keynote address by S&P Global Ratings Global Chief Economist Paul Gruenwald (S&P Global).

A predicted recession in the US and EU keeps getting delayed by another quarter. But news of the unexpected resilience of these economies appears not to have reached Asia, where lower export numbers are attributed to an economic slowdown in the US and EU. The supposed slowdown is difficult to find in the macroeconomic data — GDP numbers continue to outperform expectations; real wages are up and unemployment is down. Inflation remains stubbornly persistent, but that is evidence of an overheated economy, not a slowdown.
Rajiv Biswas, Asia-Pacific chief economist for S&P Global Market Intelligence, suggested in a recent article about Vietnam's economy that "the economic slowdown in the US and EU, which together account for 42% of Vietnam's total goods exports, has resulted in a significant weakening in exports during the first four months of 2023, with Vietnam's total goods exports declining by 13% [year over year]."
Vietnam is not the only market where lower exports are being attributed to an economic slowdown in the US and EU. Singapore's slowing GDP growth rate was attributed to weak demand in the important export markets of these economies. A decline in first-quarter 2023 GDP growth in Taiwan was also attributed to weak electronics demand in the US, EU and mainland China. In China, weak demand in the US and EU due to high inflation and interest rate hikes was the main obstacle to the strong return of Chinese exports.
Demand remains healthy in the US and EU, but Asian exports are undeniably declining. There could be several explanations. One reason is that inventory levels in the US and EU are returning to pre-pandemic levels. During the supply chain disruptions of the past three years, many retailers in the US and EU were forced to maintain larger inventories in warehouses to avoid shortages on store shelves. As supply chains have normalized,

reconstruction is the lack of specialists capable of structuring projects. The need for product developers, engineers and experts will soon be acute.
As a reminder, the Agence de Rénovation recently equipped itself with a unique ecosystem for managing reconstruction projects - DREAM (Digital Restoration Ecosystem for Accountable Management). According to Mr. Nayyem, this tool will ensure total transparency of the reconstruction process, which will play an important role in preventing corruption (Business France).

Recognition of qualifications of Ukrainian professionals

On June 26, the Commission published a report assessing the application of Commission Recommendation (EU) 2022/554 of April 5, 2022, on the recognition of qualifications of persons fleeing Russia's invasion of Ukraine, and Member States' responses to it. The report underlines that Member States have made significant progress in facilitating the integration of Ukrainian professionals. It also notes that implementation of the recommendation varies considerably from one Member State to another.
Things to remember :

- The countries that received the largest number of people fleeing Russia's invasion of Ukraine were Poland, Germany and retailers have attempted to "sell down" their inventories. This would temporarily reduce their dependence on imports from Asia and lead to smaller orders (S&P Global).

CONSTRUCTION STATISTICS NEWS

Turner & Townsend

Construction demand in the region has slowed but remains relatively resilient. In 2022, overall construction activity fell by just 1.3% year-on-year, despite challenging conditions including higher financing costs, material and labor shortages, and sharply rising construction costs. Not only has the cost of financing risen, but the associated risks - given the weaker outlook - are leading to a slowdown in construction investment. The European Central Bank's composite financing cost indicator has reached its highest levels since 2011, and loan growth is slowing.

Most regions report a reduction in order books in 2023, although the number of projects on the backlog remains high. The outlook differs significantly within member states and within the region. In Germany, Frankfurt and Munich are affected by rising material costs and labor shortages, while the Hamburg and Berlin construction markets remain active despite these difficulties. France, Belgium, Spain, Austria, the Netherlands, and Sweden should see a moderate decline in activity in 2023. Ireland, Italy, and Poland are not expecting a drop-in activity, despite high costs and labor shortages.

The study shows, however, that inflation in the construction sector is set to ease, with forecasts for the 16 European regions surveyed averaging 6.4% for 2023, down significantly from 12.7% in 2022.

According to the report, Munich has now overtaken Dublin as the most expensive construction market in the European Union (EU), with an average construction cost of €3,482/m2 (Turner & Townsend)(Construction Europe).

FIEC

FIEC's annual statistical report has been published.

The latest figures and trends in construction activity in Europe can be found in the contributions collected from 22 member countries. An overview of price trends is provided for selected materials, by country.

Czechoslovakia. Although these countries have received many requests for recognition (for example, Poland has received over 5,000), the countries with the highest number of requests in relation to the number of people under temporary protection are Hungary, Lithuania, and Latvia.

- Of the 4.6 million people registered under temporary protection, around 1 million participate in the labor market.
- Member States have made considerable progress in facilitating the integration of Ukrainian professionals, particularly in the health and education sectors. Common practice among member states is to allow qualified Ukrainian professionals to work under supervision, to hire them as assistants, and to grant them temporary and provisional rights to carry out their activities without prior recognition. However, there is a risk of qualified Ukrainian professionals being trapped in assistant positions.
- Electronic tools and the exchange of information are essential to help member states make rapid decisions on recognition:

Rüdiger Otto, Chairman of the Economic and Legal Commission, explains:
"Russia's war of aggression against Ukraine has had a significant impact on global supply chains and reinforced global inflationary pressures. The EU economy is particularly exposed to the effects of the conflict due to its proximity to the war and its dependence on Russian energy resources. In 2023, GDP grew by 3.5%, with much slower growth expected next year.
Rising prices and shortages in the supply of energy and certain building materials have had a negative impact on several contractors in Europe, many of whom risk not being able to meet their contractual obligations or refrain from participating in public tenders. Overall, growth in the construction sector was slightly weaker than expected last year. Total investment in construction rose by 2.0% in 2022. Total employment, however, fell by 4.0% compared with 2021. In 2023, construction investment is expected to decline at a rate of 2.5%. All segments, except for civil engineering, are expected to contract. A decline in the construction market will also be observed in most EU countries".

Key figures:

- **Main activities in 2022: 18.1%** civil engineering; **31.8%** non-residential; **29.7%** renovation; **20.6%** new housing construction.
- **49.7%** of total gross fixed capital formation.
- **6.4%** of employment.
- More than **3 million** active companies and **12 million** employees.
- **10.1%** of European GDP (EU27).
- **1.457 billion euros of** investment in construction in 2022, in the European Union.

The Covid-19 pandemic caused major disruptions to global supply chains, with several contractors experiencing delays in the delivery of their products. The ongoing war in Ukraine continued to affect the supply of certain raw materials, particularly steel, in Europe, and price rises for building materials were observed in all EU member states.
Looking at individual building materials, prices for steel and bituminous products peaked in most EU countries around mid-2022 and fell towards the end of the year. At the same time, cement prices have risen steadily over the past year. Indeed, a sharp rise in energy prices has been observed in the EU since 2021, and energy-intensive industries,

- ▸ The Commission has received very positive feedback on the usefulness of the electronic translation tool, which has been made available in Ukrainian.
- ▸ The European Training Foundation (ETF) has successfully set up a resource center gathering information on Ukrainian qualifications.
- ▸ The Commission has published a report on the "Comparison of the European Qualifications Framework and the Ukrainian National Qualifications Framework")(CommissioneEuropean).

Ukraine - Moldova

Ukrainian rail company Ukrzaliznytsia has signed a memorandum of understanding with Moldova's state railway company (Calea Ferată din Moldova), outlining plans to rehabilitate 400 km of rail lines.
The reconstruction work will speed up train speeds and increase the capacity of the Republic of Moldova's important north-south rail corridor. More importantly, the project aims to strengthen ties between the two countries.
The project includes upgrading the tracks through Valcineț, Ocnita, Balti, Ungheni, Calarasi and Calinari, with work scheduled for completion by the end of 2024.

including concrete and cement, tend to pass on the impact of higher prices to contractors.
Material price trends by country available here (FIEC).

GENERAL NEWS

European Interconnection Mechanism (EIM)
The MIE has announced additional financial support of €6.2 billion for 107 new projects on the Trans-European Transport Network (TEN-T).

- **Road infrastructure:** The European Commission (EC) has stated that funding will be targeted at transport infrastructure projects that align with EU climate objectives.
  Support will be extended to cross-border connections with Ukraine and Moldavia through the establishment of solidarity channels.
  Important cross-border rail links within the TEN-T core network will also be supported.
  Projects such as the Brenner base tunnel, linking Italy and Austria, Rail Baltica, linking the Baltic States and Poland to the rest of Europe, and the cross-border sections between Germany and Switzerland (Karlsruhe to Basel) and Germany and the Netherlands (Emmerich-Oberhausen) will be given priority.
- **Inland ports and seaports:** Ports in Ireland, Greece, Spain, Latvia, Lithuania, the Netherlands, and Poland are also set to undergo infrastructure upgrades, with the aim of developing an extensive network of short sea routes within the EU, incorporating shore-side power systems to reduce greenhouse gas emissions from moored ships. The improvement of inland waterway infrastructure along the Seine-Scheldt cross-border link between France and Belgium will be another focal point, as will several inland ports located in the Danube and Rhine basins, notably the ports of Vienna and Andernach. As part of the project, the European Rail Traffic Management System (ERTMS) will be deployed on trains and railroad lines in Austria, Germany, France, Denmark, the Czech Republic, and Slovakia. In addition, intelligent transport systems and services (ITS), C-ITS solutions, will be implemented on the road network in conjunction with advanced, intelligent ITS solutions.

The initiative, dubbed "Solidarity Lanes", is led by the Moldovan railway authorities, and supported by the European Commission.

In addition to improving transport links in Moldova, the aim is to develop alternative logistics routes, promote economic growth in Moldova and rationalize the transport of goods from Ukraine to the European Union.
The rail corridor will also give Ukraine access to important Black Sea ports for exporting goods.
The project will be financed by external partners on the EU's eastern border. The European Bank for Reconstruction and Development (EBRD) and the European Commission have already approved funding totaling 71 million euros.
This amount includes an investment grant of 20 million euros from the EU and 23 million euros provided by the EBRD to the Moldovan government. Additional funds totaling 28 million euros are expected to come from other funding channels (Construction Europe).

Commission proposal for a new Ukraine Facility
On June 20, as part of the revision of the EU budget framework for the period 2024-2027, the European Commission proposed a specific financing instrument, the Ukraine Facility, which will provide coherent, predictable and flexible support to Ukraine for the period 2024-2027.
The overall amount earmarked for this facility is 50 billion euros for the period 2024-2027 in the

CEF funding also extends to European air traffic management projects that support the Single European Sky concept, aimed at improving the efficiency and sustainability of air transport.

- **Ukraine:** In response to the situation in Ukraine following Russian aggression and the blockade of Ukrainian ports, the European Commission has introduced an action plan for EU-Ukraine solidarity channels.
  The plan aims to facilitate Ukrainian exports and bilateral trade, with nine projects receiving total EU support of almost 250 million euros. These projects will focus on improving cross-border connections between neighboring EU member states (Poland, Slovakia, Hungary and Romania) and Ukraine/Moldova (Construction Europe).

COUNTRY FOCUS

Russia

Almost a year and a half after the Russian invasion of Ukraine, the war has not gone as planned. On the battlefield, the situation is close to a stalemate, with Russian forces bitterly contesting the Ukrainian advances. On the diplomatic front, the sanctions that were predicted to bring the Russian government to the brink of collapse have had little effect. Russian oil and natural gas continue to flow to export markets around the world, although the loss of European markets has been painful and costly for Russian energy companies. Energy markets have undergone a fundamental reorientation. Even if a truce were to be declared tomorrow, Europe would remain a reluctant market for Russian energy exports.

One of the peculiarities of the energy markets is that, even in times of war, Russian and Ukrainian companies reluctantly collaborate to supply natural gas to Europe. Russian gas is flowing much less through pipelines to Europe, with June deliveries down 63%. The TurkStream pipeline, which supplies Russian gas to Serbia and Hungary, remained reliable, although it was shut down in June for maintenance. But it is the connection via Ukraine and the relationship between Gazprom and Naftogaz that is both surprising and fragile.

Russian gas continues to flow through Ukraine under an agreement signed in December 2019 and due to expire next December. Gazprom and Naftogaz are engaged in

form of grants, guarantees and loans. Of this amount, an indicative amount of 33 billion euros could be provided in the form of loans under the facility, starting in 2024, subject to the agreement of the Council and the European Parliament. The exact amount of loans will then be decided each year.

The loan component of the facility will be financed by borrowing on the capital markets in the form of EU bonds, following a similar approach to that of the current Macro Financial Assistance "Plus" (MFA+) to Ukraine. The facility will also benefit from the same EU budget guarantees as the current MFA+ program. Interest rate subsidies will be provided through the EU budget.

The Ukraine Facility program is built on three pillars:

- Support for Ukraine's urgent and immediate needs;
- Support for the private sector, with risk reduction tools;
- And technical assistance, capacity building and development, etc.

The European Parliament and the Council must now examine the proposal. If the proposal is adopted, its impact on the financing volumes of the European Commission, which borrows on behalf of the EU, will be reflected in future half-yearly financing plans.

	acrimonious litigation over the terms of the agreement. Both Ukraine and Russia have threatened to end trade relations, but for now, gas flows are well below pre-war levels. Russian crude and refined petroleum products take even more circuitous routes to reach world markets. With most European states imposing price caps or outright bans on Russian oil, Russia has lost its biggest crude market. However, Russia has been working hard to find new markets and circumvent the sanctions. S&P Global Commodity Insights suggests that Russia has embarked on a "charm offensive" in Africa. Sergei Lavrov, Russia's Foreign Minister, recently returned from a visit to seven African countries. The aim of the trip was apparently to establish ties with key countries and open up new markets for Russian oil products. Exports of refined products from Russia to Africa increased 14-fold after the imposition of European sanctions. Morocco, Libya and Egypt have been particularly active in importing Russian oil, leading observers to suggest that some North African countries could blend Russian crude with domestic crude and then re-export it to Europe. India remains an important market for Russian crude. Russia and the Middle East each account for around 40-45% of the Indian market. India's oil demand rose by 9% year-on-year in May. To wit, measures to circumvent sanctions, such as offshore ship-to-ship transfers and the practice of disabling automatic ship identification systems, have multiplied (S&P Global Daily News).	If the proposal is adopted before the end of 2023, the first financing plan to take account of the new facility for Ukraine will be for January-June 2024, to be published in December 2023 (European Commission).

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