Russian-Ukrainian conflict
Impact on the construction sector worldwide
30/01/2024

	General and construction	Ukraine / Russia
	EUROPEAN UNION NEWS	**12TH SANCTIONS PACKAGE AGAINST RUSSIA (November 2023)** The aim of this package of measures is to impose additional import and export bans on Russia, to combat the circumvention of sanctions and to close existing loopholes. In particular, the package includes the addition of Russian individuals and companies on the list of persons and entities subject to sanctions, as well as new import and export bans, such as a ban on the export of Russian diamonds to Europe, in very close cooperation with G7 partners. Russia is the world's largest producer of rough diamonds in terms of volume, and over 90% of its business is dominated by a single company: Alrosa. In 2021, the year before the outbreak of war, Russia exported around \$4 billion (€3.77 billion) worth of diamonds, an amount that fell only slightly in 2022 as the international community refrained from imposing sanctions at the time (Euronews). In addition, the package includes tougher provisions on the implementation of the oil price cap through stricter monitoring of how tankers can be used to circumvent the cap (the sanctions do not change the \$60 per barrel limit but introduce new measures to ensure that global sales of Russian oil remain within the price cap). It also includes stricter asset tracing obligations and strong measures against third country companies circumventing the sanctions. In addition, **trade sanctions have been tightened, with a ban on imports of raw materials to produce steel, processed aluminum and other metal products from Russia, and a ban on EU exports of industrial products, including machinery and parts, construction-**
	MACROECONOMIC PROJECTIONS FOR THE EURO ZONE (December 2023) The eurozone economy weakened in the second half of 2023, held back by tighter financing conditions, weak confidence, and losses in competitiveness. Short-term indicators point to anemic economic activity in the fourth quarter of 2023. However, growth is expected to strengthen from early 2024 as real disposable income rises - supported by falling inflation, robust wage growth and a resilient labor market - and exports match the pace of external demand. The ECB's tightening monetary policy and unfavorable credit supply conditions continue to have an impact on the economy, affecting short-term growth prospects. These moderating effects should fade by the end of the projection horizon, to the benefit of growth. **Overall, average annual real GDP growth is expected to slow from 3.4% in 2022 to 0.6% in 2023, before recovering to 0.8% in 2024 and stabilizing at 1.5% in 2025 and 2026.** Inflation has continued to fall due to a slowdown in the rise in energy prices, the effects of tighter monetary policy and the ongoing easing of upstream tensions and supply bottlenecks. After falling back to 2.4% in November 2023, the Harmonized Index of Consumer Prices (HICP) is set to rise again temporarily on the back of a rebound in energy prices. However, the underlying disinflationary process should continue, despite strong increases in labor costs, which are increasingly becoming the main driver of the HICP excluding energy and food. Despite some easing, the situation on the labor market is likely to remain tight, which, combined with	

	the effects of past high inflation, should keep nominal wage growth high. However, wage growth is expected to slow over the projection horizon as the upward effects of inflation compensation fade. Profits have risen strongly in 2022, but should weaken over the projection horizon, moderating the pass-through of labor costs. **Overall, with medium-term inflation expectations set to remain anchored on the ECB's 2% inflation target, overall HICP inflation should fall from 5.4% in 2023 to an average of 2.7% in 2024, 2.1% in 2025 and 1.9% in 2026** (European Central Bank). **TOTAL VALUE OF EU TRADE THROUGH FREE TRADE AGREEMENTS EXCEEDS EUR 2,000 BILLION (November 2023)** According to the third annual report on the implementation and application of EU trade policy, the value of EU trade under free trade agreements with global partners exceeded €2,000 billion for the first time in 2022. The European Commission's report shows that trade with the 20 main trading partners increased by an average of almost 30% in 2022. The Commission, in collaboration with the Member States and EU businesses, has also eliminated more than 30 barriers to trade in 19 countries. The removal of barriers over the past five years has unlocked €7 billion of EU exports in 2022 alone. The agreements have also led to greater protection for the environment and workers' rights. The EU has the largest network of trade agreements in the world, with a total of 74 countries, accounting for 44% of all EU trade. In 2022, trade between the EU and its trading partners (except for energy products) exceeded the EU's trade with all other partners. These agreements have helped to sustain trade and investment in a difficult global trading environment characterized by growing geopolitical challenges, such as Russia's aggression against Ukraine (European Commission).	**related products, processed steel, copper and aluminum, lasers and batteries** (European Commission). **COMMISSION PAYMENT OF AN ADDITIONAL EUR 1.5 BILLION IN MACRO-FINANCIAL ASSISTANCE TO UKRAINE (November 2023)** The Commission has made a further payment of €1.5 billion under the macro-financial assistance instrument for Ukraine, which has a maximum ceiling of €18 billion. Through this instrument, the EU is helping Ukraine to cover its immediate financing needs, providing the country with stable and predictable financial support in 2023. So far this year, Ukraine has received €16.5 billion under AMF+. This support will help the Ukrainian government to continue paying civil servants' salaries and pensions and to maintain essential public services, such as hospitals, schools, and housing for relocated people. It will also enable Ukraine to ensure macroeconomic stability and restore critical infrastructure destroyed by Russia, such as energy infrastructure, water supply systems, transport networks, roads, and bridges. Today's disbursement follows the Commission's observation on 18 October that Ukraine continues to respect the agreed conditions and has complied with the accountability requirements aimed at ensuring transparent and efficient use of the funds. Ukraine has made significant progress in strengthening financial stability through the gradual abolition of temporary emergency taxation, as well as in reinforcing the rule of law, for example by re-establishing the High Council of Justice and the Council of Judges. Ukraine has also made significant progress in improving its energy system thanks to the restructuring of the gas transmission network operator, as well as in promoting a better business climate (European Commission). **IMF RELEASE NEW AID FOR UKRAINE (December 2023)**

	ENTSO-E WINTER OUTLOOK 2023-2024 HIGHLIGHTS LIMITED ELECTRICITY SUPPLY RISKS FOR WINTER 2023-2024 (November 2023) The ENTSO-E Winter Outlook 2023-2024 offers an overview of the security of the electricity supply across Europe for the 2023-24 winter season, as well as a retrospective on summer 2023. Despite some traces of risks, the adequacy picture is more optimistic than last year's outlook. All identified risks to the energy supply during the upcoming season are driven by weather conditions. In Ireland and Northern Ireland, the availability of aging gas power plants remains the main challenge. Adequacy situation will depend on wind generation availability in case there would be many unplanned outages of those units. Risks are also observed in Malta and Cyprus, where limited or no interconnection with continental power system exists. The EU's gas storage is currently filled to almost 100 percent of their capacity across Europe (GIE Aggregated Gas Storage Inventory), ensuring preparedness and confidence in the security of supply for the winter ahead. Critical Gas Volume (CGV) decreased by approximately 10 percent compared to last winter. These conditions combined with a significant expansion of the renewable generation fleet, as well as a lower number of planned outages compared with last winter, create a favorable environment for adequacy and a lower reliance on gas (ENTSO-E). **EUROPE'S CONSTRUCTION SECTOR, by Construction Briefing (November 2023)** Europe's largest economy, Germany, is in the grip of a property crisis, and confidence in the construction sector, which was already falling in the spring, has taken an even steeper downward trajectory since the summer, as the graph above shows.	The payment of 900 million dollars is part of an overall aid package of 15 billion dollars from the monetary institution to Kyiv. Volodymyr Zelensky met the President of the International Monetary Fund, Kristalina Georgieva, and secured the sending of 900 million dollars to Kyiv. This aid is part of a package approved in March 2023 of more than $15 billion. Since the beginning of the year, Kyiv has received more than $35 billion to bridge its budget deficit (Euronews).

Eurostat's construction confidence indicator now stands at -18.1, the lowest level of the five largest European economies.
Although higher than in Germany and the EU-27, confidence also fell in France in October 2023, to a score of -6.3.
But other countries such as the Netherlands, Spain and Italy paint a slightly brighter picture, all of which recorded an increase in construction confidence last month and remain in positive territory.

The volume of production in the construction sector remains just above pre-crisis levels in all the EU-27 countries, according to the second of our graphs. In France, it is in line with pre-pandemic levels, while in Germany, output has fallen slightly, from a score of 119.2 in January 2020 (on an index where 2015=100) to 110.9 in October 2023. Italy and the Netherlands again recorded an increase in construction output last month, with higher volumes than before the pandemic, although output in the Netherlands has begun to decline gradually since the spring of this year.

An examination of the European Producer Price Index for the construction sector, which measures the prices of new residential building activity from the builder's point of view, shows why the residential construction market has become much more difficult this year.
Costs have followed a steady and steep upward trajectory since 2021 and only began to moderate towards the end of 2022. As a result, producer prices have also risen sharply.

COUNTRY FOCUS

COMMISSION APPROVES €3 BILLION AUSTRIAN STATE AID SCHEME TO SUPPORT COMPANIES FACING INCREASED ENERGY COSTS (November 2023)

	The European Commission has approved an approximately €3 billion Austrian scheme to support companies facing increased energy costs in the context of Russia's war against Ukraine. The scheme was approved under the State aid Temporary Crisis and Transition Framework, adopted by the Commission on 9 March 2023 to support measures in sectors which are key to accelerate the green transition and reduce fuel dependencies. The scheme consists of two measures: (i) limited amounts of aid to compensate companies for the cost increase of various energy sources; and (ii) aid for additional costs due to exceptional natural gas and electricity price increases. Under both measures, the aid will take the form of direct grants. The measure will be open to companies of all sizes and sectors, except for credit and financial institutions among other sectors. For the first measure, the aid will not exceed €250,000 per beneficiary active in the primary production of agricultural products and €2 million per beneficiary active in any other eligible sector. For the second measure, the overall aid per beneficiary will not exceed 50% of the eligible costs, up to a maximum of €4 million. The beneficiaries may receive further aid, not exceeding 40% of the eligible costs and up to a maximum of €100 million. Energy-intensive companies may receive aid up to 65% of the eligible costs for the maximum aid ceiling of €50 million. In addition, those energy-intensive companies that are active in particularly affected sectors will be entitled to receive aid up to 80% of the eligible costs for the maximum aid ceiling of €150 million (European Commission).	
	COMPANY FOCUS	
	HYUNDIA E&C – AECOM (November 2023)	

	Contractor Hyundai E&C and engineering consultancy Aecom have signed deals agreeing to assist in the construction of Ukraine's largest airport. Aecom said it had signed a memorandum of understanding (MOU) to serve as reconstruction delivery partner for the rebuilding of Boryspil International Airport in Kyiv. Meanwhile Huyndai E&C, which was the only Korean contractor to attend the international event 'Rebuild Ukraine' in Warsaw (14-15 November), said it had agreed to execute the project, which involves rebuilding and expanding the terminals and runways at the airport. Aecom will provide infrastructure advisory support for the reconstruction of the airport, including asset condition and capability assessment, design, engineering, program management and construction management. The airport handled nearly 9.5 million passengers prior to the closure of Ukraine's air space at the start of the ongoing Russian invasion of Ukraine (Construction Briefing).	
	INTERNATIONAL FOCUS	
	ASIAN DEVELOPMENT BANK OUTLOOK (December 2023) Developing Asia's outlook remains upbeat despite global challenges. The 2023 growth forecast is revised up from Asian Development Outlook September 2023's projection, to 4.9% from 4.7%, on robust domestic demand. The 2024 forecast is maintained at 4.8%. Developing Asia's inflation is forecast to decline from 4.4% in 2022 to a downward adjusted 3.5% in 2023, before rising slightly to 3.6% in 2024. Downside risks are mainly associated with higher-for-longer interest rates in advanced economies, which could trigger financial instability. Possible supply disruptions from El Niño	

	and the Russian invasion of Ukraine could renew energy and food security challenges and rekindle inflation (ADB). **AFRICAN DEVELOPMENT BANK OUTLOOK (November 2023)** Projections for Africa's average real GDP growth for 2023 and 2024 have been revised downwards. Growth is now projected at 3.4% in 2023 and 3.8% in 2024. These growth rates are lower than predicted in the 2023 AEO launched in May by 0.6 percentage points and 0.5 percentage points, respectively. The downward revision is attributed to multiple factors – the scarring long-term effects of COVID-19, geopolitical tensions and conflicts, climate shocks, a slowdown in the global economy, and constrained fiscal space to adequately respond to shocks and preserve economic activity. Slower projected growth is compounded by entrenched inflationary pressures reflecting the impact of higher food and energy prices and persistent disruption of global supply chains. Policymakers are confronted with a difficult trade-off between boosting economic growth and taming inflation amid weak fiscal buffers, and monetary policy undermined by the structural nature of the current tide of inflation. The eruption of geopolitical tensions in the Middle East could fuel further increases in energy prices, trigger a renewed wave of inflationary pressures, and constrain global growth, with direct implications for Africa's medium and long-term growth. Growth could also be affected by crop failures across the continent due to the projected El Niño weather phenomenon and the availability of agricultural fertilizers, the prices of which continue to rise. Low crop yields have the potential to exacerbate already strained	

	supply conditions, raising fears of food insecurity and inflationary pressure (AfDB).	

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